

# Nuada Limited

*Corporate Finance Advisory*

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28 October 2016

*To the Independent Board Committee of  
PPS International (Holdings) Limited*

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS BY  
LAMTEX SECURITIES LIMITED  
ON BEHALF OF THE OFFEROR  
TO ACQUIRE ALL THE ISSUED SHARES OF  
PPS INTERNATIONAL (HOLDINGS) LIMITED AND  
CANCEL ALL OUTSTANDING SHARE OPTIONS OF  
PPS INTERNATIONAL (HOLDINGS) LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
THE OFFEROR AND MR. YU WEIYE)**

## INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offers, details of which are set out in the Composite Document dated 28 October 2016 jointly issued by the Company and the Offeror to the Independent Shareholders and Optionholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

Reference is made to the Joint Announcement, the Company was informed by its substantial Shareholder, Mr. Yu Weiye, the sole legal and beneficial owner of the Offeror, that on 26 September 2016, the Offeror agreed to acquire a total of 269,165,000 Shares, representing approximately 14.95% of the total issued Shares, for an aggregate consideration of HK\$29,608,150, which was equivalent to HK\$0.11 per Sale Share. The Offeror and the Seller, who is independent of the Offeror and Mr. Yu Weiye, entered into a bought and sold note on 26 September 2016 in connection with the Share Acquisition. The

consideration was determined after arm's length negotiations between the Offeror and the Seller, taking into account the then prevailing market prices of the Shares on the Stock Exchange. Completion of the Share Acquisition was not subject to any conditions precedent and took place on 27 September 2016 and the consideration was settled in cash and financed by the Offeror's own resources.

Prior to the completion of the Share Acquisition, the Offeror and Mr. Yu Weiye owned, controlled or had direction over 378,976,000 Shares, representing approximately 21.05% of the total issued share capital of the Company. As at the Latest Practicable Date, the Offeror, Mr. Yu Weiye and any parties acting in concert with them own, control or have direction over 648,141,000 Shares, representing approximately 36.01% of the total issued share capital of the Company. The Offeror, Mr. Yu Weiye and any parties acting in concert with them do not own, control or have direction over any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, other than those already owned or agreed to be acquired by the Offeror and Mr. Yu Weiye. Accordingly, Mr. Yu Weiye and any parties acting in concert with him has become a controlling Shareholder (as defined in the GEM Listing Rules).

Under Rule 26.1 and Rule 13.5 of the Takeovers Code, the Offeror is required to make the Share Offer and the Option Offer to cancel all outstanding Share Options.

Lamtex, on behalf of the Offeror and in compliance with the Takeovers Code, is making the Offers on terms set out in the Composite Document in accordance with the Takeovers Code on the following basis:

#### **The Share Offer**

**For each Offer Share . . . . .HK\$0.13 in cash**

#### **The Option Offer**

**For cancellation of each Share Option  
with an exercise price of HK\$0.23 . . . . .HK\$0.001 in cash**

The Share Offer Price of HK\$0.13 for each Offer Share represents approximately 18.18% premium over the consideration of HK\$0.11 per Sale Share paid by the Offeror under the Share Acquisition. The Share Offer is now being extended to all Shareholders other than the Offeror and Mr. Yu Weiye in accordance with the Takeovers Code. During the six months period prior to 26 September 2016, being the Last Trading Day, the Offeror and Mr. Yu Weiye had acquired 378,976,000 Shares and the highest trading price was HK\$0.13. Therefore, according to Rule 26.3 of the Takeovers Code, the Share Offer Price is set at HK\$0.13.

Pursuant to Rule 13 of the Takeovers Code and Practice Note 6 of the Takeovers Code, the Option Offer Price would normally represent the difference between the exercise price of the Share Options and the Share Offer Price. Under the Option Offer, since the exercise price of the outstanding Share Options is above the Share Offer Price, the outstanding Share Options are out-of-money and therefore the Option Offer Price is at a nominal value of HK\$0.001.

In accordance with the Takeovers Code, the Company has established the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chui Chi Yun, Robert, Mr. Huang Ke and Mr. Kwong Tsz Ching, Jack to advise the Independent Shareholders and the Optionholders in respect of the Offers pursuant to Rule 2.1 of the Takeovers Code.

We, Nuada Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers and, in particular, as to whether the Offers are fair and reasonable and as to the acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

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

#### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the representations made to us by the Directors and the senior management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Independent Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors or the Offeror (as the case may be) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, Offeror, their respective advisers, the Directors and/or the director of the Offeror, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Offeror and Mr. Yu Weiye) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than

opinions expressed by the Offeror and Mr. Yu Weiye) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement contained in the Composite Document, including this letter, incorrect or misleading.

The sole shareholder of the Offeror, Mr. Yu Weiye, and the director of the Offeror, Mr. Yu Shaoheng, jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Group), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Group) 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.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Independent Shareholders as a result of the Offers. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **1. Financial Information of the Group and outlook**

#### *(a) Financial information of the Group*

According to the annual report of the Company for the year ended 30 June 2016 (the "Annual Report 2016"), the Group is principally engaged in the provision of environmental services in Hong Kong and Shanghai, the PRC, which include the provision of cleaning and related services for (i) public area and office cleaning services which involve cleaning of public areas, carpets, floors, toilets, changing rooms, lifts and escalators and emptying of garbage bins at commercial buildings and their tenants, residential complexes, shopping arcades, hotels and public transport facilities such as airport, ferries, ferry terminal, cargo and logistics centre and depots; (ii) overnight kitchen cleaning services mainly at private club and hotels; (iii) external wall and window cleaning services; (iv) stone floor maintenance and restoration services; (v) pest control and fumigation services; (vi) waste management and

disposal solutions which mainly involve collection, transportation and disposal of household waste, construction waste and trade waste and sales of recyclable waste such as paper, metal and plastic waste collected during our operations; (vii) housekeeping services where the Company provide housekeeping services to carry out professional daily housekeeping and cleaning services at local boutique hotels, hostels and serviced apartments; (viii) secure and confidential waste destruction for commercial clients; (ix) sanitation solution for yacht; (x) cleaning and waste management solution for renovated apartment; and (xi) auto beauty services for private cars.

Set out below are extracts of (i) consolidated income statement of the Group for the five years ended 30 June 2016; and (ii) consolidated statement of financial position of the Group for the two years ended 30 June 2016, respectively:

**Table 1: Consolidated income statement of the Group**

	For the year ended 30 June				
	2016 (audited)	2015 (audited)	2014 (audited)	2013 (audited)	2012 (audited)
Revenue					
<i>(HK\$'000)</i>	269,438	202,192	193,098	194,549	163,598
- % change	33.26%	4.71%	-0.75%	18.92%	-2.55%
(Loss)/profit for the year					
<i>(HK\$'000)</i>	(51,205)	(27,249)	13,094	3,099	16,154
- % change	87.92%	-308.10%	322.52%	-80.82%	-14.23%

**Table 2: Consolidated statement of financial position of the Group**

	As at 30 June	
	2016 (audited) <i>HK\$'000</i>	2015 (audited) <i>HK\$'000</i>
Net current assets	68,889	69,469
Net assets	118,423	76,640

For the year ended 30 June 2015

As set out in Table 1 above, the revenue of the Group increased from approximately HK\$193.10 million for the year ended 30 June 2014 (“FY2014”) to approximately HK\$202.19 million for year ended 30 June 2015 (“FY2015”), representing an increase of approximately 4.71%. However, the Group recorded a loss for the year of approximately HK\$27.25 million for FY2015 as compared with a profit for the year of approximately HK\$13.09 million for FY2014.

According to the management of the Company and with reference to the annual result announcement of the Company for FY2015 dated 15 October 2015, the deterioration from a net profit for FY2014 to the loss for FY2015 was mainly due to, among others, (i) the decrease in gross profit of the Group by approximately HK\$3.3 million primarily as a result of the inflation in the direct labour costs and the increase in direct overhead expenses; (ii) decrease in other income mainly due to the reversal of over provisions for staff costs by approximately HK\$4.0 million; (iii) increase in administrative and operating expenses by approximately HK\$14.1 million mainly attributable to the increase in administrative and operating staff expenses for business development, the increase in motor vehicles expenses, and also the increase in legal and professional fees arising from the expansion of the Group’s business and the initial set up costs for the subsidiaries of the Group in the PRC; (iv) one-off forfeiture of a deposit of HK\$4.5 million paid for the possible acquisition of Hong Kong Automobile Restoration Group Limited which was terminated on 9 January 2015; (v) impairment loss on the goodwill for the Elite Car Services Limited and its subsidiaries of approximately HK\$8.5 million due to termination of several auto beauty centres; and (vi) impairment loss on purchase deposit of approximately HK\$4.5 million relating to the purchase of cleaning material.

As set out in Table 2 above, as at 30 June 2015, the Group recorded net current assets and net assets of approximately HK\$69.47 million and HK\$76.64 million respectively.

For the year ended 30 June 2016

As set out in Table 1 above, the revenue of the Group increased from approximately HK\$202.19 million for FY2015 to approximately HK\$269.44 million for year ended 30 June 2016 (“FY2016”), representing an increase of approximately 33.26%. However, the loss for the year of the Group increased from a loss of approximately HK\$27.25 million for FY2015 to approximately HK\$51.21 million for FY2016, representing an increase of loss of approximately 87.92%.

According to the management of the Company and with reference to the annual result announcement of the Company for FY2016 dated 26 September 2016, the increase in the loss for FY2016 was primarily attributable to, among others, (i) the decrease in the gross profit generated from the environmental and cleaning business of the Group in Hong Kong by approximately HK\$3.2 million as a result of (a) the inflation in the direct labour costs and sub-contracting fees; and (b) the decreased profit margin of some contracts secured due to fierce market competition; (ii) the net loss of approximately HK\$4.4 million from the auto beauty services business for FY2016; (iii) the recognition of the share-based payment expenses of approximately HK\$6.6 million for FY2016 related to the grant of the Share Options as announced by the Company on 11 December 2015; (iv) the increase in the legal and professional fees by approximately HK\$12.7 million for FY2016; (v) the compensation of approximately HK\$2.6 million for the early termination of the services contracts; (vi) the provision for claims of approximately HK\$2.9 million from the employees relating to their personal injuries; (vii) the increase in the administrative and operating expenses by approximately HK\$9.5 million for FY2016 due to business expansion of the Group; (viii) the impairment loss on the goodwill and intangible assets for the auto beauty business of approximately HK\$1.5 million; and (ix) the unrealized fair value loss of approximately HK\$1.4 million arising on the revaluation of the investments in securities.

As set out in Table 2 above, as at 30 June 2016, the Group recorded net current assets and net assets of approximately HK\$68.89 million and HK\$118.42 million respectively.

Five years ended 30 June 2016

As shown in Table 1 above, we noted that while the revenue of the Group has increased in the recent five financial years, profit of the Group has decreased from approximately HK\$16.15 million for the year ended 30 June 2012 and turned into losses to approximately HK\$51.21 million for FY2016.

In view of the continuous decline of financial performance of the Group as reflected by its net losses in recent financial years as discussed above, we cast doubt on the financial growth of the Group.

(b) *Business outlook of the Group*

We note from the Annual Report 2016 that (i) the revenue of the Group was generated substantially from the provision of environmental and cleaning services in Hong Kong, contributing to approximately 95.21% of the revenue of the Group for FY2016; (ii) the target clients of the Group were mainly from commercial and transportation sectors, which respectively accounted for approximately 51.0% and 17.7% of the revenue of the Group for

FY2016; and (iii) among other business strategies, the management of the Company intends to expand the market shares of the Group in the commercial and transportation sectors.

In order to understand the market of the Group's service, we attempt to study commercial sector as well as transportation sector. However, we note that in relation to transportation sector, the Group provides services for (i) airport terminal of Hong Kong; and (ii) one of the major public bus operators in Hong Kong. Taking into consideration that (i) there are no publicly available data relating to the market demand for cleaning services in transportation sector in Hong Kong; and (ii) transportation sector in Hong Kong is oligopolistic in nature, i.e. dominated by a small number of service providers, we do not assess the market demand in the transportation sector but focus on that in the commercial sector, which contributed more than half of the revenue of the Group for FY2016.

To assess the possible demand for the Group's services in the commercial sector, we obtained statistics from the Rating and Valuation Department of Hong Kong in relation to property market as summarised below:

**Table 3: Statistics on the commercial sector of the property market**

	2011	2012	2013	2014	2015
<b>Private offices</b>					
Vacancy as a percentage of stock	6.5%	6.0%	7.0%	6.3%	8.0%
<b>Private commercial (Note)</b>					
Vacancy as a percentage of stock	8.0%	6.9%	7.2%	7.3%	7.7%

*Note:* This comprises retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices.

*Source:* Rating and Valuation Department of Hong Kong  
([http://www.rvd.gov.hk/en/property\\_market\\_statistics/completions.html](http://www.rvd.gov.hk/en/property_market_statistics/completions.html))

As shown in Table 3 above, the vacancy as a percentage of stock for private offices has shown an increasing trend in recent years, from approximately 6.5% in 2011 to approximately 8.0% in 2015. The vacancy as a percentage of stock for private commercial, after a decline from approximately 8.0% in 2011 to approximately 6.9% in 2012, also showed a similar increasing trend from approximately 6.9% in 2012 to approximately 7.7% in 2015.

As discussed with the management of the Company, we understand that the cleaning services provided by the Group are labour-intensive. According to the annual reports of the Company for the five years ended 30 June 2016, the gross profit margin of the Group has been decreasing from approximately



19.6% for the year ended 30 June 2012 to approximately 10.5% for FY2016 which was attributable to, among other factors, (i) the inflation of direct labour and manpower services costs since the implementation of the statutory minimum wage in Hong Kong in May 2011 and the intensifying labour market competition in the environmental and cleaning services business; and (ii) lower profit margin of some newly secured service contracts with a view to gain additional market share in the environmental and cleaning services business in Hong Kong.

In this regard, we studied the statistics obtained from the Census and Statistics Department of Hong Kong in relation to the labour market in Hong Kong as summarised below:

**Table 4: Statistics on the labour market**

	June 2011	June 2012	June 2013	June 2014	June 2015	June 2016
Nominal wage index of professional and business services section ( <i>Note</i> )	181.6	192.0	203.1	215.6	231.7	242.6
- % change	14.1%	5.7%	5.8%	6.2%	7.5%	4.7%

*Note:* According to “Quarterly Report of Wage and Payroll Statistics – June 2016” issued by the Census and Statistics Department of Hong Kong, pest control and cleaning services is classified under professional and business services.

*Source:* Census and Statistics Department of Hong Kong (<http://www.censtatd.gov.hk>)

As shown in Table 4 above, we noted that the nominal wage index of professional and business services section has increased continuously from approximately 181.6 in June 2011 to approximately 242.6 in June 2016. This upward trend coincides with the decreasing gross profit margin of the Group.

Based on (i) the unsatisfactory financial performance of the Group with increasing net loss for FY2016; (ii) the increasing vacancy rates in commercial property sector in the recent four to five years; and (iii) the rising labour cost in professional and business service section, which contributed to the decreasing gross profit margin of the Group, we are uncertain about the future growth of the Group’s business.

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

### *(a) Information on the Offeror*

As disclosed in the “LETTER FROM LAMTEX” in the Composite Document, the Offeror is an investment holding company incorporated in the

British Virgin Islands with limited liability on 4 July 2016 and does not carry on any business activity other than the holding of the Sale Shares and the Offer Shares to be acquired under the Share Offer, if any. As at the Latest Practicable Date, Mr. Yu Weiye is the sole legal and beneficial owner of the Offeror and Mr. Yu Shaoheng, the son of Mr. Yu Weiye, is the sole director of the Offeror.

Mr. Yu Weiye (余偉業), aged 56, served as executive director and chairman of Sky Forever Supply Chain Management Group Limited from 19 June 2015 to 7 July 2015 and compliance officer of Sky Forever Supply Chain Management Group Limited from 22 June 2015 to 7 July 2015. Sky Forever Supply Chain Management Group Limited is incorporated in Bermuda and the shares of which are listed on GEM (stock code: 8047). Its principal activities are the provision of supply chain management services and the provision of energy management business. As at the Latest Practicable Date, Mr. Yu Weiye did not have any relationship with Sky Forever Supply Chain Management Group Limited. Mr. Yu Weiye was a member of the third and fourth Shenzhen Committee of the People's Political Consultative Conference of PRC (中國人民政治協商會議廣東省深圳市第三屆及第四屆委員會), a vice president of the fourth council of Shenzhen General Chamber of Commerce (深圳市總商會第四屆理事會), and a council member of 深圳海外聯誼會第五屆理事會 (Committee of Shenzhen Overseas Association\*). He had acted as a chairman and legal representative of 深圳市易理集團有限公司 (Shenzhen Yi Li Group Co., Ltd.\*) from January 1998 to July 2016.

Mr. Yu Shaoheng (余紹亨), aged 32, served as non-executive director of China New Energy Power Group Limited (中國新能源動力集團有限公司) (now known as Lamtex Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1041) from 14 March 2016 to 30 August 2016. He is currently the chairman of 陝西亨澤實業有限公司 (Shaanxi Hengze Industrial Corporation Limited\*), which is principally engaged in investment in and development of energy, mining, environmental-preservation, real estate, and tourism businesses. Furthermore, he is a supervisor of 烏蘭察布市科潔燃氣有限責任公司 (Ulaanchab Kejie Gas Limited Liability Company\*), a company which China National Petroleum Corporation (中國石油天然氣集團公司) has indirect interest in it, which principally engaged in (i) construction and re-construction of city gas infrastructures; (ii) design and engineering of expansion work and related installation and development management; (iii) transportation, sale, provision of aftersale service, research and development of technologies and provision of consultancy service in relation to city gas; (iv) construction and operation of various types of gas station; (v) sale of petroleum and natural gas related equipment; and (vi) construction, operation management of compressed natural gas projects. Both Mr. Yu Shaoheng and 烏蘭察布市科潔燃氣有限公司 (Ulaanchab Kejie Gas Limited Liability Company\*) have been members of the China Gas Association (中國城市燃氣協會).

\* for identification purpose only

*(b) Business of the Group*

As stated in the “LETTER FROM LAMTEX” in the Composite Document, following the close of the Offers, the Offeror intends to continue the existing principal businesses of the Group. The Offeror has no intention to discontinue the employment of the employees (save for changes in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

The Offeror will, following the close of the Offers, conduct a review on the business activities/operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review and should suitable investment or business opportunities arise, the Offeror may explore other business opportunities for the Company which may involve acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view of enhancing the Group’s business growth and asset base as well as broadening its income stream. As at the Latest Practicable Date, the Offeror has no plan, and has not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group. Also, the Offeror does not have any intention to change the Company’s business including disposal/downsize of its existing business/material asset, acquiring or starting new business.

*(c) Proposed change of board composition*

As stated in the “LETTER FROM LAMTEX” in the Composite Document, the Board is currently made up of six Directors, comprising three executive Directors, being Mr. Ye Jingyuan (Chief Executive Officer), Ms. Ding Pingying and Mr. Tse Man Yiu, and three independent non-executive Directors, being Mr. Chui Chi Yun, Robert, Mr. Huang Ke and Mr. Kwong Tsz Ching, Jack. The Offeror intends to nominate Mr. Yu Shaoheng and Ms. Mui Fong as executive Directors, such appointments will not take effect earlier than the date of despatch of the Composite Document subject to compliance with the Takeovers Code and the GEM Listing Rules. An announcement will be published by the Company in this regard.

Ms. Mui Fong (梅芳), aged 45, had served as a chief financial officer and general manager of 華宇房地產開發有限公司 (Huayu Real Estate Development Co., Ltd\*) from 1 January 2008 to 1 July 2016. Furthermore, she had also served as vice executive director of 深圳市易理集團有限公司 (Shenzhen Yi Li Group Co., Ltd\*) from 1 January 2008 to 1 July 2016.

*(d) Maintaining the listing status of the Company*

As stated in the "LETTER FROM LAMTEX" in the Composite Document, the Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offers. In the event that after the completion of the Offers, the public float of the Company falls below 25%, the Offeror and the Directors will undertake to the Stock Exchange that they will take appropriate steps to restore the minimum public float as required under the GEM Listing Rules as soon as possible following the close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the 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 is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

The Offeror intends the Company to remain listed on the Stock Exchange. The director of the Offeror and the new Directors to be appointed to the Board of the Company jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

*(e) Our view*

Having taken into consideration:

- (i) none of Mr. Yu Weiye (the sole legal and beneficial owner of the Offeror) and Mr. Yu Shaoheng (the son of Mr. Yu Weiye and the sole director of the Offeror) has direct experience in environmental services which include the provision of cleaning and related services, in which the Group is principally engaged currently; and
- (ii) while the Offeror intends to explore other business opportunities for the Company with a view of enhancing the Group's business growth and asset base as well as broadening its income stream, the Offeror had yet to formulate any concrete business plans and strategies for the future business development of the Group,

we are of the view that there remains uncertainty on the future performance of the Group under the control of the Offeror.

### 3. Principal terms of the Share Offer

#### (a) Comparison of the market prices of the Shares

As stated in the "LETTER FROM LAMTEX" in the Composite Document, the Share Offer Price of HK\$0.13 per Offer Share represents:

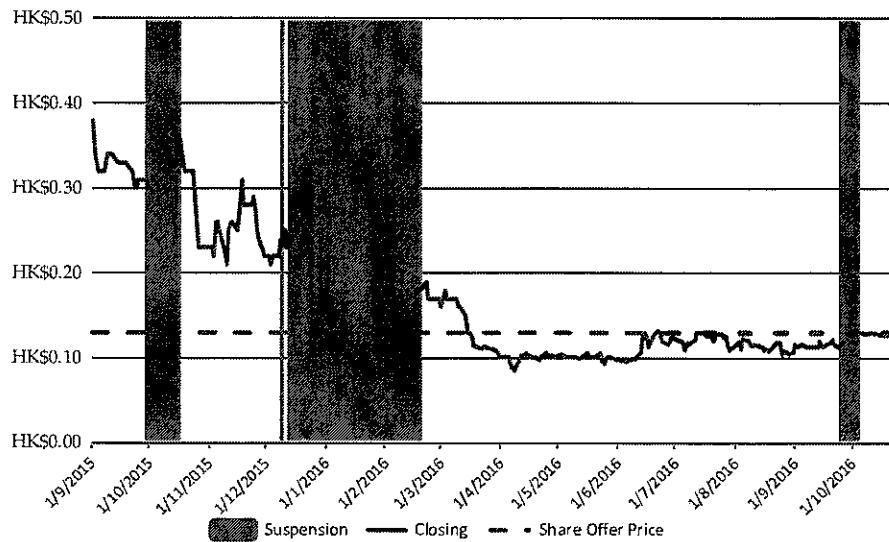
- (i) a premium of approximately 11.11% over the closing price of HK\$0.117 per Share as quoted on the Stock Exchange on 26 September 2016, being the Last Trading Day;
- (ii) a premium of approximately 11.30% over the average closing price of approximately HK\$0.1168 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 11.78% over the average closing price of approximately HK\$0.1163 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 14.74% over the average closing price of approximately HK\$0.1133 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately by prior to and including the Last Trading Day;
- (v) a premium of approximately 3.17% over the closing price of HK\$0.126 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 97.57% over the audited net assets per Share of approximately HK\$0.0658 as at 30 June 2016, calculated based on the Group's audited consolidated net assets of approximately HK\$118,423,000 as at 30 June 2016 and 1,800,000,000 Shares in issue as at the Latest Practicable Date.

As disclosed above, the Share Offer Price represents (i) premiums over the relevant closing prices of the Share in recent period; (ii) a premium over the audited consolidated net assets per Share as at 30 June 2016; and (iii) a premium over the closing price of the Shares as at the Latest Practicable Date.

(b) *Historical price performance of the Shares*

The following chart sets out the closing prices of the Shares as quoted on the Stock Exchange during the period from 1 September 2015 to 26 September 2016, i.e. the Last Trading Day, which lasts for at least 12 complete calendar months, and further up to the Latest Practicable Date (the “Review Period”):

**Chart 1: Comparison of the Share Offer Price to market prices**



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

Note: During the Review Period, trading in the Shares was suspended from 2 October 2015 to 15 October 2015, on 9 December 2015, from 15 December 2015 to 16 February 2016 and from 27 September 2016 to 3 October 2016 respectively.

We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the recent trend of the closing price of the Shares and the Share Offer Price. As illustrated by Chart 1 above, the closing prices of the Shares decreased from HK\$0.38 per Share at the beginning of the Review Period. Trading in the Shares was suspended from 2 October 2015 to 15 October 2015 pending the release of the annual results of the Group for FY2015. The closing price of the Shares then fluctuated in a range of HK\$0.36 to HK\$0.21 per Share with a downward trend after resumption of trading. Trading in the Shares was suspended again from 15 December 2015 to 16 February 2016 in view of certain legal proceedings in relation to the Company including, among others, a petition for the winding-up of the Company, details of which are set out in the announcements of the Company dated 24 December 2015, 28 December 2015, 30 December 2015, 4 February 2016 and 16 February 2016 respectively. The closing prices of the Shares continued a short-term downward trend after resumption of trading on 17 February 2016. Since early April 2016 and up to the Latest Practicable Date, the closing prices of the Shares have fluctuated between around HK\$0.1 to HK\$0.15 per Share.

During the Review Period, the highest and lowest closing price of the Shares during the Review Period were HK\$0.38 per Share recorded on 1 September 2015 (“Highest Price”) and HK\$0.085 per Share recorded on 8 April 2016 (“Lowest Price”) respectively, with an average closing price of the Review Period of approximately HK\$0.162 (“Average Closing Price”). The Share Offer Price represents (i) a discount of approximately 65.79% to the Highest Price; (ii) a premium of approximately 52.94% to the Lowest Price; and (iii) a discount of approximately 19.75% to the Average Closing Price. In addition, we noted that the closing prices of the Shares were below the Share Offer Price most of the time for the last six calendar months prior to the Latest Practicable Date, i.e. for 134 out of 140 trading days of the Shares since 1 April 2016 during the Review Period.

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

In view of the fluctuation in the trading price of the Shares as stated in above, Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and closely monitor the market price of the Group during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Share Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Share Offer.

(c) *Historical trading liquidity of the Shares*

Set out in Table 5 below are the monthly figures during the Review Period regarding (i) number of trading days of the Shares; (ii) the total trading volume of the Shares; and (iii) the ratio of the monthly/period trading volume to the total number of issued Shares (the "Trading Volume Ratio"):

**Table 5: trading volume of the Shares**

Month	Number of trading days of the Shares	Total monthly trading volume of the Shares (Note 1)	Trading Volume Ratio (Note 2)
<b>2015</b>			
September	20	68,545,000	0.34%
October	10	105,090,000	1.05%
November	21	251,740,000	1.20%
December	9	29,324,000	0.22%
<b>2016</b>			
January	0	Not applicable	Not applicable
February	9	78,216,000	0.58%
March	21	58,955,000	0.19%
April	20	47,600,000	0.16%
May	21	36,890,000	0.12%
June	21	120,554,000	0.32%
July	20	125,517,000	0.35%
August	22	104,665,000	0.26%
September	17	50,838,000	0.17%
October (up to and including the Latest Practicable Date)	14	75,459,600	0.30%

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

*Notes:*

1. The number of Shares are adjusted for the 10 to 1 share consolidation of the Company which took effect on 15 March 2016 (the "Share Consolidation").
2. As the number of issued Shares varied substantially during the Review Period (from 1,500,000,000 Shares to 15,000,000,000 Shares), these monthly/period Trading Volume Ratios are calculated as the trading volume of the Shares during the month/period (as adjusted by the Share Consolidation) divided by the total Shares in issue during the end of each month/period (as adjusted by the Share Consolidation).

The number of issued Shares for each month during the Review Period are based on those as disclosed in the Monthly Return of Equity Issuer on Movements in Securities as published by the Company for each month during the Review Period.



As illustrated in Table 5 above, the Trading Volume Ratios during the Review Period recorded the lowest of approximately 0.12% in May 2016 and highest of approximately 1.20% in November 2015.

Having considered that, save for October 2015 and November 2015 (where the trading in the Shares resumed on 16 October 2015 after the release of the annual results of the Group for FY2015), the monthly/period Trading Volume Ratios during the Review Period were all below 0.6%, we are of the view that the trading volume of the Shares was relatively low during the Review Period.

Given the thin historical trading volume of the Shares as stated above, it is uncertain as to 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 level of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. The Share Offer, therefore, represents an assured opportunity for the Independent Shareholders, particular for those who hold a large number of the Shares, to dispose of some or all of them at the Share Offer Price if they so wish, without creating a significant downside pressure on the trading price of the Shares.

*(d) Comparable analysis*

The principal activities of the Group are provision of environmental services which include the provision of cleaning and related services. In assessing the fairness and reasonableness of the Share Offer Price, we attempted to compare the price-to-earnings ratio (“P/E Ratio”) and price-to-book ratio (“P/B Ratio”), which are the most commonly used benchmarks in valuing a company, with other listed companies on the Stock Exchange. Given that the Group was loss making in its latest financial year, it is impracticable to use P/E Ratio to value the Company. Therefore, we adopted the P/B Ratio in our analysis, which is a ratio used to compare a stock’s value to its book value. The higher the P/B Ratio, the higher the value of the stock.

We carried out a comparable analysis with other companies (the “Comparable Companies”) with the criteria that: (i) the companies have their shares listed on the Stock Exchange; and (ii) the companies are principally engaged in provision of cleaning and related services. We considered the above selection criteria to be reasonable and meaningful for identifying the Comparable Companies for comparison purpose. Based on the above criteria and to the best of our knowledge, we identified an exhaustive list of only two Comparable Companies. Nonetheless, we considered that based on the above selection criteria, the Comparable Companies can provide a general reference relating to P/B Ratios of listed companies which are engaged in business similar to that of the Group in Hong Kong. The Comparable Companies and their P/B Ratios can thus provide additional meaningful information regarding the Share Offer Price for the Independent Shareholders. Details of the Comparable Companies are set out below:

**Table 6: P/B Ratios of the Comparable Companies**

Company name	Stock code	Principal business	Closing price as at the Latest Practicable Date (HK\$) (Note 1)	Market capitalisation as at the Latest Practicable Date (HK\$ million) (Note 2)	Consolidated net asset attributable to the shareholders of the respective company (HK\$ million) (Note 3)	P/B Ratio (times) (Note 4)
Xinhua News Media Holdings Limited	309	Provision of cleaning and related services, medical waste treatment service, waste treatment service and television screen broadcast business.	0.202	276.23	129.79	2.13
Baguio Green Group Limited	1397	Provision of environmental service, namely, cleaning services, landscaping services, pest management services and waste management and recycling services.	0.92	381.80	217.90	1.75
					Average	1.94
			Share Offer Price (HK\$)	Market Value represented by the Share Offer Price (HK\$ million)		
		The Share Offer	0.13	234.00		1.98 (Note 5)

*Notes:*

1. The closing prices of the shares of the Comparable Companies are quoted on the Stock Exchange as at the Latest Practicable Date.
2. The market capitalisation is calculated as the closing price of the shares of the respective Comparable Companies multiplied by the corresponding number of issued shares as at the Latest Practicable Date.
3. The net assets attributable to the shareholders of the respective Comparable Companies are extracted from the respective Comparable Companies' latest published financial reports.
4. The P/B Ratios of the Comparable Companies are calculated based on (i) the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by (ii) the consolidated net assets attributable to the shareholders of the Comparable Companies (as extracted from the respective Comparable Companies' latest published financial reports).
5. The implied P/B Ratio represented by the Share Offer Price (the "Implied P/B Ratio") is calculated based on the Share Offer Price multiplied by the number of Shares as at the Latest Practicable Date, then divided by the consolidated net assets of the Group as at 30 June 2016 of approximately HK\$118,423,000, i.e.  $0.13 \times 1,800,000,000 \div 118,423,000 = 1.98$  approximately.

As shown in Table 6 above, the P/B Ratio of the Comparable Companies ranged from approximately 1.75 times to approximately 2.13 times, with an average of approximately 1.94 times. The Implied P/B Ratio is approximately 1.98 times, which is higher than the average P/B Ratio of the Comparable Companies of approximately 1.94 times.

The above analysis may give additional information for the Independent Shareholders to consider whether to accept the Share Offer or not. However, the Independent Shareholders should be aware of the limitations of P/B Ratio including, among others, the different scale of operations, marketplace, financial performance and asset base of the Comparable Companies and the Company, as well as the various circumstances and factors affecting the respective share price performance of the Comparable Companies from time to time.

(e) *Our view*

Having considered that

- (i) the financial performance of the Group deteriorated in recent years, in particular the Group recorded a higher net loss for FY2016 as compared with that for FY2015;
- (ii) in view of the increasing vacancy rates in the commercial property sector in recent years and the rising wages in the labour market of professional and business services section, there is uncertainty regarding the future growth of the Group's business;
- (iii) the Share Offer Price represents a premium over the closing price of the Shares most of the time for the last six calendar months prior to the Latest Practicable Date;
- (iv) the Share Offer Price represents a premium of approximately 97.57% over the audited net assets per Share of approximately HK\$0.0658 as at 30 June 2016; and
- (v) the Implied P/B Ratio represented by the Share Offer Price is above the average P/B Ratio as well as all of the P/B Ratios of the Comparable Companies,

we are of the view that the Share Offer Price is fair and reasonable.

Furthermore, we would like to remind the Independent Shareholders that the recent closing prices of the Shares on the Stock Exchange fluctuated around the Share Offer Price, and it is uncertain whether the trading prices of the Shares on the Stock Exchange will be higher than the Share Offer Price during and after the Offer Period. Also, as the trading volume of the Shares has been thin, the Independent Shareholders may find it difficult to dispose of a significant number of Shares in the open market in a short period of time without causing an adverse impact on the market price level of the Shares. Therefore, the Share Offer represents an assured opportunity for the Independent Shareholders, in particular for those who hold a large number of Shares, to dispose of some or all of them at the Share Offer Price if they so wish, without creating a significant downside pressure on the trading price of the Shares.

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

For cancellation of each outstanding Share Option . . . . .HK\$0.001 in cash

According to the management of the Company, as at the Latest Practicable Date, there are two batches of outstanding Share Options entitling the Optionholders to subscribe for 47,500,000 Shares at an exercise price of HK\$0.23. Pursuant to Rule 13 of the Takeovers Code and Practice Note 6 of the Takeovers Code, the "see-through" values of the outstanding Share Options would be the difference between the exercise prices of the outstanding Share Options and the Share Offer Price. As the exercise prices of the outstanding Share Options (i.e. HK\$0.23) are above the Share Offer Price (i.e. HK\$0.13), the outstanding Share Options are out-of-money with zero "see-through" value. Accordingly, the Option Offer Price for each outstanding Share Option is at a nominal value of HK\$0.001 under the Option Offer as mentioned in the "LETTER FROM LAMTEX" in this Composite Document. Given that the "see-through" value of the outstanding Share Options is zero, we consider that the Option Offer Price of HK\$0.001 offered to the Optionholders is fair and reasonable so far as the Optionholders are concerned.

#### RECOMMENDATION

Taking into consideration the aforementioned principal factors and reasons, we are of the opinion that the terms of the Share Offer and the Option Offer are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and the Optionholders to accept the Share Offer and the Option Offer respectively.

The Independent Shareholders and the Optionholders, in particular those who intend to accept the Offers, are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, especially that the disposal of large blocks of Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of the thin trading of the Shares. The Independent Shareholders who intend to realise their investment in the Company and the Optionholders shall, having regard to their own circumstances, consider exercising the outstanding Share Options and/or selling the Shares (as the case may be) in the open market, instead of accepting the Offers, if the net proceeds from the ultimate sale of such Shares would be higher than that receivable under the Offers.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**



**Kim Chan**  
Director

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