



15 December 2017

To: The independent board committee of FDB Holdings Limited

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
GF SECURITIES (HONG KONG) BROKERAGE LIMITED
FOR AND ON BEHALF OF GENTLE SOAR LIMITED
TO ACQUIRE ALL THE ISSUED SHARES
(OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY
GENTLE SOAR LIMITED AND PARTIES ACTING IN CONCERT WITH IT) OF
FDB HOLDINGS LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Offer, details of which are contained in the Composite Document dated 15 December 2017 jointly issued by the Company and the Offeror to the Shareholders, 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.

The Company was informed by the Vendor that on 17 November 2017 (after trading hours), the Vendor, Mr. Ng and the Purchaser entered into the Sale and Purchase Agreement. Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares, being an aggregate of 862,400,000 Shares, at the aggregate consideration of HK\$469,000,000 (equivalent to approximately HK\$0.544 per Sale Share). The Sale Shares represent 70% of the entire issued share capital of the Company as at the Latest Practicable Date. Completion of the Sale and Purchase Agreement took place on 20 November 2017.

Immediately prior to Completion, none of the Purchaser, its ultimate beneficial owner and their respective parties acting in concert owned any Shares or any other convertible securities, options, warrants or derivatives in the Company. Immediately following Completion and as at the Latest Practicable Date, the Purchaser, its ultimate beneficial owner and their respective parties acting in concert own 862,400,000 Shares, representing 70% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Purchaser, or the

Offeror, is required to make a mandatory unconditional general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and its parties acting in concert.

An Independent Board Committee comprising Mr. Chan Chun Hong, Mr. Chan Kai Nang, Mr. Lau Yiu Kit and Dr. Wu Chun Wah (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of VBG Capital Limited as the Independent Financial Adviser has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the Offer, we did not have any business relationship with the Company within the past two years. Save for the normal fees 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 parties acting in concert with any of them. We consider ourselves independent to form our opinion in respect of the Offer.

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 information and representations as provided to us by the management of the Group. We have assumed that all information and representations that have been provided by the management of the Group, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors 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 and/or its advisers, which have been provided to us. Our opinion is based on the management of the Group's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Offeror and parties acting in concert with it), 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 parties acting in concert with it) 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 in the Composite Document misleading.

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

The Composite Document, for which all Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror, Mr. Gao and parties acting in concert with any of them), is in compliance with the Listing Rules. The Directors confirm, having made all reasonable enquiries, that to the best of their knowledge and belief: (i) the information contained in the Composite Document (other than the information relating to the Offeror, Mr. Gao and parties acting in concert with any of them) is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in the Composite Document misleading; and (iii) all opinions expressed in the Composite Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror, the Vendor, Mr. Gao, Mr. Ng or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer. The Company has been separately advised by its own professional advisers with respect to the Offer and the preparation of the Composite Document (other than this letter of advice).

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of such information.

Should there be any material changes to the information affecting our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offer, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Offer

On 17 November 2017 (after trading hours), the Vendor, Mr. Ng and the Purchaser entered into the Sale and Purchase Agreement. Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares, being an aggregate of 862,400,000 Shares, at the aggregate consideration of HK\$469,000,000 (equivalent to approximately HK\$0.544 per Sale Share). The Sale Shares represent 70% of the entire issued share capital of the Company as at the Latest Practicable Date. Completion of the Sale and Purchase Agreement took place on 20 November 2017.

Immediately prior to Completion, none of the Purchaser, its ultimate beneficial owner and their respective parties acting in concert owned any Shares or any other convertible securities, options, warrants or derivatives in the Company. Immediately following Completion and as at the Latest Practicable Date, the Purchaser, its ultimate beneficial owner and their respective parties acting in concert own 862,400,000 Shares, representing 70% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Purchaser, or the Offeror, is required to make a mandatory unconditional general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and its parties acting in concert on the following basis:

For each Share held HK\$0.544 in cash

As at the Latest Practicable Date, the Company had 1,232,000,000 Shares in issue, and had no other outstanding warrants, derivatives, options, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

Immediately after Completion, the Vendor continues to be the beneficial owner of the Remaining Shares, being 61,600,000 Shares and representing 5% of the entire issued share capital of the Company as at the Latest Practicable Date. The Vendor has irrevocably undertaken to and covenanted with the Offeror that, in respect of the

Remaining Shares, (i) it will not accept the Offer; and (ii) it will remain as the legal and beneficial owner of the Remaining Shares immediately after Completion up to and including the Closing Date.

Principal terms of the Offer are summarised in the “Letter from GF Securities” of and Appendix I to the Composite Document.

(2) Financial information on the Group

The Company was listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8248) on 30 September 2015, and then transferred to the Main Board of the Stock Exchange (stock code: 1826) on 10 July 2017.

The Group is principally engaged in (i) contracting service for alteration and addition works, maintenance, specialist works and new development; and (ii) consulting service for alteration and addition works, new development, licensing, building services, and architectural design for buildings in Hong Kong. The Group provides one-stop integrated solution for both contracting and consulting services from project planning, resources allocation, subcontractor management and material procurement to monitoring and quality assurance, and to offer value-adding services such as providing advice on designs to the Group’s customers.

Set out below is a summary of the consolidated financial information on the Group for each of the two years ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”), the six months ended 30 June 2017 and the six months ended 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2017 (the “**2017 Interim Report**”):

	For the six months ended 30 June 2017 (unaudited) HK\$'000	For the six months ended 30 June 2016 (unaudited) HK\$'000	For the year ended 31 December 2016 (audited) HK\$'000	For the year ended 31 December 2015 (audited) HK\$'000
Revenue	268,364	134,887	395,781	276,825
Profit and total comprehensive income	7,467	5,876	31,174	15,317

As depicted by the above table, the Group’s total revenue increased by approximately 43.0% from approximately HK\$276.8 million for the year ended 31 December 2015 to approximately HK\$395.8 million for the year ended 31 December 2016. As referred to in the 2016 Annual Report, the increase was mainly due to the rise in demand for services resulting from the increase in the number of consulting projects in 2016. The Group’s profitability also expanded from 2015 to 2016 primarily attributable to the net effect of (i) the listing expenses incurred by the Group for its listing exercise during the year ended 31 December 2015 while there were no such expenses for the year ended 31 December 2016;

(ii) the increase in the administrative expenses incurred by the Group for the year ended 31 December 2016; and (iii) the increase in revenue and gross profit for the year ended 31 December 2016.

For the six months ended 30 June 2017, the Group's revenue increased by approximately 99.0% from approximately HK\$134.9 million for the six months ended 30 June 2016 to approximately HK\$268.4 million. As referred to in the 2017 Interim Report, the increase was mainly due to the combined effect of (i) the increase in number of contracting projects with larger contract sum for the six months ended 30 June 2017; and (ii) the rise in revenue for consulting projects resulting from the increase in the number of consulting projects with larger contract sum awarded for the six months ended 30 June 2017. Owing to the increase in revenue and gross profit, the Group's profitability also expanded for the six months ended 30 June 2017 as compared to the corresponding period in the prior year.

(3) Industry overview

According to the latest statistics released by the Census and Statistics Department of Hong Kong ("CSD") in September 2017, the total gross value of general trades construction works at locations other than sites remained relatively stable at around HK\$82,000 million from 2014 to 2016; whereas according to the latest statistics released by the CSD in November 2017, the total architectural, surveying and engineering design and consultancy fees fluctuated from approximately HK\$2,717 million in 2013 to approximately HK\$2,183 million in 2014, then to approximately HK\$2,425 million in 2015 and to approximately HK\$1,883 million in 2016. With the above being the case, we noted that there has been no material expansion in the relevant market demand of the construction sector. As extracted from the 2017 Policy Address of the Chief Executive of Hong Kong, for the construction sector, the Belt and Road Initiative has brought visions while the Guangdong-Hong Kong-Macao Bay Area Initiative has generated concrete opportunities and made it easier to achieve results. The PRC and Hong Kong signed an Agreement on Economic and Technical Co-operation under the Closer Economic Partnership Agreement on 28 June 2017, which expressly supports Hong Kong's participation in the development of pilot Free Trade Zones. The government will capitalise on the new opportunities and continue to assist the construction and related professional services sectors in their business development in the PRC, and will continue to discuss with the PRC various issues such as mutual recognition of professional qualifications, rationalisation of the work of "professionals" and "practitioners", and promote the "Hong Kong management model" already adopted in Qianhai, the PRC to other Free Trade Zones. The construction industry has been facing the challenges of high construction costs and labour shortage in recent years. Thus, the government is proactively promoting the adoption of technology and innovative construction methods to improve productivity and cost-effectiveness.

As of November 2017, there were 726 general building contractors registered under the Buildings Department of Hong Kong to carry out building works or street works other than specialised works and minor works as required by the Buildings Ordinance, compared to the total number of 682 as of July 2015. On the other hand, there is no

formal restriction for entry to the contracting business in Hong Kong. Foreign and local contractors are treated alike, and they are allowed to tender local public-sector projects. Given the above, competition tends to be intense in the construction sector.

The construction work carried out by the Group requires the engagement of various types of workers including but not limited to concreter, bricklayer, bar bender and fixer and general welder. According to the statistics released by the CSD, the average daily wages of the aforesaid worker types has increased significantly in the range of approximately 25% to 48% from August 2013 to August 2017. As compared to the increase in average wages, the fluctuation of construction material costs has been less significant during the same said period under review.

Moreover, in accordance with the 2018 Human Resources Projection Report published by the Labour and Welfare Bureau of Hong Kong (“LWB”), owing to the government’s investment on infrastructure, there has been increasing demand for construction workers and it is forecasted that the manpower demand for the construction industry and for construction, surveying and engineering services related to real estate and construction will be 315,190 and 25,800 by 2018, respectively. With the commencement of major infrastructure projects before 2018, the LWB expected that construction workers would be in consistent shortage. With reference also to the Forecast of Manpower Situation of Skilled Construction Workers released in December 2016 by the Construction Industry Council of Hong Kong (CIC), it is estimated that the additional skilled workers required per year will be approximately 10,000 to 15,000 in the next four years. With reference to another survey conducted by the Hong Kong Construction Association in April 2017, the shortage rate of construction workers was approximately 5.5%. The aforesaid forecasted increase in manpower demand and labour shortage are likely to fuel the increasing trend of the average workers’ wages and create challenges for the construction industry.

Based on the above results of our independent research, we are of the view that while the Group’s financial performance has been satisfactory in recent years, there has been no material expansion in the relevant market demand of the construction sector, and there are certain factors affecting the construction industry in Hong Kong, such as (i) the intense market competition; (ii) the continuously rising construction costs; and (iii) the labour shortage, which would exert pressure on the Group’s business, thereby creating uncertainty on the future prospects of the Group.

(4) Information on the Offeror

Set out below is the information on the Offeror as extracted from the “Letter from GF Securities” of the Composite Document:

Gentle Soar, the Offeror, is an investment holding company incorporated in the British Virgin Islands and is wholly and ultimately owned by Mr. Gao. Each of the Offeror and Mr. Gao is a third party independent of, and not acting in concert with, the Vendor. Immediately prior to Completion, none of the Offeror or Mr. Gao owned any Shares. Apart from the Sale Shares, none of the Offeror or Mr. Gao owned any Shares as at the Latest Practicable Date.

Mr. Gao is the sole shareholder and sole director of the Offeror. Mr. Gao is an experienced business entrepreneur and is the founder of Dafy Group, which comprises Shenzhen Dafy Finance Holdings Co. Ltd., a company principally engaged in provision of financial technology and related services based in Shenzhen, the PRC, and its subsidiaries. Mr. Gao also has experience in properties investment and development in the PRC.

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

The following information is extracted from the “Letter from GF Securities” of the Composite Document:

Operational matters, employees and senior management

It is the intention of the Offeror to continue the existing principal businesses of the Group. The Offeror will conduct a detailed review on the existing principal businesses and operations, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group’s long-term business development and will explore other business opportunities for the Group, including the feasibility of diversifying the income stream of the Group. In this regard, the Offeror may look into business and investment opportunities in different business areas and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group. As at the Latest Practicable Date, the Offeror had not entered into any agreements, arrangements, understandings, intentions or negotiations in relation to any disposal, termination or scaling down of the Group’s existing business, or any disposal, restructuring or re-deployment of the Group’s assets.

Save for the Offeror’s intention to nominate Directors to the Board and as detailed in the paragraph below, the Offeror does not intend to introduce any major changes to the existing operating and management structure of the Group and intends to continue the employment of the existing employees of the Group.

Proposed change of Board composition

The Board is currently made up of seven Directors, comprising three executive Directors, namely, Mr. Ng, Mr. Chung Yuk Ming Christopher and Mr. Ip Kong Ling, and four independent non-executive Directors, namely, Mr. Chan Chun Hong, Mr. Chan Kai Nang, Mr. Lau Yiu Kit and Dr. Wu Chun Wah. It is expected that all executive Directors (except Mr. Ng) will resign from the Board with effect from a date no earlier than the Closing Date or at a date as permitted under the Takeovers Code. The Offeror intends to nominate Mr. Gao, Ms. Zhu Wenhui (“**Ms. Zhu**”) and Mr. Qi Gang (“**Mr. Qi**”) as the new executive Directors with effect from a date no earlier than the date of the Composite Document or at a date as permitted under the Takeovers Code. The candidates of other new Directors to be nominated are yet to be determined.

The biography of Mr. Gao is set out under the sub-section headed “Information on the Offeror” of this letter of advice. As for the respective biography of Ms. Zhu and Mr. Qi, please refer to the “Letter from GF Securities” of the Composite Document.

(6) Maintaining the listing status of the Company

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

As the Company and the Offeror are unable to ascertain at this stage the level of acceptances by Shareholders under the Offer, they have not decided the exact steps/actions that will be taken by them after the close of the Offer to restore the public float of the Shares, if required. Notwithstanding this, the Company and the Offeror consider that the appropriate actions to be taken shall include placing down of sufficient number of accepted Shares by the Offeror and/or issue of new Shares by the Company for this purpose.

(7) The Offer Price

The Offer Price of HK\$0.544 per Share represents:

- (a) a discount of approximately 2.86% to the closing price of HK\$0.56 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a premium of approximately 4.62% over the closing price of HK\$0.52 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 27.40% over the average closing price of approximately HK\$0.427 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 42.60% over the average closing price of approximately HK\$0.382 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (e) a premium of approximately 643.56% over the audited net asset value per Share of approximately HK\$0.073 based on the Company’s audited net asset value of approximately HK\$90,135,000 as at 31 December 2016 and 1,232,000,000 Shares in issue as at the Latest Practicable Date; and
- (f) a premium of approximately 663.80% over the unaudited net asset value per Share of approximately HK\$0.071 based on the Company’s unaudited net asset value of approximately HK\$87,746,000 as at 30 June 2017 and 1,232,000,000 Shares in issue as at the Latest Practicable Date.

Historical price performance of the Shares

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 1 November 2016 up to and including the Latest Practicable Date (the “**Review Period**”) are shown as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	No. of trading days in each month
<i>2016</i>				
November	0.250	0.239	0.244	22
December	0.245	0.230	0.239	20
<i>2017</i>				
January	0.285	0.236	0.251	19
February	0.355	0.285	0.315	20
March	0.350	0.290	0.327	23
April	0.340	0.305	0.324	17
May	0.355	0.315	0.332	20
June	0.365	0.295	0.339	22
July	0.445	0.320	0.385	21
August	0.400	0.340	0.362	22
September	0.430	0.305	0.356	21
October	0.370	0.295	0.342	20
1 November to 17 November (i.e. the Last Trading Day)	0.520	0.295	0.366	13
18 November to 30 November (Note)	0.600	0.540	0.577	7
December (up to and including the Latest Practicable Date)	0.560	0.550	0.558	8

Source: the Stock Exchange web-site (www.hkex.com.hk)

Note: Trading in the Shares was halted from 20 November 2017 to 21 November 2017 (both dates inclusive) pending the release of the Joint Announcement.

As illustrated by the above table, the Offer Price was above the historical closing prices of the Shares, which ranged from HK\$0.230 to HK\$0.520 per Share, for the period from 1 November 2016 to the Last Trading Day (the “**Historical Period**”). After the publication of the Joint Announcement and up till the Latest Practicable Date, the closing prices of the Shares surged to the highest of HK\$0.600 per Share on 24 November 2017 and 27 November 2017. As confirmed by the Directors, the Company was not aware of any events which would have led to such

surge in Share price save for the announcement of the Offer. The Directors are thus of the view that the aforesaid surge in Share price after the publication of the Joint Announcement may serve as a proof for the positive market perception towards the Offer.

Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	Approximate % of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Note 2)</i> %	Approximate % of the Average Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 3)</i> %
<i>2016</i>				
November	22	1,519,091	0.49	0.12
December	20	433,500	0.14	0.04
<i>2017</i>				
January	19	2,282,105	0.74	0.19
February	20	2,558,000	0.83	0.21
March	23	2,021,661	0.66	0.16
April	17	727,059	0.24	0.06
May	20	1,400,000	0.45	0.11
June	22	3,125,000	1.01	0.25
July	21	7,708,095	2.50	0.63
August	22	1,179,091	0.38	0.10
September	21	1,477,143	0.48	0.12
October	20	1,628,000	0.53	0.13
1 November to 17 November (i.e. the Last Trading Day)	13	10,572,308	3.43	0.86
18 November to 30 November (<i>Note 1</i>)	7	33,477,400	10.87	2.72

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") Number of Shares	Approximate % of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 2) %	Approximate % of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 3) %
December (up to and including the Latest Practicable Date)	8	3,681,250	1.20	0.30

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Trading in the Shares was halted from 20 November 2017 to 21 November 2017 (both dates inclusive) pending the release of the Joint Announcement.
2. Based on 308,000,000 Shares held by the public as at the Latest Practicable Date.
3. Based on 1,232,000,000 Shares in issue as at the Latest Practicable Date.

We noted from the above table that trading in the Shares had been very thin during the Review Period, especially during the Historical Period. Given that the Shares are highly illiquid, the disposal of large block of Shares held by the Shareholders in the open market would likely to trigger price slump of the Shares.

For the above reason, there is no guarantee that the surge in Share price after the publication of the Joint Announcement as highlighted under the sub-section headed "Historical price performance of the Shares" of this letter of advice will sustain and the Independent Shareholders will be able to realise their investments in the Shares (especially those with relatively sizeable shareholdings) at a price higher than the Offer Price. We, therefore, consider that the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

Nonetheless, if any Independent Shareholders who would like to realise their investments in the Shares are able to identify potential purchaser(s) to acquire for their Shares at a price higher than the Offer Price, those Independent Shareholders may consider not accepting the Offer but selling their Shares to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares to such potential purchaser(s) would exceed the net amount receivable under the Offer.

Furthermore, those Independent Shareholders who, after reading through the Composite Document and this letter of advice, in particular the financial information on the Group, the information on the Offeror and the future intentions of the Offeror in relation to the Company, are optimistic about the future prospects of the Group after the Offer, may, having regard to their own circumstances, consider retaining all or any part of their Shares. However, in view of that (i) as illustrated under the subsection headed “Industry overview” of this letter of advice, there are certain factors affecting the construction industry in Hong Kong which would exert pressure on the Group’s business; (ii) although Mr. Gao, Ms. Zhu and Mr. Qi are experienced entrepreneurs, their past experience may not be directly related to the construction industry in Hong Kong; (iii) it is expected that all executive Directors (except Mr. Ng) will resign from the Board; and (iv) the Offeror will, following completion of the Offer, conduct a detailed review on the existing principal businesses and operations, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group’s long-term business development and will explore other business opportunities for the Group, including the feasibility of diversifying the income stream of the Group, we consider that the future prospects of the Group after the Offer may be uncertain. At the same time, it is expected that Mr. Ng, the existing executive Director and chairman of the Board, will remain in office after the Closing Date. In addition, save for the Offeror’s intention to nominate new Directors to the Board as mentioned above, the Offeror does not intend to introduce any major changes to the existing operating and management structure of the Group and intends to continue the employment of the existing employees of the Group. Accordingly, the Independent Shareholders should carefully consider the relevant risks and uncertainties based on their risk preference and tolerance level.

Comparison with other comparable companies

To further assess the fairness and reasonableness of the Offer Price, we have researched for Hong Kong listed companies with size of market capitalisation being comparable to the Company, i.e. between HK\$200 million and HK\$800 million, and are engaged in similar lines of business as the Company (for details, please refer to the below table). There are six comparable listed companies which met our selection criteria (the “**Comparable Companies**”) and we consider those Comparable Companies to be fair, representative and exhaustive samples. Nevertheless, it should be noted that the operations and prospects of the Comparable Companies are not the same as the Company and we have not conducted any in-depth investigation into the businesses, operations and prospects of the Comparable Companies.

The following table sets out (a) the price to book ratio (“P/B”) and price to earnings ratio (“P/E”) of the Comparable Companies based on their closing price as at the Latest Practicable Date and their latest published financial information; and (b) the implied P/B and P/E of the Company based on the Offer Price and its latest published financial information:

Company name (Stock code)	Principal business	P/B (times)	P/E (times)	Market capitalisation based on closing price of shares as at the Latest Practicable Date (HK\$ million)
Thelloy Development Group Limited (1546)	A Hong Kong-based investment holding company principally engaged in the provision of property construction services	3.28	16.35	408
IBI Group Holdings Limited (1547)	A Hong Kong-based independent building contractor	2.15	24.69	316
Shun Wo Group Holdings Limited (1591)	A contractor of foundation works in Hong Kong	2.56	20.20	404
Milestone Builder Holdings Limited (1667)	An investment holding company principally involved in the construction business in Hong Kong	2.27	41.74	340
Ching Lee Holdings Limited (3728)	Principally engaged in the provision of construction and consultancy works and project management services in Hong Kong	4.34	16.08	410
Super Strong Holdings Limited (8262)	Operates as a contractor in the Hong Kong construction industry	2.13	55.41	328
	Maximum	4.34	55.41	
	Minimum	2.13	16.08	
	Mean	2.79	29.08	
	Median	2.42	22.44	
The Company	A Hong Kong-based investment holding company principally engaged in the provision of contracting and consultancy services related to construction engineering	7.64	21.76	690

Source: the Stock Exchange web-site (www.hkex.com.hk)

As shown by the above table, the Comparable Companies were trading at P/B ranging from approximately 2.13 times to approximately 4.34 times. The implied P/B of the Company (based on the Offer Price) of approximately 7.64 times is hence above the said market range and is better than the normal market practice. With regard to P/E, the Comparable Companies were trading at P/E ranging from approximately 16.08 times to approximately 55.41 times. The implied P/E of the Company (based on the Offer Price) of approximately 21.76 times is hence within the said market range and follows the normal market practice. In this relation, we also noted that the P/E of Super Strong Holdings Limited (stock code: 8262) is relatively higher than those of the other Comparable Companies. As such, we consider using the median P/E of the Comparable Companies for comparison purpose would be more meaningful and the implied P/E of the Company (based on the Offer Price) is just slightly below the median P/E of the Comparable Companies.

RECOMMENDATION

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

- (i) as illustrated under the sub-section headed “Industry overview” of this letter of advice, there are certain factors affecting the construction industry in Hong Kong which would exert pressure on the Group’s business, thereby creating uncertainty on the future prospects of the Group;
- (ii) the Offer Price was above the historical closing prices of the Shares during the Historical Period;
- (iii) the disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares as a result of the thin trading volume of the Shares;
- (iv) the implied P/B of the Company (based on the Offer Price) is above the market P/B range of the Comparable Companies and hence is better than normal market practice;
- (v) the implied P/E of the Company (based on the Offer Price) is within the market P/E range and is just slightly below the median P/E of the Comparable Companies, hence follows the market practice,

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

However, we would also like to remind the Independent Board Committee to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period and consider selling their Shares in the open market, where possible, instead of accepting the Offer, if the net proceeds from such sales exceed the net amount receivable under the Offer.

Those Independent Shareholders who decide to retain part or all of their investments in the Shares should carefully monitor the intentions of the Offeror in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer. Further terms and conditions of the Offer are set out in the “Letter from GF Securities” of and Appendix I to the Composite Document.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholder who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
VBG Capital Limited

A handwritten signature in black ink, appearing to read 'Doris Sing', with a large, sweeping flourish on the left side.

Doris Sing
Director