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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Victory City International Holdings Limited, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular appears for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

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## VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 539)

### RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE AT HK\$0.270 PER RIGHTS SHARE AND NOTICE OF SPECIAL GENERAL MEETING

Underwriter of the Rights Issue



結好證券有限公司  
GET NICE SECURITIES LIMITED

Independent Financial Advisor to  
the Independent Board Committee and Independent Shareholders

**BALLAS**  
CAPITAL

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Capitalised terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 12 to 33 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 34 to 35 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 63 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 4 March 2020. Dealings in the Rights Shares in nil-paid form are expected to take place from Tuesday, 17 March 2020 to Tuesday, 24 March 2020 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Tuesday, 17 March 2020 to Tuesday, 24 March 2020 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

A notice convening the SGM to be held at Unit D, 3rd Floor, Winfield Industrial Building, 3 Kin Kwan Street, Tuen Mun, New Territories, Hong Kong at 10:00 a.m. on Monday, 2 March 2020 is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with Tricor Secretaries Limited, the branch share registrar of Victory City International Holdings Limited in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting (i.e. 10:00 a.m. on Saturday, 29 February 2020, Hong Kong time) or any adjournment thereof.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate the obligations of the Underwriters thereunder on the occurrence of certain events including force majeure. These certain events are set out in the section headed "Termination of the Underwriting Agreement" on pages 10 to 11 of this circular. If the Underwriting Agreement is terminated by the Underwriters or does not become unconditional, the Rights Issue will not proceed.

\* for identification purposes only

7 February 2020

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 18 December 2019 in relation to, among other things, the proposed Rights Issue
“April Rights Issue”	the rights issue of the Company completed on 18 April 2019
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“August Convertible Bonds”	the convertible bonds in the amount of HK\$64,000,000 issued by the Company to Mr. Wang Chia Po on 13 August 2019
“Board”	the board of Directors
“Bondholder’s Undertakings”	the irrevocable undertakings, referred to in the sub-section headed “The Bondholder’s Undertakings” under the section headed “The Underwriting Agreement”, dated 18 December 2019 and executed by each of Pearl Garden, Madian Star, Mr. Wang Chia Po and Mr. Wong Shu Fat in favour of the Company and the Underwriter
“Business Day(s)”	a day (excluding Saturday and Sunday and any day on which “extreme conditions” caused by super typhoons is announced by the Government of Hong Kong or a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Committed Shareholders”	each of Pearl Garden, Madian Star, Mr. Chen and Mr. Choi who was beneficially interested in 104,567,400 Shares, 104,567,400 Shares, 549,000 Shares and 2,100,000 Shares respectively, as at the Latest Practicable Date
“Company”	Victory City International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

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## DEFINITIONS

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“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Convertible Bonds”	collectively, the June Convertible Bonds, the August Convertible Bonds and the October Convertible Bonds
“Director(s)”	director(s) of the Company
“EAF(s)”	the form(s) of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such form as may be agreed between the Company and the Underwriter
“Excluded Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, which has been established under the Listing Rules to advise the Independent Shareholders in respect of the Rights Issue
“Independent Financial Adviser”	Ballas Capital Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of to the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the SGM under the Listing Rules
“Independent Third Parties”	parties independent of and not connected with the Company and its connected persons

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## DEFINITIONS

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“Irrevocable Undertakings”	the irrevocable undertakings, referred to in the sub-section headed “The Irrevocable Undertakings” under the section headed “The Underwriting Agreement”, dated 18 December 2019 and executed by the Committed Shareholders in favour of the Company and the Underwriter
“June Convertible Bonds”	the convertible bonds in the amount of HK\$400,000,000 in aggregate issued by the Company to Pearl Garden and Madian Star on 28 June 2019
“Last Trading Day”	18 December 2019, being the last trading day of the Shares on the Stock Exchange before the release of the Announcement
“Latest Practicable Date”	5 February 2020, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Latest Time for Acceptance”	4:00 p.m. on Friday, 27 March 2020 or such other time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of and payment for the Rights Shares
“Latest Time for Termination”	4:00 p.m. on Thursday, 2 April 2020, being the fourth Business Day after the Latest Time for Acceptance, or such other time as may be agreed between the Company and the Underwriter
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Madian Star”	Madian Star Limited, a company incorporated in the British Virgin Islands and wholly owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family members of Mr. Chen, an executive Director and the chief executive officer of the Company. Madian Star is a substantial shareholder of the Company
“Mr. Chen”	Mr. Chen Tien Tui, an executive Director and the chief executive officer of the Company
“Mr. Choi”	Mr. Choi Lin Hung, an executive Director
“Mr. Li”	Mr. Li Ming Hung, an executive Director and the Chairman of the Board
“October Convertible Bonds”	the convertible bonds in the amount of HK\$65,000,000 issued by the Company to Mr. Wong Shu Fat on 23 October 2019

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## DEFINITIONS

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“Optionholder’s Undertaking(s)”	the undertaking(s) executed on 18 December 2019 by the holders of the Share Options, whereby each of such Share Option holders irrevocably undertake, represent and warrant to the Company that he/she will not exercise such Share Options held by him/her for the period from the date of such undertakings to the Record Date
“Overseas Shareholder(s)”	Shareholder(s) with registered address(es) (as shown on the register of members of the Company on the Record Date) which is(are) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Pearl Garden”	Pearl Garden Pacific Limited, a company incorporated in the British Virgin Islands and wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for the family members of Mr. Li, an executive Director and the Chairman of the Board. Pearl Garden is a substantial shareholder of the Company
“Posting Date”	Friday, 13 March 2020 or such other date as the Underwriter may agree in writing with the Company, being the date of despatch of the Prospectus Documents
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular
“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date, other than the Excluded Shareholder(s)
“Record Date”	Thursday, 12 March 2020 or such other date as may be agreed between the Company and the Underwriter, being the date for determining entitlements of Shareholders to participate in the Rights Issue
“Registrar”	Tricor Secretaries Limited, the Hong Kong branch share registrar of the Company, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong

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## DEFINITIONS

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“Rights Issue”	the proposed issue of the Rights Shares by way of rights on the Record Date at the Subscription Price pursuant to the Prospectus Documents and as contemplated under the Underwriting Agreement
“Rights Share(s)”	1,553,823,962 new Shares proposed to be allotted and issued by the Company to the Qualifying Shareholders for subscription pursuant to the Rights Issue, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at 10:00 a.m. on Monday, 2 March 2020, in which resolution will be proposed to consider, and, if thought fit, to approve the Rights Issue and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) in the issued and unissued share capital of the Company of HK\$0.1 each
“Share Consolidation”	the consolidation of every ten (10) shares of HK\$0.01 each in the issued and unissued share capital of the Company into one (1) consolidated Share of HK\$0.10 each in the issued and unissued share capital of the Company, which took effect on 24 June 2019
“Share Option Scheme”	the share option scheme of the Company adopted on 15 March 2011
“Share Options”	the share options granted by the Company pursuant to the Share Option Scheme
“Shareholder(s)”	the holder(s) of the issued Shares
“Specified Event”	an event occurring or a matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which renders any of the warranties contained in the Underwriting Agreement untrue, inaccurate or misleading
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.270 per Rights Share
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Takeovers code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Get Nice Securities Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Underwriting Agreement”	the underwriting agreement entered into between the Company and the Underwriter on 18 December 2019 in relation to the underwriting arrangement in respect of the Rights Issue
“Underwritten Shares”	an aggregate of 1,130,256,362 Rights Shares to be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement other than those Rights Shares to be taken up under the Irrevocable Undertakings and assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
“US”	the United States of America
“%”	per cent



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## EXPECTED TIMETABLE

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### EXPECTED TIMETABLE

Set out below is the expected timetable for the Rights Issue which is indicative only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled:

Event	2020
Latest time for lodging transfers of Shares to qualify for attendance and voting at the SGM. . . . .	4:30 p.m. on Monday, 24 February
Closure of register of members of the Company for attending and voting at the SGM (both days inclusive) . . . . .	Tuesday, 25 February to Monday, 2 March
Latest date and time for lodging forms of proxy for the purpose of the SGM . . . . .	10:00 a.m. on Saturday, 29 February
Record date for determining attendance and voting at the SGM . . . . .	Monday, 2 March
<b>Expected date and time of the SGM . . . . .</b>	<b>10:00 a.m. on Monday, 2 March</b>
<b>Announcement of poll results of SGM . . . . .</b>	<b>Monday, 2 March</b>
Last day of dealings in Shares on a cum-rights basis . . . . .	Tuesday, 3 March
First day of dealings in Shares on an ex-rights basis. . . . .	Wednesday, 4 March
Latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue . . . . .	4:30 p.m. on Thursday, 5 March
Closure of register of members of the Company for the Rights Issue (both dates inclusive). . . . .	Friday, 6 March to Thursday, 12 March
Record Date for determining entitlements to the Rights Issue . . . . .	Thursday, 12 March
Register of members of the Company re-opens . . . . .	Friday, 13 March
Despatch of Prospectus Documents . . . . .	Friday, 13 March

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## EXPECTED TIMETABLE

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Event	2020
First day of dealings in nil-paid Rights Shares . . . . .	9:00 a.m. on Tuesday, 17 March
Latest time for splitting nil-paid Rights Shares . . . . .	4:30 p.m. on Thursday, 19 March
Last day of dealings in nil-paid Rights Shares . . . . .	4:10 p.m. on Tuesday, 24 March
 <b>Latest time for acceptance of, and payment for the Rights Shares and application for excess Rights Shares . . . . . 4:00 p.m. on Friday, 27 March</b>	
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional. . . . .	4:00 p.m. on Thursday, 2 April
Announcement of results of the Rights Issue . . . . .	Friday, 3 April
Refund cheques, if any, to be despatched (if the Rights Issue is terminated or in respect of unsuccessful or partially successful application for excess Rights Shares) on or before . . . . .	Monday, 6 April
Certificates for fully paid Rights Shares to be despatched on or before . . . . .	Monday, 6 April
Commencement of dealings in fully-paid Rights Shares. . . . .	9:00 a.m. on Tuesday, 7 April

All times and dates in this circular refer to Hong Kong local times and dates. The dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied. Should there be any changes to the above expected timetable, the Company will notify the Shareholders by way of announcement as and when appropriate.

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## EXPECTED TIMETABLE

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### EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance will be postponed if “extreme conditions” caused by super typhoons is announced by the Government of Hong Kong or there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning

- a. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be extended to 5:00 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 date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of abovementioned warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section may be affected. An announcement will be made by the Company in such event.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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### Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination,

- (A) one or more of the following events or matters shall occur, arise, exist, or come into effect:
- (i) the introduction of any new regulation or any change in existing laws or regulation (or the judicial interpretation thereof) after the signing of the Underwriting Agreement;
  - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring after the signing of the Underwriting Agreement or continuing after the signing of the Underwriting Agreement) of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets;
  - (iii) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group;
  - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurring after the signing of the Underwriting Agreement;
  - (v) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise;
  - (vi) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, in/on Hong Kong, the PRC or other jurisdiction relevant to any member of the Group and a change in currency conditions for this includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the US) occurs; or
  - (vii) the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company,

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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which event or events is or are in the reasonable opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole;
  - (b) likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares taken up; or
  - (c) make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue;
- (B) any breach of any of the warranties or undertakings or any omission to observe any of the obligations or undertakings in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (C) any Specified Event comes to the knowledge of the Underwriter,

the Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing to the Company served prior to the Latest Time for Termination.

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate forthwith provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

**If the Underwriter or the Company terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement would be made by the Company if the Underwriting Agreement is terminated by the Underwriter or the Company.**



**VICTORY CITY INTERNATIONAL HOLDINGS LIMITED**  
**冠華國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 539)**

*Executive Directors:*

Li Ming Hung (*Chairman*)  
Chen Tien Tui (*Chief Executive Officer*)  
Lee Yuen Chiu Andy  
Choi Lin Hung

*Registered office:*

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Kan Ka Hon  
Phaisalakani Vichai  
Kwok Sze Chi

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

Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong

7 February 2020

*To the Qualifying Shareholders and, for information purpose only,  
the Excluded Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE ON THE BASIS OF  
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE  
HELD ON THE RECORD DATE  
AT HK\$0.270 PER RIGHTS SHARE**

**INTRODUCTION**

Reference is made to the Announcement, in relation to, among other matters, the Rights Issue. On 18 December 2019, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$419.5 million on the basis of two (2) Rights Shares for every one (1) Share held on the Record Date by issuing 1,553,823,962 Rights Shares at the Subscription Price of HK\$0.270 per Rights Share. The Subscription Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares and,

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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where applicable, application for excess Rights Shares under the Rights Issue or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

The purpose of this circular is to provide you with, among others, further details on the Rights Issue, certain financial information and other general information on the Group.

### THE RIGHTS ISSUE

The Company proposed to raise approximately HK\$419.5 million (before expenses), which amounts to approximately HK\$412.5 million after deduction of the costs and expenses which the Company will incur in the Rights Issue, details of the Rights Issue are set out as follows:

#### Issue statistics

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) Share held at the close of business on the Record Date
Subscription Price	:	HK\$0.270 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	776,911,981 Shares
Number of Rights Shares	:	1,553,823,962 Rights Shares
Number of issued shares of the Company upon completion of the Rights Issue	:	2,330,735,943 Shares
Amount to be raised	:	Approximately HK\$419.5 million before expenses
Right of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment

As at the Latest Practicable Date, there are (i) 28,394,915 outstanding Share Options, which are exercisable during the period from 12 October 2016 to 11 October 2021; (ii) 40,425,084 outstanding Share Options, which are exercisable during the period from 18 April 2019 to 17 April 2024; (iii) the June Convertible Bonds in the aggregate amount of HK\$400,000,000, which 377,358,490 Shares will be issued upon exercise of the conversion rights under the June Convertible Bonds in full at the adjusted conversion price of HK\$1.06 per conversion Share; (iv) the August Convertible Bonds in the amount of HK\$64,000,000, which 100,000,000 Shares will be issued upon exercise of the conversion rights under the August Convertible Bonds in full at the initial conversion price of HK\$0.64 per conversion Share; and (v) the October Convertible Bonds in the amount of HK\$65,000,000, which 100,000,000 Shares will be issued upon exercise of the conversion rights under the October Convertible Bonds in full at the initial conversion price of HK\$0.65 per conversion Share.

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## LETTER FROM THE BOARD

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Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 200.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 66.67% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

### Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, any relevant transfer documents (together with the relevant share certificates) must be lodged with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 5 March 2020.

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually.

Shareholders with their Shares held by a nominee (or held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date. For investors whose Shares are held by a nominee (or held in CCASS) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 5 March 2020.

Qualifying Shareholders who take up their pro rata entitlements in full under the Rights Issue will not suffer any dilution to their interests in the Company. **If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

### Basis of provisional allotments

The basis of the provisional allotment shall be two (2) Rights Shares (in nil-paid form) for every one (1) Share held by the Qualifying Shareholders as at the close of business on the Record Date.



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## LETTER FROM THE BOARD

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Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

### **Rights of Overseas Shareholder(s)**

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders, if any. If, based on the legal opinions to be provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), the Rights Issue will not be extended to such Overseas Shareholders.

As at the Latest Practicable Date, there was no Overseas Shareholder.

The Company will send the Prospectus to the Excluded Shareholders (if any) for their information only, but will not send any PAL and EAF to them. Receipt of a copy of the Prospectus does not and will not constitute an offer to the Excluded Shareholder(s).

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, to be sold in the market in their nil-paid form during the period from Tuesday, 17 March 2020 to Tuesday, 24 March 2020 if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses, of more than HK\$100 will be paid on pro-rata basis to the relevant Excluded Shareholders. In view of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Excluded Shareholders to the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholder(s) will be made available for excess applications by Qualifying Shareholders under the EAF(s).

### **Subscription Price**

The Subscription Price for the Rights Shares is HK\$0.270 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a premium of approximately 3.85% over the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

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## LETTER FROM THE BOARD

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- (b) a discount of approximately 22.86% to the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 9.09% to the theoretical ex-rights price of approximately HK\$0.297 per Share based on the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (d) a discount of approximately 21.28% to the average of the closing prices of approximately HK\$0.343 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 21.97% to the average of the closing prices of approximately HK\$0.346 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 96.91% to the unaudited net asset value per Share of approximately HK\$8.724 (based on the latest published consolidated net asset value of the Group of approximately HK\$6,777,624,000 as at 30 September 2019 as disclosed in the interim report of the Company for the six months ended 30 September 2019 and 776,911,981 Shares in issue as at the Last Trading Day);
- (g) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 15.14% represented by the theoretical diluted price of HK\$0.297 per Share to the benchmarked price of approximately HK\$0.350 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of approximately HK\$0.350 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Last Trading Day of approximately HK\$0.340 per Share); and
- (h) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of the Rights Issue and the April Rights Issue of approximately 16.88%.

The Subscription Price was set at a discount to the recent closing prices of the Shares prior to the Last Trading Day aiming at lowering the further investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising dilution impact. The terms of the Rights Issue, including the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter, taking into account, among others, the following factors: (i) the prevailing share price of the Company; (ii) the latest business performance and financial position of the Group; and (iii) the funding and capital needs of the Company

In determining the terms of the Rights Issue, the Company strives to set a reasonable subscription price that reflects a balance between the inherent value and the market price of the Shares. While the Rights Issue is fully underwritten by the Underwriter, an existing

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## LETTER FROM THE BOARD

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Shareholder may make an informed decision in electing to accept or decline part of or all of his/her/its provisional allotment of nil paid Rights Shares. The Underwriter would be accepting the Rights Shares on the same price as any other Qualifying Shareholder.

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. The possible maximum dilution to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 66.67%.

The Directors (including the members of the Independent Board Committee after considering the advice from the Independent Financial Adviser) are of the view that the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders, and that all Qualifying Shareholders are treated equally.

The net price per Rights Share (i.e. the Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK\$0.265.

### **Status of Rights Shares**

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid, the record date of which is after the date of allotment of the Rights Shares in their fully-paid form.

### **Fractions of Rights Shares**

On the basis of provisional allotment of two (2) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

### **Share certificates and refund cheques for the Rights Issue**

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully paid Rights Shares are expected to be posted on Monday, 6 April 2020 by ordinary post to the allottees, at their own risk, to their registered addresses. Each Shareholder will receive one share certificate for all allotted shares. Refund cheques in respect of wholly or partially unsuccessful applications for the excess Rights Shares (if any) are expected to be posted on Monday, 6 April 2020 by ordinary post to the applicants, at their own risk, to their registered addresses.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence at 9:00 a.m. on Tuesday, 7 April 2020.

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## LETTER FROM THE BOARD

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### Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders and for any Rights Shares provisionally allotted but not accepted.

Application for excess Rights Shares can be made only by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate cheque or banker's cashier order for the sum payable for the excess Rights Shares being applied for with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Friday, 27 March 2020.

The Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis on the following principles:

- (a) any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of the excess Rights Shares applied for under each application;
- (b) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
- (c) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings; and
- (d) pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by any Controlling Shareholder or its associates (together, the "Relevant Shareholders"), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders' applications for excess Rights Shares to the extent that the total number of excess Right Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders and/or transferees of nil-paid Rights Shares under PALs is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

Shareholders with Shares held by a nominee (or which are held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually.

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## LETTER FROM THE BOARD

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Shareholders with Shares held by a nominee (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of their relevant Shares under the names of the beneficial owners prior to the Record Date for the purpose of the Rights Issue. Shareholders and investors should consult their professional advisers if they are in doubt as to their status.

### **Application for listing**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. The nil-paid Rights Shares shall have the same board lot size as the Shares, i.e. 4,000 Shares in one board lot.

Subject to the granting of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the register of members of the Company, will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

No part of the securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application for listing of or permission to deal in the Shares, the Rights Shares or any other securities of the Company is being made, or is proposed to be sought, on any other stock exchange.

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## LETTER FROM THE BOARD

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### THE UNDERWRITING AGREEMENT

On 18 December 2019 (after trading hours), the Underwriter and the Company entered into the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to fully underwrite all the Rights Shares other than those agreed to be taken up by the Committed Shareholders pursuant to the Irrevocable Undertakings.

Date : 18 December 2019 (after trading hours)

Underwriter : Get Nice Securities Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

To the best knowledge and information of the Directors, after reasonable enquiries, the Underwriter is independent of and not connected with the Company or its connected persons.

Total number of Rights Shares to be underwritten by the Underwriter : 1,130,256,362 Rights Shares

Commission : The Underwriter will receive 1.5% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market conditions.

The Directors (including the members of the Independent Board Committee after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Underwriting Agreement, including the commission rate, are fair and reasonable and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### The Irrevocable Undertakings

As at the Latest Practicable Date, the Committed Shareholders are beneficially interested in an aggregate of 211,783,800 Shares, representing approximately 27.26% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertakings, the Committed Shareholders have provided irrevocable and unconditional undertakings to the Company and the Underwriter to, among other things, (i) accept their entitlements to the

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## LETTER FROM THE BOARD

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provisional allotment of an aggregate of 423,567,600 Rights Shares, respectively; (ii) not to sell or transfer the Shares held by them in any manner before the completion or lapse of the Rights Issue; and (iii) (other than Mr. Choi) not to apply for any Rights Shares in excess of those provisionally allotted to each of them.

Save for the Irrevocable Undertakings given by the Committed Shareholders, as at the Latest Practicable Date, the Board has not received any information from any other Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them.

### **The Bondholder's Undertakings**

As at the Latest Practicable Date:

- (i) Pearl Garden and Madian Star are the holders of the June Convertible Bonds in the amount of HK\$400,000,000 in aggregate, which 377,358,490 Shares will be issued upon exercise of the conversion rights under the June Convertible Bonds in full at the adjusted conversion price of HK\$1.06 per conversion Share;
- (ii) Mr. Wang Chia Po is the holder of the August Convertible Bonds in the amount of HK\$64,000,000, which 100,000,000 Shares will be issued upon exercise of the conversion rights under the August Convertible Bonds in full at the initial conversion price of HK\$0.64 per conversion Share; and
- (iii) Mr. Wong Shu Fat is the holder of the October Convertible Bonds in the amount of HK\$65,000,000, which 100,000,000 Shares will be issued upon exercise of the conversion rights under the October Convertible Bonds in full at the initial conversion price of HK\$0.65 per conversion Share.

Pursuant to the Bondholder's Undertakings, each of Pearl Garden, Madian Star, Mr. Wang Chia Po and Mr. Wong Shu Fat has provided irrevocable and unconditional undertakings to the Company and the Underwriter not to exercise the conversion rights attached to the Convertible Bonds before the Record Date.

### **The Optionholder's Undertakings**

As at the Latest Practicable Date, holders of the Share Options have signed the Optionholder's Undertakings not to exercise the Share Options granted to him/her on or before the Record Date.

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## LETTER FROM THE BOARD

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### Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination,

- (A) one or more of the following events or matters shall occur, arise, exist, or come into effect:
- (i) the introduction of any new regulation or any change in existing laws or regulation (or the judicial interpretation thereof) after the signing of the Underwriting Agreement;
  - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring after the signing of the Underwriting Agreement or continuing after the signing of the Underwriting Agreement) of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets;
  - (iii) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group;
  - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurring after the signing of the Underwriting Agreement;
  - (v) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise;
  - (vi) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, in/on Hong Kong, the PRC or other jurisdiction relevant to any member of the Group and a change in currency conditions for this includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the US) occurs; or
  - (vii) the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company,



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which event or events is or are in the reasonable opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole;
  - (b) likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares taken up; or
  - (c) make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue;
- (B) any breach of any of the warranties or undertakings or any omission to observe any of the obligations or undertakings in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (C) any Specified Event, comes to the knowledge of the Underwriter,

the Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing to the Company served prior to the Latest Time for Termination.

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate forthwith provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

**If the Underwriter or the Company terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement would be made by the Company if the Underwriting Agreement is terminated by the Underwriter or the Company.**

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (a) the Independent Shareholders passing the ordinary resolution at the SGM to approve (i) the Rights Issue; and (ii) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to authorising the Directors to allot and issue the Rights Shares (in their nil-paid and fully-paid forms));
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the approval for the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) prior to the Latest Time for Termination;

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- (c) the filing and registration of all the Prospectus Documents (together with any other documents required by applicable law or regulation to be annexed thereto) with the Registrar of Companies in Hong Kong by no later than the Posting Date;
- (d) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus for information only to the Excluded Shareholders, if any, by no later than the Posting Date;
- (e) each of the Committed Shareholders complying with his/its obligations under their respective Irrevocable Undertaking;
- (f) each of Pearl Garden, Madian Star, Mr. Wang Chia Po and Mr. Wong Shu Fat complying with its obligations under their respective Bondholder's Undertakings;
- (g) each of the holders of the Share Options complying with his/her obligations under their respective Optionholder's Undertakings;
- (h) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (i) there being no breach of the undertakings and obligations of the Company under the terms of the Underwriting Agreement at the Latest Time for Termination; and
- (j) there being no Specified Event occurring on or before the Latest Time for Termination.

The conditions precedent set out in paragraphs (a) to (g) above are incapable of being waived by the Underwriter and the Company. The Underwriter may waive the condition precedent set out in paragraphs (i) and (j) in whole or in part by written notice to the Company.

If the conditions precedent set out in above paragraphs are not satisfied (or in respect of paragraphs (i) and (j), waived in whole or in part by the Underwriter) on or before the Latest Time for Acceptance and/or paragraph s (i) and (j) do not remain fulfilled (unless waived by the Underwriter) up to the Latest Time for Termination, the Underwriting Agreement shall terminate (save in respect of the provisions in relation to fees and expenses, indemnity, notices and governing law and any rights or obligations which have accrued under the Underwriting Agreement prior to such termination) and no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed. The Irrevocable Undertakings, Bondholder's Undertakings and Optionholder's Undertakings shall lapse upon termination of the Underwriting Agreement.

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### INFORMATION ABOUT THE UNDERWRITER

The Underwriter is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

The Underwriter confirmed that (i) it is independent of and not connected with the Company or its connected persons; and (ii) it has complied with Rule 7.19(1)(a) of the Listing Rules that it is licensed under the SFO for Type 1 regulated activity and its ordinary business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Underwriter and its respective ultimate beneficial owner(s) and/or associates are Independent Third Parties.

### SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 776,911,981 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the Latest Practicable Date to completion of the Rights Issue other than the allotment and issue of Rights Shares pursuant to the Rights Issue, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; and (iii) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than the Committed Shareholders who have provided Irrevocable Undertakings:

Name of Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders		Immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than the Committed Shareholders who have provided Irrevocable Undertakings (Note 5)	
	Number of Shares	Approximate % (Note 1)	Number of Shares	Approximate % (Note 1)	Number of Shares	Approximate % (Note 1)
<b>Committed Shareholders</b>						
Pearl Garden (Note 2)	104,567,400	13.46	313,702,200	13.46	313,702,200	13.46
Madian Star (Note 3)	104,567,400	13.46	313,702,200	13.46	313,702,200	13.46
Mr. Chen (Note 4)	549,000	0.07	1,647,000	0.07	1,647,000	0.07
Mr. Choi (Note 4)	2,100,000	0.27	6,300,000	0.27	6,300,000	0.27
<b>Sub-total of Committed Shareholders</b>	211,783,800	27.26	635,351,400	27.26	635,351,400	27.26
Mr. Phaisalakani Vichai (Note 4)	1,248,000	0.16	3,744,000	0.16	1,248,000	0.05
Underwriter	—	—	—	—	1,130,256,362	48.49
Public shareholders	563,880,181	72.58	1,691,640,543	72.58	563,880,181	24.20
<b>Total</b>	<b>776,911,981</b>	<b>100.00</b>	<b>2,330,735,943</b>	<b>100.00</b>	<b>2,330,735,943</b>	<b>100.00</b>

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*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 it.
2. Pearl Garden is wholly-owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for Mr. Li's family members.
3. Madian Star is wholly-owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for Mr. Chen's family members.
4. Mr. Chen and Mr. Choi are executive Directors, and Mr. Phaisalakani Vichai is an independent non-executive Director.
5. This scenario is for illustrative purpose only. Under the Underwriting Agreement, the Underwriter has undertaken that it shall use its reasonable endeavours to ensure that, among others, (i) the public float requirements under the Listing Rules be fulfilled by the Company upon completion of the Rights Issue; (ii) it shall not, together with party(ies) acting in concert with it, hold 20% or more of the voting rights of the Company upon completion of the Rights Issue; and (iii) sub-underwriters and placees procured by them, together with parties acting in concert with each of them, will not own 10% or more of the voting rights of the Company upon completion of the Rights Issue. As at the Latest Practicable Date, the Underwriter had procured four sub-underwriters for sub-underwriting an aggregate of 904,000,000 Underwritten Shares. Each of the four sub-underwriters, namely Liberty Securities Limited, Hope Securities Limited, Satinu Markets Limited and Win Wind Securities Limited (collectively, the "**Sub-underwriters**") had agreed to take up 226,000,000 Underwritten Shares. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Sub-underwriters and their respective ultimate beneficial owners are Independent Third Parties. None of the Underwriter and the Sub-underwriters will hold 10% or more of equity interest and voting rights in the Company upon completion of the Rights Issue.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

### **REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS**

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries are production of and sale of knitted fabric and dyed yarn and garment products.

Reference is made to the announcements of the Company dated 3 July 2019, 1 August 2019, 14 October 2019 and 28 November 2019. The Group has planned to construct a manufacturing base in Bangladesh for fabric production (the "**Expansion**") as the costs of production in Bangladesh is lower than that in the PRC, and the advantage of lower import tax for textile products to those customers in Europe and the US as compared to that of the PRC, thereby increasing the Group's overall competitiveness in capturing more business opportunities from potential customers in Europe and the US. The Expansion will be invested with a business partner (the "**JV Partner**"), which is a Chinese textile and apparel

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manufacturer and exporter and has over 20 years' experience in garment manufacturing, with scaled operation in Bangladesh. The JV Partner provides products and services for global renowned fashion brands, exporting worldwide to Europe, the US and Australia.

The Group chose the JV Partner as the business partner for the Expansion since (i) the JV Partner intends to further develop upstream manufacturing process; (ii) due to established presence of the JV Partner for more than 20 years in Bangladesh, the Group believes it will be easier to enter the Bangladesh market with the expertise of the JV Partner, where the JV Partner can provide its local resources and its knowhow to collaborate with the Group to manage workers and supervise the Expansion; and (iii) the JV Partner, being one of the Group's customers, will be able to consume the products produced from the Bangladesh manufacturing base for its further production, and the Group believes it can boost the Group's sales as a whole. The shareholding of the JV Partner and the Company in the joint venture is 51% and 49% respectively.

As stated in the Announcement, the joint venture formed by the Group and the JV Partner entered into an agreement with relevant government authority for acquisition of the land for the construction of manufacturing base in September 2019, and completion of the acquisition of land is expected to take place in or about February 2020. The agreement for the acquisition of the land was entered into in the name of the JV Partner to expedite the process of implementation of the Expansion. Based on the updated timetable, completion of the acquisition of land is expected to take place in or about May 2020 due to procedures of Bangladesh authorities. It is expected that the construction of the manufacturing base will commence after completion of acquisition of land, and the manufacturing base will first focus on fabric production and it is expected that fabric production will commence at the manufacturing base in or about the second half of 2021. The expected monthly production capacity for fabric production will be approximately 2.5 million pounds.

Based on the negotiation with the JV Partner, and the preliminary assessment of the estimated capital expenditure required, it is expected that approximately HK\$1,000 million will be required and will be borne by the JV Partner and us pro rata to the interests held respectively in the joint venture, of which:

- (i) approximately HK\$150 million will be used for the acquisition of land, which is expected to be utilised in or about the first half of 2020;
- (ii) approximately HK\$300 million will be used for constructing the production plant, which is expected to be utilised in or about the second half of 2020;
- (iii) approximately HK\$400 million will be used for acquiring machineries, which is expected to be utilised in or about 2021; and
- (iv) approximately HK\$150 million will be used for constructing a water treatment plant, which is expected to be utilised in or about the second half of 2020.

Depending on the actual funding needs of the Expansion and the then working capital of the Group, the Company plans to fund the Expansion by the net proceeds of (i) approximately HK\$157 million from the placing completed on 18 January 2018; (ii)

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approximately HK\$63.7 million from the August Convertible Bonds; (iii) approximately HK\$64.7 million from the October Convertible Bonds; (iv) approximately HK\$206.2 million from the Rights Issue; and (v) internal resources of the Group. As at the Latest Practicable Date, based on the current plan for the Expansion, the Directors are of the view that the estimated proceeds from the Rights Issue (i.e. HK\$206.2 million) would be sufficient to satisfy the remaining capital expenditure.

Under the joint venture, as we have the expertise in fabric production, the Company is responsible for the initial planning of the production plant, including construction of the production plant and wastewater treatment plant, and procurement of machineries; while the JV Partner, which has local resources, has an established presence in Bangladesh and is familiar with the investing environment of Bangladesh, is responsible for acquiring the land for the construction of the production plant and recruiting labour. After the Expansion, the rights and obligations in relation to the production facilities, including but not limited to, rights to use, cost of repair and maintenance, depreciation and depletion, will be borne by the JV Partner and the Group pro rata to the interests held respectively in the joint venture, and the joint venture will be jointly managed by the JV Partner and the Company.

In addition, according to the Company's interim results for the six months ended 30 September 2019, the Company recorded bank balances and cash of approximately HK\$2,078 million and bank borrowings due within one year was approximately HK\$2,421 million as at 30 September 2019. The management of the Company considers that given that (i) its current low liquid capital position as compared to its bank borrowings due within one year; (ii) the decrease in bank balances and cash by 15.4% from approximately HK\$2,455 million as at 31 March 2019 to approximately HK\$2,078 million; (iii) the expected further decrease of the Group's bank balances and cash upon repayment of the syndicated loan of approximately HK\$300 million in both June 2020 and December 2020; (iv) the gearing ratio of the Group, being defined as net debt (representing total bank borrowings net of cash and cash equivalents) to shareholders' funds, was approximately 38.5%; and (v) the weakened global economy and the uncertainties outlook for 2020 pursuant to the trade war between the US and China, the management of the Company considers that it is a matter of prudent financial management and treasury policy that sufficient cash be maintained by the Group to repay its bank borrowings when they fall due. Despite the cash balance as at 30 September 2019, after taking into account the net proceeds from the Rights Issue of approximately HK\$206.3 million for repayment of bank loans, is approximately HK\$2,284.3 million in aggregate, which is lower than the amount of bank borrowings due within one year as at 30 September 2019, the Group plans to satisfy its repayment obligations for the bank borrowings by internal resources and through refinancing of existing borrowings to the extent where such refinancing arrangement is allowed by the banks.

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## LETTER FROM THE BOARD

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The estimated gross proceeds and net proceeds (after the deduction of the costs and expenses which the Company will incur in the Rights Issue) amount to approximately HK\$419.5 million and HK\$412.5 million, respectively. The estimated expenses of the Rights Issue are approximately HK\$7.0 million, which include underwriting commission and professional fees payable to the financial advisers, legal counsels, financial printer and other parties involved in the Rights Issue and will be borne by the Company. The Company intends to apply the abovementioned net proceeds from the Rights Issue in the following manner:

- (i) approximately HK\$206.2 million for the Expansion; and
- (ii) approximately HK\$206.3 million for the repayment of bank loans.

Having considered other fund raising alternatives for the Group, including issuance of debt securities and Share placements and taking into account the benefit and costs of each alternative, the Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

As at the Latest Practicable Date, save for the Rights Issue, the Board has no intention or plan to conduct other equity fund raising activities in the next 12 months. However, if there shall arise any other potential investment opportunities or any change of the Group's current circumstances and existing business plans and that the net proceeds from the Rights Issue may not satisfy such upcoming financing needs, the Board does not rule out the possibility that the Company may conduct further equity fund raising exercises to support such future developments of the Group. The Company will make further announcement in this regard in accordance with the Listing Rules as and when appropriate.

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**LETTER FROM THE BOARD**

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**FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS**

Apart from the fund raising activities set out below, the Company had not conducted any fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

<b>Date of announcement/circular/prospectus</b>	<b>Event</b>	<b>Net proceeds (approximate)</b>	<b>Intended use of proceeds as announced</b>	<b>Actual use of proceeds</b>
19 February 2019, 13 March 2019, 26 March 2019 and 17 April 2019	Rights issue	HK\$249.3 million	(i) Approximately HK\$100 million for construction of new electron beam wastewater treatment facilities; (ii) approximately HK\$70 million for construction of a new boiler; and (iii) approximately HK\$79.3 million as general working capital	(i) Approximately HK\$80 million had been used for construction of new electron beam wastewater treatment facilities, and the remaining approximately HK\$20 million will be used as intended; (ii) approximately HK\$70 million had been used for construction of a new boiler; and (iii) approximately HK\$79.3 million had been used as general working capital
26 April 2019, 5 June 2019 and 28 June 2019	Issue of convertible bonds	HK\$400 million	All net proceeds for the redemption of convertible bonds in the principal amount of HK\$400 million issued by the Company on 22 September 2017	All net proceeds have been used for the redemption of convertible bonds in the principal amount of HK\$400 million issued by the Company on 22 September 2017
1 August 2019 and 13 August 2019	Issue of convertible bonds	HK\$63.7 million	All net proceeds reserved for the Expansion	All net proceeds will be used for the Expansion
14 October 2019 and 23 October 2019	Issue of convertible bonds	HK\$64.7 million	All net proceeds reserved for the Expansion	All net proceeds will be used for the Expansion



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## LETTER FROM THE BOARD

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### **POSSIBLE ADJUSTMENTS TO OUTSTANDING SHARE OPTIONS AND THE CONVERTIBLE BONDS**

Pursuant to the terms of the Share Option Scheme and the terms and conditions of the Convertible Bonds, (i) the exercise prices and/or number of new Shares to be issued upon exercise of the Share Options; and/or (ii) the conversion prices and/or number of new Shares to be issued upon exercise of the conversion rights under the Convertible Bonds may be adjusted in accordance with the Share Option Scheme and the terms and conditions of the Convertible Bonds, if any, upon the Rights Issue becoming unconditional. The Company will notify the holders of the Share Options and the Convertible Bonds the adjustments upon the Rights Issue becoming unconditional by further announcement, if necessary.

### **LISTING RULES IMPLICATIONS**

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 7.27A(1) of the Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, the Company has no controlling Shareholder. The Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates, who are interested in 211,783,800 Shares in aggregate (representing approximately 27.26% of the total number of Shares in issue as at the Latest Practicable Date), shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

Save for the April Rights Issue, the Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue or open offer within such 12-month period. The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own or in aggregate with the April Rights Issue.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 25 February 2020 to Monday, 2 March 2020 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

The register of members of the Company will be closed from Friday, 6 March 2020 to Thursday, 12 March 2020 (both dates inclusive) for determining the entitlements to the Rights Issue.

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## LETTER FROM THE BOARD

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No transfer of Shares will be registered during the above book closure periods.

### GENERAL

The SGM will be convened for the Shareholders to consider and, if thought fit, approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder.

The Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules. To the best knowledge and information of the Directors, after reasonable enquiries, as at the Latest Practicable Date, except for Mr. Chen, Mr. Li and Mr. Choi, and their respective associates who are interested in 211,783,800 Shares in aggregate (representing approximately 27.26% of the total number of Shares in issue as at the Latest Practicable Date), no Shareholder is required to abstain from voting in the SGM. The persons who are required to abstain from voting in favour at the SGM has no intention to vote against the resolution of the Rights Issue.

The notice convening the SGM to be held at Unit D, 3rd Floor, Winfield Industrial Building, 3 Kin Kwan Street, Tuen Mun, New Territories, Hong Kong on Monday, 2 March 2020 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Tricor Secretaries Limited, the branch share registrar of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM (i.e. 10:00 a.m. on Saturday, 29 February 2020, Hong Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

Subject to the approval of the Rights Issue by the Independent Shareholders at the SGM, the Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and PAL(s) and EAF(s) are expected to be despatched to the Qualifying Shareholders on or before Friday, 13 March 2020.

### WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

**Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed "Termination of the Underwriting Agreement" under the section headed "The Underwriting Agreement" above). Accordingly, the Rights Issue may or may not proceed.**

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## LETTER FROM THE BOARD

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The Shares are expected to be dealt in on an ex-rights basis from Wednesday, 4 March 2020 and dealings in the Rights Shares in nil-paid form will take place while the conditions to which the Underwriting Agreement is subject to remaining unfulfilled. Any dealings by the Shareholders and other persons in the Shares between the date of this circular and the date on which the Rights Issue becomes unconditional (which is expected to be at 4:00 p.m. on Thursday, 2 April 2020), and any dealings in the Rights Shares in their nil-paid form from Tuesday, 17 March 2020 to Tuesday, 24 March 2020 (both dates inclusive), will be at their own risk and if they are in any doubt about their position, they should consult their own professional advisers.

### RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM. Ballas Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 34 to 35 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue and the Underwriting Agreement, and the letter from the Independent Financial Adviser set out on pages 36 to 63 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue (including the terms and conditions of the Underwriting Agreement) is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Victory City International Holdings Limited**  
**Li Ming Hung**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue.*



**VICTORY CITY INTERNATIONAL HOLDINGS LIMITED**  
**冠華國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 539)**

7 February 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE ON THE BASIS OF  
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE  
HELD ON THE RECORD DATE  
AT HK\$0.270 PER RIGHTS SHARE**

We refer to the circular of the Company dated 7 February 2020 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

Ballas Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

\* *for identification purposes only*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Having taken into account the terms of the Rights Issue, and the advice from Ballas Capital Limited, we are of the opinion that the terms of the Rights Issue (including the terms and conditions of the Underwriting Agreement) is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,  
For and on behalf of  
**Independent Board Committee**

**Kan Ka Hon**  
*Independent non-executive  
Director*

**Phaisalakani Vichai**  
*Independent non-executive  
Director*

**Kwok Sze Chi**  
*Independent non-executive  
Director*

**BALLAS**  
C A P I T A L

Unit 1802, 18/F  
1 Duddell Street  
Central  
Hong Kong

7 February 2020

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE ON THE BASIS OF  
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE  
HELD ON THE RECORD DATE  
AT HK\$0.270 PER RIGHTS SHARE**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 7 February 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 18 December 2019, the Company announced the Rights Issue and the Underwriting Agreement. The Company proposed to raise approximately HK\$419.5 million before expenses by way of the Rights Issue. The Rights Issue will involve the issue of 1,553,823,962 Rights Shares at the Subscription Price of HK\$0.270 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date) on the basis of two (2) Rights Shares for every one (1) Share held on the Record Date. The Rights Shares is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders. The net proceeds from the Rights Issue after the deduction of the costs and expenses which the Company will incur in the Rights Issue are estimated to be approximately HK\$412.5 million (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date), of which (i) approximately 50.0% or approximately HK\$206.2 million will be applied for the construction of a manufacturing base in Bangladesh; and (ii) approximately 50.0% or approximately HK\$206.3 million will be applied for the repayment of bank loans.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the Letter from the Board, on 18 December 2019 (after trading hours), the Company entered into the Underwriting Agreement with Get Nice Securities Limited, the Underwriter, pursuant to which the Underwriter has conditionally agreed to fully underwrite 1,130,256,362 Rights Shares subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfillment of the conditions precedent contained therein. For details of the major terms and conditions of the Underwriting Agreement, please refer to the section headed “The Underwriting Agreement” in the Letter from the Board.

Since the Rights Issue will increase the issued shares capital of the Company by more than 50%, in accordance with Rule 7.27A(1) of the Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue. As at the Latest Practicable Date, the Company has no controlling Shareholder. The Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates, who are interested in 211,783,800 Shares in aggregate (representing approximately 27.26% of the total number of Shares in issue as at the Latest Practicable Date), shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

Save for the April Rights Issue, the Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue or open offer within such 12-month period. The Rights Issue does not result in a theoretical dilution effect, which refers to the discount of the “theoretical diluted price” to the “benchmarked price” of shares (as defined under Rule 7.27B of the Listing Rules), of 25% or more on its own or in aggregate with the April Rights Issue.

The Independent Board Committee comprising all the independent non-executive Directors, being namely Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi, has been established to provide recommendations to the Independent Shareholders in connection with the Rights Issue (including the Underwriting Agreement).

### **INDEPENDENCE DECLARATION**

We are not associated or connected with the Company, its respective core connected persons or associates. Apart from this appointment as the Independent Financial Adviser in relation to the Rights Issue, we were appointed as the independent financial adviser in relation to the discloseable and connected transaction: disposal of properties as disclosed in the Company’s circular dated 15 August 2019. We consider that the aforesaid services we provided to the Company would not affect our independence. As at the Latest Practicable Date, we did not have any relationship with or interests in the Company or any other parties that could be reasonably regarded as a hindrance to Ballas Capital Limited’s

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. Accordingly, we consider we are eligible to give independent advice on the Rights Issue.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, or any of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

#### **A. Information on the Group**

The Company is an investment holding company and its shares have been listed on the Main Board of the Stock Exchange since 13 May 1996. The Group is principally engaged in the production and sale of knitted fabric, dyed yarn and garment products.



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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Set out below is a summary of the audited consolidated financial performance of the Group for the years ended 31 March 2018 and 2019 and unaudited consolidated financial performance of the Group for the six months ended 30 September 2018 and 2019 as extracted from the annual report of the Company for the year ended 31 March 2019 (the “**Annual Report**”) and the interim report of the Company for the six months ended 30 September 2019 (the “**Interim Report**”), respectively.

	<b>For the year ended 31 March</b>		<b>For the six months ended 30 September</b>	
	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>
	<b>(“FY2018”)</b>	<b>(“FY2019”)</b>	<b>(“1H2019”)</b>	<b>(“1H2020”)</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue				
— Production and sales of knitted fabric and dyed yarn	4,523,716	5,021,963	2,524,271	2,430,217
— Production and sales of garment products	<u>436,582</u>	<u>391,064</u>	<u>200,237</u>	<u>141,386</u>
<b>Total revenue</b>	<b>4,960,298</b>	<b>5,413,027</b>	<b>2,724,508</b>	<b>2,571,603</b>
Cost of sales	<u>(4,091,893)</u>	<u>(4,419,292)</u>	<u>(2,237,270)</u>	<u>(2,110,554)</u>
<b>Gross profit</b>	<b>868,405</b>	<b>993,735</b>	<b>487,238</b>	<b>461,049</b>
Other income	85,379	82,774	32,460	62,135
Other gains/(losses)	92,479	(49,063)	(242)	92,188
Distribution and selling expenses	(102,048)	(94,777)	(68,516)	(62,428)
General and administrative expenses	(403,099)	(408,358)	(196,319)	(207,338)
Finance costs	<u>(192,537)</u>	<u>(230,787)</u>	<u>(105,932)</u>	<u>(122,955)</u>
<b>Profit before taxation</b>	<b>348,579</b>	<b>293,524</b>	<b>148,689</b>	<b>222,651</b>
Income tax expense	<u>(29,386)</u>	<u>(22,017)</u>	<u>(19,895)</u>	<u>(17,442)</u>
<b>Profit for the year/period</b>	<b><u>319,193</u></b>	<b><u>271,507</u></b>	<b><u>128,794</u></b>	<b><u>205,209</u></b>

*Comparison of historical results between years for material items*

*FY2018 and FY2019*

The Group's revenue increased by approximately HK\$452.7 million, or 9.1%, from approximately HK\$4,960.3 million for FY2018 to approximately HK\$5,413.0 million for FY2019. According to the Annual Report, such increase was contributed by the increase in revenue generated from the production and sales of knitted fabric and dyed yarn, which was attributable to the enhanced production capabilities through streamlining the production processes and automation of machineries. The Group's gross profit also recorded an increase of approximately HK\$125.3 million, or 14.4%, from approximately HK\$868.4 million for FY2018 to approximately HK\$993.7 million for FY2019, which was due to the increase in gross profit from the production and sales of knitted fabric and dyed yarn as benefitted from the achievement of economies of scale. The Group's gross profit margin remained relatively stable at approximately 17.5% for FY2018 and approximately 18.4% for FY2019.

The Group's other gains and losses mainly consist of gains or losses from foreign exchange, fair value change of derivative financial instruments, and one-off items such as litigation claims, gain or loss from disposal of fixed assets and modification of liabilities. The Group's other gains and losses recorded a significant decrease from a net gain of approximately HK\$92.5 million for FY2018 to a net loss of approximately HK\$49.1 million for FY2019. As noted from the Annual Report, such decrease was mainly due to (i) the recognition of net loss on fair value change of derivative financial instruments of approximately HK\$4.4 million for FY2019 compared to a net gain on fair value change of derivative financial instruments of approximately HK\$89.3 million for FY2018; and (ii) the one-off loss from litigation claims of approximately HK\$46.1 million for FY2019.

The Group's finance costs consist of interest on bank borrowings and convertible bonds. The Group's finance costs increased by approximately HK\$38.3 million, or 19.9%, from approximately HK\$192.5 million for FY2018 to approximately HK\$230.8 million for FY2019. As noted from the Annual Report, such increase was mainly due to the increase in prevailing interest rates and accrued interest for convertible bonds.

As a result of the above, the Group's net profit decreased by approximately HK\$47.6 million, or 14.9%, from approximately HK\$319.2 million for FY2018 to approximately HK\$271.5 million for FY2019. The Group's net profit margin also decreased from approximately 6.4% for FY2018 to approximately 5.0% for FY2019.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *1H2019 and 1H2020*

The Group's revenue decreased by approximately HK\$152.9 million, or 5.6%, from approximately HK\$2,724.5 million for 1H2019 to approximately HK\$2,571.6 million for 1H2020. According to the Interim Report, such decrease was attributable to the decrease in revenue generated from the production and sales of knitted fabric and dyed yarn, which was resulted by the slowdown in order book particularly since second half of 2019 and downward trend of cotton price which adversely affected the pricing of the Group's textile products. As a result of the above, the Group's gross profit also recorded a decrease by approximately HK\$26.2 million, or 5.4%, from approximately HK\$487.2 million for 1H2019 to approximately HK\$461.0 million for 1H2020. The Group's gross profit margin remained relatively stable at approximately 17.9% for both 1H2019 and 1H2020.

The Group's other gains and losses recorded a significant increase from a net loss of approximately HK\$0.2 million for 1H2019 to a net gain of approximately HK\$92.2 million for 1H2020. As noted from the Interim Report, such increase was mainly due to (i) the gain on disposal of right-of-use assets of approximately HK\$67.3 million and (ii) the gain on modification of financial liability of approximately HK\$25.2 million.

The Group's finance costs increased by approximately HK\$17.0 million, or 16.1%, from approximately HK\$105.9 million for 1H2019 to approximately HK\$123.0 million for 1H2020. As discussed with and understood from the management of the Company, such increase was mainly due to the increase in syndicated loan interest and trade loans interest.

As a result of the above, the Group's net profit increased by approximately HK\$76.4 million, or 59.3%, from approximately HK\$128.8 million for 1H2019 to approximately HK\$205.2 million for 1H2020. The Group's net profit margin also increased from approximately 4.7% for 1H2019 to approximately 8.0% for 1H2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Financial position of the Group*

Set out below is a summary of the financial position of the Group as at 30 September 2019 as extracted from the Interim Report.

	<b>As at 30 September 2019</b> <i>HK\$'000</i> <i>(unaudited)</i>
Non-current assets	5,469,577
Current assets	<u>7,203,104</u>
<b>Total assets</b>	<b><u>12,672,681</u></b>
Current liabilities	3,559,586
Non-current liabilities	<u>2,335,471</u>
<b>Total liabilities</b>	<b><u>5,895,057</u></b>
<b>Net current assets</b>	<b><u>3,643,518</u></b>
<b>Net assets</b>	<b><u>6,777,624</u></b>
Net assets attributable to	
— Owners of the Company	6,753,559
— Non-controlling interests	<u>24,065</u>
<b>Net assets</b>	<b><u>6,777,624</u></b>

As at 30 September 2019, total assets of the Group amounted to approximately HK\$12,672.7 million, which mainly comprised (i) property, plant and equipment of approximately 40.2%; (ii) inventories of approximately 24.0%; and (iii) bank balances and cash of approximately 16.4%, of the Group's total assets.

As at 30 September 2019, total liabilities of the Group amounted to approximately HK\$5,895.1 million, which mainly comprised bank borrowings of approximately HK\$4,683.0 million, representing 79.4% of the Group's total liabilities.

As at 30 September 2019, the net debt of the Group, representing total bank borrowings net of cash and cash equivalents, amounted to approximately HK\$2,604.8 million. The gearing ratio of the Group, being defined as net debt to shareholders' funds, was approximately 38.5%.

As at 30 September 2019, the Group recorded net assets attributable to owners of the Company of approximately HK\$6,753.6 million.

**B. Reasons for the Rights Issue and proposed use of net proceeds**

As set out in the Letter from the Board, assuming no further Shares will be issued or repurchased by the Company on or before the Record Date, the estimated gross proceeds and net proceeds (after the deduction of the costs and expenses which the Company will incur in the Rights Issue) amount to approximately HK\$419.5 million and HK\$412.5 million, respectively. The estimated expenses of the Rights Issue are approximately HK\$7.0 million, which include underwriting commission and professional fees payable to the financial advisers, legal counsels, financial printer and other parties involved in the Rights Issue and will be borne by the Company. The Company intends to apply the net proceeds from the Rights Issue in the following manner:

- (i) approximately 50.0% or approximately HK\$206.2 million will be applied for the construction of a manufacturing base in Bangladesh for fabric production (the “**Expansion**”); and
- (ii) approximately 50.0% or approximately HK\$206.3 million will be applied for the repayment of bank loans.

***The Expansion***

As set out in the announcements of the Company dated 3 July 2019, 1 August 2019 and 14 October 2019 and the Interim Report, the Group has planned to construct a manufacturing base in Bangladesh for fabric production with a view to lower the average manufacturing costs and risk diversification. Further as noted from the Letter from the Board, the Expansion will be invested with a business partner (the “**JV Partner**”), which is a Chinese textile and apparel manufacturer and exporter and has over 20 years’ experience in garment manufacturing with scaled operation in Bangladesh. The JV Partner provides products and services for global renowned fashion brands, exporting worldwide to Europe, the US and Australia. As discussed with the management of the Company, we understand that the Group and the JV Partner will be interested in the joint venture as to 49% and 51% respectively. The Group chose the JV Partner as the business partner for the Expansion since (i) the JV Partner intends to further develop upstream manufacturing process; (ii) due to established presence of the JV Partner for more than 20 years in Bangladesh, the Group believes it will be easier to enter the Bangladesh market with the expertise of the JV Partner, where the JV Partner can provide its local resources and its knowhow to collaborate with the Group to manage workers and supervise the Expansion; and (iii) the JV Partner, being one of the Group’s customers, will be able to consume the products produced from the Bangladesh manufacturing base for its further production, and the Group believes it can boost the Group’s sales as a whole. In addition, we understand from the management of the Company that, to expedite the process of implementation of the Expansion, the agreement for the acquisition of the land was entered into in the name of the JV Partner with relevant government authority for the construction of manufacturing base in September 2019, and completion of the acquisition of land is expected to take place in or about May 2020 due to procedures of Bangladesh authorities. As noted from the Letter from the Board, based on the

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negotiation with the JV Partner, and the preliminary assessment of the estimated capital expenditure required, it is expected that approximately HK\$1,000 million will be required and will be borne by the JV Partner and the Group pro rata to the interests held respectively in the joint venture, of which (i) approximately HK\$150 million will be used for the acquisition of land which is expected to be utilised in or about the first half of 2020; (ii) approximately HK\$300 million will be used for constructing the production plant which is expected to be utilised in or about the second half of 2020; (iii) approximately HK\$400 million will be used for acquiring machineries which is expected to be utilised in or about 2021; and (iv) approximately HK\$150 million will be used for constructing a water treatment plant which is expected to be utilised in or about the second half of 2020.

Under the joint venture, as the Group has the expertise in fabric production, the Group is responsible for the initial planning of the production plant, including construction of the production plant and wastewater treatment plant, and procurement of machineries; while the JV Partner, which has local resources, an established presence in Bangladesh and is familiar with the investing environment of Bangladesh, is responsible for acquiring the land for the construction of the production plant and recruiting labour. After the Expansion, the rights and obligations in relation to the production facilities, including but not limited to, rights to use, cost of repair and maintenance, depreciation and depletion, will be borne by the JV Partner and the Group pro-rata to the interests held respectively in the joint venture, and the joint venture will be jointly managed by the JV Partner and the Group.

We discussed with the management of the Company and were advised that the operating environment has become more complicated along with the trade war between the US and the PRC (“**Trade War**”). The global economy remained unstable while consumer sentiments remained sluggish. Although the Directors of the Company consider that the Trade War has no direct business impact as the Group does not export finished products directly from the PRC to the US, the indirect and long-term impact remain unseen. As the Company only operates a single manufacturing base in Jiangmen, the PRC, uncertainties resulting from the Trade War noticeably increased. As such, the Directors consider, and we concur with the Company that in order to mitigate the risks from indirect impact of the Trade War and to maintain the competitiveness of the Group, it is strategically reasonable to find an alternative production base outside the PRC.

In addition, we have obtained the information on the JV Partner from the Company and independently conducted desktop research on their background. We noted that the JV Partner was founded in 1997 and is a leading Chinese textile and apparel manufacturer in Bangladesh. As per its website, the JV Partner is headquartered in Xiamen, China with the manufacturing base in Gazipur Industrial Zone, Bangladesh which employs over 18,000 employees. It specialises in activewear and underwear and exports worldwide to Europe, North America and Australia.

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As set out in the Letter from the Board, the costs of production in Bangladesh is lower than that in the PRC. We have reviewed statistics from the Minimum Wages Board of Bangladesh and notice issued by the People's Government of Guangdong Province. It is noted that the latest minimum wage of worker in cotton textile industry is 5,710 Bangladeshi Taka per month (equivalent to approximately HK\$523 per month), while the minimum wage in Jiangmen, the PRC (where the Group's existing plant is located) is RMB1,550 per month (equivalent to approximately HK\$1,747 per month). As further noted from the Letter from the Board, the import tax for textile products from Bangladesh to customers in Europe and the US is lower than that from the PRC. Taking into account the aforesaid reasons, we agree with the Company that a manufacturing base in Bangladesh would have cost advantage over the Group's existing manufacturing base in Jiangmen, the PRC and hence potentially increase the Group's overall competitiveness in capturing business opportunities in Europe and the US.

Having considered the above factors, we consider that it is reasonable to consider an alternative production base outside the PRC in order to mitigate the risks from indirect impact of the Trade War. We also consider that it is reasonable to consider the Expansion in Bangladesh under the Group's circumstances, given that the Expansion will be a joint venture with an experienced JV Partner in Bangladesh and Bangladesh offers a relatively lower costs of production compared to that in the PRC and it also has relatively lower tax and duty for textile goods imported into the US and Europe than that from the PRC, which could reduce the overall product costs and hence potentially increase the Group's overall competitiveness in capturing business opportunities in Europe and the US.

The total investment of the Expansion is expected to be approximately HK\$1,000 million, of which approximately HK\$490 million will be borne by the Company as a 49% joint venture partner of the Expansion. The Company intends to apply approximately HK\$206.2 million of the net proceeds of the Rights Issue to finance the Expansion. The remaining investment balance of the Expansion of approximately HK\$283.8 million is expected to be financed by the net proceeds of (i) approximately HK\$157 million from the share placement completed on 18 January 2018; (ii) approximately HK\$63.7 million from the August Convertible Bonds; and (iii) approximately HK\$64.7 million from the October Convertible Bonds. As at the Latest Practicable Date, based on the current plan for the Expansion, the Directors are of the view that the estimated proceeds from the Rights Issue (i.e. HK\$206.2 million) would be sufficient to satisfy the remaining capital expenditure. Any additional requirement for the Expansion is current expected to be financed by the internal resources of the Group.

We have discussed with the management of the Company the alternative financing methods as opposed to the Rights Issue. Based on the Company's assessment, other equity financing method such as placing of new Shares under general mandate can only raise funds in smaller size and does not allow the Shareholders to maintain their respective shareholding in the Company, whereas open offer does not provide the flexibility to the Shareholders who wish to subscribe the Rights Share to increase their

shareholding interests in the Company by acquiring additional rights entitlements in the open market or to the Shareholders who opt not to subscribe the Rights Shares to reduce their shareholding interests in the Company by disposing their nil-paid Rights Shares during the prescribed period of time for economic benefits. As such, the Directors considered that placing of new Shares and open offer are not a desirable alternative to the Rights Issue. In respect of debt financing, in view of the uncertain outlook for the global economy and the Group's high gearing ratio, the Directors of the Company consider that (i) there is no assurance that bank loans will be made available to the Group throughout the entire period for which the Company requires funding, (ii) it may be difficult for the Group to obtain bank borrowings on favourable terms in view of the weakened global economy and the uncertain outlook, and (iii) it is more expedient to use long-term funding means to finance its long-term business expansion. The Directors considered that equity funding by way of Rights Issue is an appropriate means to raise long term capital to strengthen the capital base of the Company and to finance the long-term investment plans of the Group. Having considered the above factors, we concur with the Company that the Rights Issue is the appropriate funding method for the Expansion.

***Repayment of bank loans***

As noted from the Interim Report, the Company recorded bank balances and cash of approximately HK\$2,078 million and bank borrowings due within one year of approximately HK\$2,421 million as at 30 September 2019. As set out in the Letter from the Board, the management of the Company considered that given that (i) the Group's current low liquid capital position as compared to its bank borrowings due within one year; (ii) the decrease in bank balances and cash by approximately 15.4% from approximately HK\$2,455 million as at 31 March 2019 to approximately HK\$2,078 million as at 30 September 2019 mainly attributable to the repayment of bank borrowings and purchase of property, plant and equipment; (iii) the expected further decrease of the Group's bank balances and cash upon repayment of the syndicated loan of approximately HK\$300 million in both June 2020 and December 2020 if the syndicated loan cannot be re-financed at terms agreeable to the Group; (iv) the gearing ratio of the Group, being defined as net debt (representing total bank borrowings net of cash and cash equivalents) to shareholders' funds, was approximately 38.5%; and (v) the weakened global economy and the uncertain outlook for 2020 pursuant to the trade war between the US and China, it is a prudent financial management and treasury policy that sufficient cash reserve should be retained by the Group enabling the Group to maintain financially flexible to meet its payment obligation including any possible repayment of bank borrowings when they fall due. We note that the estimated cash balance of the Group as at 30 September 2019, after taking into account the net proceeds from the Rights Issue of HK\$206.3 million for repayment of bank loans of approximately HK\$2,284.3 million in aggregate is still lower than the amount of bank borrowings of the Group due within one year as at 30 September 2019. The Group plans to satisfy its repayment obligations for the bank borrowings by internal resources and through re-financing of existing borrowings to the extent where such refinancing arrangement is allowed by the banks.



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In this regard, we have discussed with the management of the Company and were advised that they kept constant dialogue with its principal banks about re-financing the existing loans of the Company but their principal banks indicated that such renewal/re-financing depended on a number of factors including but not limited to the prevailing market conditions, the Group's financial performance and gearing position, and such arrangement could not be guaranteed. The management of the Company also added that the re-financing, if successful, may be renewed with terms which are less favourable to the Group as compared to the existing terms, in view of the uncertain outlook of the global economy and the Group's gearing position as compared to its peers. In respect of the gearing ratio, we have identified 13 comparable companies ("**Comparable Companies**") as at the date of the Announcement which (i) are listed in the Main Board of the Stock Exchange; (ii) derive most of their revenue from the production and trading of textile products based on the latest published results announcement; and (iii) were profit making based on the latest published results announcement, and calculated the gearing ratio of each of the Comparable Companies. We noted that these Comparable Companies have a gearing ratio ranging from net cash to approximately 78.1% with an average of approximately 23.1%. The gearing ratio of the Group of approximately 38.5% is higher than the average of the gearing ratio of the Comparable Companies. In addition, as discussed in the section headed "A. Information on the Group", as at 30 September 2019, the total liabilities of the Group were approximately HK\$5,895.1 million, of which approximately HK\$2,420.6 million was relating to the bank borrowings due within one year and approximately HK\$2,262.4 million was relating to long-term bank borrowings. As per the Interim Report of the Group, the range of effective interest rates of the Group's bank borrowings were 2.96% to 5.90% per annum for 1H2020. The Group recorded finance costs of approximately HK\$230.8 million and HK\$123.0 million for FY2019 and 1H2020, respectively, which was mainly attributable to the interest expenses on the bank borrowings and convertible bonds. The interest coverage of the Group, being defined as profit before interest and tax to finance costs, was approximately 2.8 times for 1H2020. We also compared the interest coverage of the Group to the Comparable Companies. We noted that the Comparable Companies have an interest coverage ranging from approximately 2.3 times to approximately 90.9 times with an average of approximately 10.7 times. If we exclude two extreme outlier samples which have interest coverage of 90.9 times and 48.9 times, the adjusted interest coverage will range from approximately 2.3 times to approximately 17.5 times with an average of approximately 7.3 times. The interest coverage of the Group is lower than the average of the adjusted interest coverage of the Comparable Companies. The Directors consider, and we concur with the Company that the application of part of the net proceeds from the Rights Issue to repay bank loans could (i) increase the Group's equity capital base and lower its gearing, which will help the Group negotiate with its principal banks about existing loans re-financing or any new loan proposition; (ii) relieve the pressure on raising external capital for repayment of the liabilities of the Company in near future as needed; and (iii) allow the Group to have bigger financial reserve and more flexibility to support its cash flow requirements in its existing operations as well as for any potential developments.

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**C. Previous fund-raising exercise**

The table below sets out the fund-raising exercise conducted by the Company in the past 12 months immediately prior to the Latest Practicable Date:

Date of announcement/ circular/prospectus	Fund-raising activity	Net proceeds (approximate)	Proposed use of the proceeds	Actual use of the proceeds
19 February 2019, 13 March 2019, 26 March 2019 and 17 April 2019	Issue of 2,589,706,603 rights shares	HK\$249.3 million	(1) Construction of new electron beam waste treatment facilities (approximately HK\$100 million, representing approximately 40.1% of the proceeds)  (2) Construction of a new boiler (approximately HK\$70 million, representing approximately 28.1% of the proceeds)  (3) General working capital of the Group (approximately HK\$79.3 million, representing approximately 31.8% of the proceeds)	(1) Construction of new electron beam waste treatment facilities (approximately HK\$80 million had been used, the remaining HK\$20 million will be used as intended)  (2) Construction of a new boiler (approximately HK\$70 million had been used)  (3) General working capital of the Group (approximately HK\$79.3 million had been used)
26 April 2019, 5 June 2019 and 28 June 2019	Issue of convertible bonds under specific mandate	HK\$400 million	All net proceeds for the redemption of convertible bonds in the principal amount of HK\$400 million issued by the Company on 22 September 2017	All net proceeds had been used for the redemption of convertible bonds in the principal amount of HK\$400 million issued by the Company on 22 September 2017
29 July 2019, 1 August 2019 and 13 August 2019	Issue of convertible bonds under general mandate	HK\$63.7 million	All net proceeds reserved for the Expansion	All net proceeds will be used for the Expansion
14 October 2019 and 23 October 2019	Issue of convertible bonds under general mandate	HK\$64.7 million	All net proceeds reserved for the Expansion	All net proceeds will be used for the Expansion

It is noted that the Company has raised total funds of approximately HK\$777.7 million in the past 12 months immediately prior to the Latest Practicable Date. As at the Latest Practicable Date, approximately HK\$629.3 million, or 80.9%, of the net proceeds raised in the past 12 months had been utilised as per the planned use. The remaining 19.1% of the net

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proceeds of approximately HK\$148.4 million will be used as intended, of which approximately HK\$128.4 million will be used for the Expansion. In addition, we noted that the Company conducted and completed a share placement on 18 January 2018. Approximately HK\$157 million raised from such share placement is also intended to finance the Expansion.

### D. Principal terms of the Rights Issue

#### (i) Statistics of the Rights Issue

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) Share held at the close of business on the Record Date
Subscription price	:	HK\$0.270 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	776,911,981 Shares
Number of Rights Shares	:	1,553,823,962 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of Rights Shares to be underwritten by the Underwriter	:	1,130,256,362 Rights Shares, being all Rights Shares under the Rights Issue other than those Rights Shares to be taken up under the Irrevocable Undertakings and assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued shares of the Company upon completion of the Rights Issue	:	2,330,735,943 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record Date

As set out in the Letter from the Board, as at the Latest Practicable Date, there are (i) 28,394,915 outstanding Share Options, which are exercisable during the period from 12 October 2016 to 11 October 2021; (ii) 40,425,084 outstanding Share Options, which are exercisable during the period from 18 April 2019 to 17 April 2024; (iii) the June Convertible Bonds in the aggregate amount of HK\$400,000,000, which 377,358,490 Shares will be issued upon exercise of the conversion rights under the June Convertible Bonds in full at the adjusted conversion price of HK\$1.06 per conversion Share; (iv) the August Convertible Bonds in the amount of HK\$64,000,000, which 100,000,000 Shares will be issued upon exercise of the conversion rights under

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the August Convertible Bonds in full at the initial conversion price of HK\$0.64 per conversion Share; and (v) the October Convertible Bonds in the amount of HK\$65,000,000, which 100,000,000 Shares will be issued upon exercise of the conversion rights under the October Convertible Bonds in full at the initial conversion price of HK\$0.65 per conversion Share.

Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The Rights Issue is fully underwritten by the Underwriter which shall use its reasonable endeavours to ensure that the public float requirements under the Listing Rules be fulfilled by the Company upon completion of the Rights Issue. The Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof prior to the Latest Time for Termination.

On 18 December 2019, the Committed Shareholders gave an irrevocable and unconditional undertakings to the Company and the Underwriter that they will, among other things, (i) accept their entitlements to the provisional allotment of an aggregate of 423,567,600 Rights Shares, respectively; (ii) not to sell or transfer the Shares held by them in any manner before the completion or lapse of the Rights Issue; and (iii) (other than Mr. Choi) not to apply for any Rights Shares in excess of those provisionally allotted to each of them.

On 18 December 2019, each of Pearl Garden, Madian Star, Mr. Wang Chia Po and Mr. Wong Shu Fat provided irrevocable and unconditional undertakings to the Company and the Underwriter not to exercise the conversion rights attached to their respective Convertible Bonds before the Record Date.

On 18 December 2019, each of the holders of the Share Options signed an Optionholder's Undertaking not to exercise the Share Options granted to him/her on or before the Record Date.

### ***(ii) Subscription Price***

The Subscription Price for the Rights Shares is HK\$0.270 per Rights Share, which will be payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price of HK\$0.270 per Rights Share represents:

- (i) a discount of approximately 22.86% to the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Last Trading Day;

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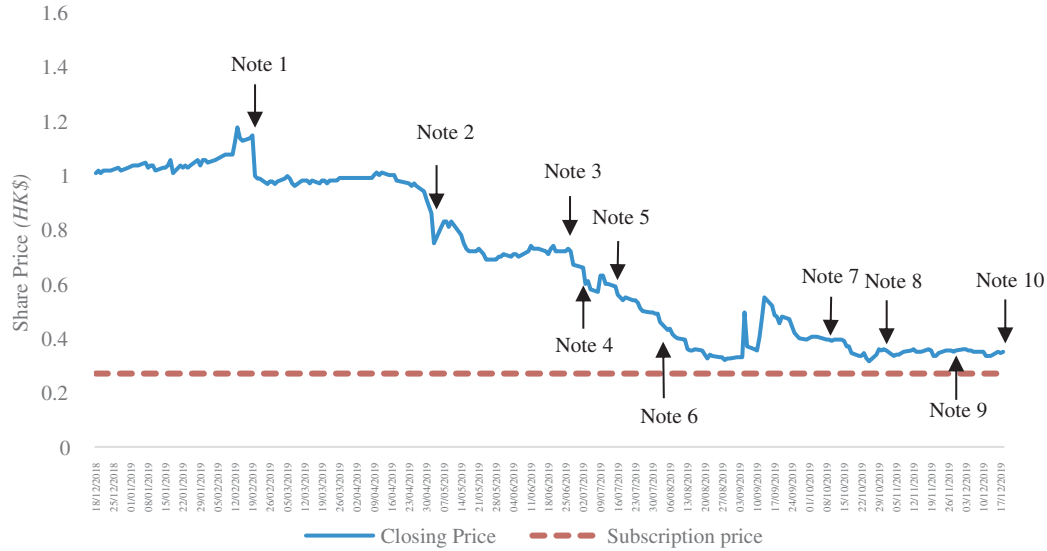
- (ii) a discount of approximately 9.09% over the theoretical ex-rights price of approximately HK\$0.297 per Share based on the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 21.28% to the average closing prices of approximately HK\$0.343 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 21.97% to the average closing prices of approximately HK\$0.346 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 96.91% to the unaudited net asset value per Share of approximately HK\$8.724, based on the latest published unaudited consolidated net asset value of the Group of approximately HK\$6,777.6 million as at 30 September 2019 as disclosed in the Interim Report and 776,911,981 Shares in issue as at the Latest Practicable Date;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 15.14%, represented by the theoretical diluted price of approximately HK\$0.297 per Share to the benchmarked price of approximately HK\$0.350 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.350 per Share and the average closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date of approximately HK\$0.340 per Share); and
- (vii) a cumulative theoretical dilution effect (as defined under 7.27B of the Listing Rules) of the Rights Issue and the April Rights Issue of approximately 16.88%.

As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter, taking into account, among others, (i) the prevailing share price of the Company; and (ii) the funding and capital needs of the Company.

### *Historical Share Price Performance*

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 18 December 2018, being 12 months immediately preceding the date of the Underwriting Agreement, to the Latest Trading Day (the "**Review Period**"). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.

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Source: the Stock Exchange's website

Notes:

1. The Company announced the proposed rights shares on the basis of one rights share for every two existing Shares at Subscription price of HK\$0.098 per rights share on 19 February 2019.
2. The Company announced the proposed share consolidation and proposed change in board lot size on 2 May 2019.
3. The Company announced the annual results for the year ended 31 March 2019 on 27 June 2019.
4. The Company announced the disposal of land use rights on 3 July 2019.
5. The Company announced the disposal of properties on 15 July 2019.
6. The Company announced the issuance of convertible bonds under general mandate on 1 August 2019.
7. The Company announced the issuance of convertible bonds under general mandate on 14 October 2019.
8. The Company announced the non-fulfillment of conditions precedent of the agreement in relation to the disposal of properties on 31 October 2019.
9. The Company announced the interim results for the six months ended 30 September 2019 on 28 November 2019.
10. The Company announced the proposed Rights Issue on the basis of two Rights Shares for every one existing Share at the Subscription Price of HK\$0.270 per Rights Share on 18 December 2019.

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During the Review Period, the highest and the lowest closing price of the Shares were HK\$1.176 per Share on 13 February 2019 and HK\$0.315 per Share on 25 October 2019 respectively. The Subscription Price of HK\$0.270 is lower than the closing price of the Shares throughout the Review Period. The Subscription Price represents a discount of approximately 77.0% and 14.3% to the highest and the lowest closing price of the Shares of the Review Period respectively.

The closing price of the Shares has been on a decreasing trend in general during the Review Period from HK\$1.01 per share on 18 December 2018 to HK\$0.350 per share on the Last Trading Day. We have reviewed and discussed with the Company regarding (i) the financial position of the Group (including the latest consolidated management accounts of the Group for the three months ended 31 December 2019, capital and other commitments, contingent liabilities and future cash flow and financing requirements of the Group), (ii) the trading position of the Group with respect to its top suppliers and customers, and (iii) the outlook of the Group. Based on such review and discussion, as at the Latest Practicable Date, we concur with the Directors of the Company with their view that (i) they were not aware of any material changes in the financial or trading position or outlook of the Group since 30 September 2019, being the date on which the consolidated financial information of the Company were made up and disclosed in the Interim Report, and up to and including the Latest Practicable Date; and (ii) they confirm that the Company does not have any inside information that is required to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Given that the prevailing historical trading prices have already reflected the market valuation of the Company based on its financial results and corporate actions and the prevailing market sentiment, we are of the view that it is reasonable for the Company to set the Subscription Price with reference to its prevailing historical trading prices. Besides, as discussed in the paragraph headed “Rights Issue comparable analysis” below, we noted that it is common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue.

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*Historical trading volume and liquidity analysis*

We have also reviewed the historical trading volume of the Shares during the Review Period. The results are summarised in the table below:

	Number of trading days	Average daily trading volume of the Shares	Percentage of the average daily trading volume to the total number of Shares as at the end of the month
<b>2018</b>			
December ( <i>Note 1</i> )	8	207,060	0.01%
<b>2019</b>			
January	22	496,105	0.01%
February	17	2,435,006	0.05%
March	21	1,296,476	0.03%
April	19	1,565,957	0.02%
May	21	2,256,827	0.03%
June	19	935,003	0.12%
July	22	2,019,302	0.26%
August	22	2,148,739	0.28%
September	21	16,453,046	2.12%
October	21	4,612,660	0.59%
November	21	1,802,080	0.23%
December ( <i>Note 2</i> )	13	1,192,280	0.15%
Maximum		16,453,046	2.12%
Minimum		207,060	0.01%
Average		2,878,503	0.30%

*Source: the Stock Exchange*

*Notes:*

1. Represents trading volume for the period from 18 December 2018 to 31 December 2018, both days inclusive.
2. Represents trading volume for the period from 1 December 2019 to the 18 December 2019, the Latest Trading Day, both days inclusive.

As illustrated in the table above, the average daily trading volume of the Shares was low during the Review Period, with a range of approximately 207,000 Shares to approximately 16,453,000 Shares, representing approximately 0.01% to 2.12% of the number of Shares in issue as at the end of relevant month. We are of the view that



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issuers with relatively thinner average daily trading volume of their shares may need to offer a relatively larger discount to the prevailing trading price in order to attract their shareholders to subscribe for the new shares when they propose to raise funds by way of a rights issue or open offer. As such, it is reasonable for the Company to take into account of the thin trading liquidity of the Shares when it set the Subscription Price in order to attract the Qualifying Shareholders to participate in the Rights Issue.

### *Rights Issue comparable analysis*

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have reviewed 18 comparable transactions (the “**Comparables**”) which involve issuance of rights shares announced by companies listed on the Stock Exchange since 1 March 2019 up to the date of the Announcement. Shareholders should note that the business activities of the companies of the Comparables vary from company to company with their financial positions, business performances and future prospects. Although the circumstances surrounding such Comparables may be different from those relating to the Company, we consider that the Comparables provide a fair indicator of the prevailing market practices in relation to rights issue transactions conducted by the companies listed in the Stock Exchange. The table below provides a summary of our findings:

Announcement date	Company name	Stock code	Basis of entitlement	Premium/	Premium/	Premium/	Premium/	Maximum dilution effect	Underwriting/ related commission, as the case may be	Excess application
				(Discount) of the subscription price over the share price on the last trading day (%)	(Discount) of the subscription price over the theoretical ex-right share price on the last trading day (%)	(Discount) of the subscription price over the average share price for the five consecutive trading days up to and including the last trading day (%)	(Discount) of the subscription price over the average share price for the ten consecutive trading days up to and including the last trading day (%)			
9 December 2019	Beijing Capital Land Limited	2868	5 for 10	(29.17%)	(21.54%)	(29.70%)	(29.70%)	33.33%	3.00%	No
6 December 2019	Wanjia Group Holdings Limited	401	2 for 1	(31.43%)	(11.93%)	(29.93%)	(32.63%)	66.67%	2.50%	Yes
15 November 2019	CIL Holdings Limited	479	1 for 2	(4.76%)	(3.23%)	(8.26%)	(8.68%)	33.33%	Non-underwritten basis	Yes
6 November 2019	Eminence Enterprise Limited	616	4 for 1	(24.50%)	(6.10%)	(21.60%)	(22.35%)	80.00%	1.50%	No
29 October 2019	Li Bao Ge Group Limited	1869	1 for 4	(10.19%)	(8.32%)	(9.85%)	(9.85%)	20.00%	3.00%	Yes
28 October 2019	Magnus Concordia Group Limited	1172	1 for 2	(24.14%)	(17.50%)	(25.88%)	(29.53%)	33.33%	Not available	No
11 October 2019	Ping An Securities Group (Holdings) Limited	231	1 for 2	(27.54%)	(20.63%)	(27.54%)	(31.51%)	33.33%	1.20%	Yes
26 August 2019	Jiangnan Group Limited	1366	1 for 2	(13.80%)	(9.70%)	(13.60%)	(14.80%)	33.33%	3.50%	Yes
18 July 2019	Cocoon Holdings Limited	428	2 for 1	(13.80%)	(5.10%)	(12.50%)	(12.20%)	66.67%	1.00%	Yes
3 July 2019	South China Financial Holdings Limited	619	3 for 2	(16.00%)	(7.08%)	(14.46%)	(14.81%)	60.00%	2.00%	No
13 June 2019	International Standard Resources Holdings Limited	91	1 for 2	(32.96%)	(24.67%)	(34.07%)	(38.46%)	33.33%	2.50%	Yes
11 June 2019	Food Idea Holdings Limited	8179	1 for 2	(34.74%)	(26.19%)	(35.08%)	(36.25%)	33.33%	Not available	No
3 May 2019	Theme International Holdings Limited	990	1 for 2	(14.53%)	(9.91%)	(15.97%)	(15.97%)	33.33%	Non-underwritten basis	Yes

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over the share price on the last trading day (%)	Premium/ (Discount) of the subscription price over the theoretical ex-right share price on the last trading day (%)	Premium/ (Discount) of the subscription price over the average share price for the five previous consecutive trading days up to and including the last trading day	Premium/ (Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Maximum dilution effect (%) (Note)	Underwriting/ related commission, as the case may be (%)	Excess application Yes/No
						(%)	(%)			
3 April 2019	JTF International Holdings Limited	8479	1 for 2	(8.82%)	(6.06%)	(9.09%)	(13.29%)	33.33%	Non-underwritten basis	No
2 April 2019	Prosperity International Holdings (H.K.) Limited	803	2 for 5	(65.30%)	(57.40%)	(64.60%)	(63.90%)	28.57%	Non-underwritten basis	No
8 March 2019	Xinjiang Goldwind Science & Technology Co. Ltd	2208	1.9 for 10	(20.75%)	(18.04%)	(21.69%)	(19.83%)	15.97%	Not available	Yes
13 March 2019	Sing Lee Software (Group) Limited	8076	1 for 2	(30.23%)	(22.38%)	(30.88%)	(33.04%)	33.33%	Non-underwritten basis	No
11 March 2019	Apac Resources Limited	1104	1 for 2	(14.73%)	(10.35%)	(13.25%)	(16.98%)	33.33%	2.50%	Yes
			Min	(65.30%)	(57.40%)	(64.60%)	(63.90%)	15.97%	1.00%	
			Max	(4.76%)	(3.23%)	(8.26%)	(8.68%)	80.00%	3.50%	
			Median	(22.45%)	(11.14%)	(21.65%)	(21.09%)	33.33%	2.50%	
			Average	(23.19%)	(15.90%)	(23.22%)	(24.65%)	39.14%	2.27%	
	The Company		2 for 1	(22.86%)	(9.09%)	(21.28%)	(21.97%)	66.67%	1.5%	Yes

*Source: the Stock Exchange*

*Note:* The potential maximum dilution effect of each rights issue is calculated as number of rights shares issued or to be issued under the basis of entitlement divided by the total number of shares as enlarged by the rights issue according to their respective basis of entitlements and assuming all rights shares have been/will be allotted and issued times 100%.

We noted from the above table that all of the Comparables had set the subscription price of their rights issue at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the rights issue were made. Therefore, we consider it is a normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing market price of the relevant shares so as to encourage the shareholders' participation. The discount represented by the subscription prices to the closing price of shares of the Comparables on respective last trading day ranges from approximately 4.76% to approximately 65.30% with average of approximately 23.19%. The discount of approximately 22.86% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the range of those of the Comparables and is close to the average discount of the Comparables.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The subscription prices of the Comparables represent a discount ranging from approximately 3.23% to 57.40% relative to their respective theoretical ex-rights prices as quoted on the last trading day with average of approximately 15.90%. The discount of approximately 9.09% of the Subscription Price to the theoretical ex-rights prices of the Shares on the Last Trading Day is within the range of those of the Comparables and is lower than the average discount of the Comparables.

### *Net asset value*

The Subscription Price represents a discount of approximately 96.90% to the unaudited net asset value per Share of approximately HK\$8.72 as at 30 September 2019. We consider that the net asset value per Share is not a meaningful benchmark to assess the Subscription Price as the Shares have been generally traded at significant discount to the NAV per Share in the open market at a range of approximately 86.5% to 96.4% during the Review Period. Given the prevailing market price of the Shares have already reflected the market valuation of the Company, we consider that the prevailing market price of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

Based on the above analysis and the facts that (i) there were no material changes in the financial or trading position or outlook of the Group since 30 September 2019 which indicate that the prevailing historical trading prices of the Company did not reflect the market valuation of the Company; (ii) it is common for the listed companies in Hong Kong to set the subscription price of rights issue at a discount to the market price of the listed shares in order to enhance the attractiveness of the rights issue transactions, which the discount would encourage the Shareholders to participate in the Rights Issue and accordingly maintain their shareholding interests in the Company and participate in the future growth of the Company; (iii) it is justifiable for the Company to set the Subscription Price at a discount to the prevailing trading prices given that the liquidity in trading of the Shares was thin during the Review Period; (iv) the discount of the Subscription Price to the closing price of the Shares on the Last Trading Day fall within the discount range of the Comparables and is close to the average discount of the Comparables; (v) the discount of the Subscription Price to the theoretical ex-rights price fall within the discount range of the Comparables and is lower than the average discount of the Comparables; (vi) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter; (vii) the Rights Issue is available to all Qualifying Shareholders by providing them with an equal opportunity to participate in the Rights Issue; and (viii) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we consider that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

*(iii) Application for excess Right Shares*

Pursuant to the terms of the Rights Issue, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders and for any Rights Share provisionally allotted but not accepted. Application for excess Rights Shares can be made by duly completing and signing an EAF and lodging the same with a separate cheque or banker's cashier order for the sum payable for the excess Rights Shares. The Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis on the following principles:

- (i) any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the total number of the excess Rights Shares applied for under each application;
- (ii) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
- (iii) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings; and
- (iv) pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by any Controlling Shareholder or its associates (together, the "**Relevant Shareholders**"), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders' applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

The Rights Issue is fully underwritten. Any Rights Share not taken up by the Qualifying Shareholders and not taken by excess applications will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

As set out in the table above, 10 out of 18 Comparables have the arrangement for excess application for the qualifying shareholders. With the arrangement of application for excess Rights Shares, the Qualifying Shareholders shall be given a pre-emption right to subscribe for excess Rights Shares if they wish to do so. Moreover, the allocation basis adopted by the Company is in line with the normal market practice of other rights issues with arrangement of application for excess rights shares. Based on the above, we concur with the Company that the arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation method for the excess Rights Shares are fair and reasonable so far as the Independent Shareholders are concerned.

**E. Underwriting Agreement**

As set out in the Letter from the Board, the Underwriter, Get Nice Securities Limited (“**Get Nice**”), is a company incorporated in Hong Kong with limited liability and is a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. To the best knowledge and information of the Directors, after reasonable enquiries, the Underwriter is independent of and not connected with the Company or its connected persons.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to fully underwrite the Rights Shares not subscribed by the Qualifying Shareholders for not more than 1,130,256,362 Rights Shares subject to the terms and conditions precedent contained therein. The Underwriter shall use its reasonable endeavours to ensure that, among others, (i) the public float requirement under the Listing Rules will be fulfilled by the Company upon completion of the Rights Issue; (ii) it shall not, together with party(ies) acting in concert with it, hold 20% or more of the voting rights of the Company upon completion of the Rights Issue; and (iii) sub-underwriters and places procured by them, together with parties acting in concert with each of them, will not own 10% or more of the voting rights of the Company upon completion of the Rights Issue. As at the Latest Practicable Date, the Underwriter had procured four sub-underwriters for sub-underwriting an aggregate of 904,000,000 Underwritten Shares. Each of the four sub-underwriters, namely Liberty Securities Limited, Hope Securities Limited, Satinu Markets Limited and Win Wind Securities Limited (collectively, the “**Sub-underwriters**”) had agreed to take up 226,000,000 Underwritten Shares. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Sub-underwriters and their respective ultimate beneficial owners are Independent Third Parties. None of the Underwriter and the Sub-underwriters will hold 10% or more of equity interest and voting rights in the Company upon completion of the Rights Issue.

As set out in the Letter from the Board, the terms of the Underwriting Agreement (including the commission rate) were determined after arm’s length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market conditions. The Directors are of the view that the terms of the Underwriting Agreement, including the commission rate, are fair and reasonable and the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Pursuant to the Underwriting Agreement, the Company shall pay the Underwriter an underwriting commission of 1.5% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission. As illustrated in the table of Comparables above, the underwriting commission of 1.5% to be charged by the Underwriter under the Underwriting Agreement falls within the range of the commission rates of the Comparables of 1.0% to 3.5% and lower than the average commission rate of the Comparables of approximately 2.3%. Based on the above, we are of the view that the underwriting commission is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It should also be noted that the Rights Issue will not proceed if the Underwriter exercises its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are set out in the section headed “Termination of the Underwriting Agreement” in the Letter from the Board. In view that it is common to have a termination clause incorporated in the underwriting agreement and the termination events are customary in nature, we consider such provisions are normal commercial terms and in line with the normal market practice. We have also reviewed other major terms of the Underwriting Agreement and are not aware of any terms being unusual. Accordingly, we are of the view that the terms of the Underwriting Agreement are customary in nature, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

### **F. Dilution effect of the Rights Issue on shareholding interests**

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. Where all Qualifying Shareholders do not accept the Rights Issue and thus the Underwriter is obligated to take up the unsubscribed Rights Shares, the maximum dilution effect on the Qualifying Shareholders’ shareholding interests will be approximately 66.7% (assuming no exercise of the Share Options and Convertible Bonds on or before the Record Date). Details of such dilution effect are presented in the section headed “Effect of Rights Issue on shareholdings in the Company” of the Letter from the Board.

Notwithstanding the aforesaid potential dilution in Shareholders’ interest in the Company as a result of the Rights Issue, having considered (i) the Rights Issue offers the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a discounted price relative to the historical and prevailing market prices of the Shares; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) the inherent potential dilutive nature of the Rights Issue in general; (iv) the Rights Issue would enhance the Group’s liquidity, improve gearing ratio and strengthen the capital base of the Company for future expansion opportunities; and (v) debt financing or bank loans will incur further interest burden to the Company, we are of the view that the potential dilution effect on the shareholding interest of the Shareholders (who decide not to accept their assured entitlements in full as a result of the Rights Shares), is justifiable.

### **G. Financial effects**

It should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

*(i) Net tangible assets*

As noted from the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, assuming the completion of the Rights Issue had taken place on 30 September 2019, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would have increased from approximately HK\$6,753.6 million to approximately HK\$7,166.1 million immediately after the completion of the Rights Issue. Such increase is attributable to the effect of the net proceeds from the Rights Issue.

The consolidated net tangible assets of the Group attributable to owners of the Company per Share before the Rights Issue is approximately HK\$8.69 (based on the latest published unaudited consolidated net tangible asset value of the Group attributable to owners of the Company of approximately HK\$6,753.6 million as at 30 September 2019 and 776,911,981 Shares in issue as at the Latest Practicable Date). Immediately after completion of the Rights Issue, the total number of Shares would increase to 2,330,735,943 Shares (assuming no new Shares are issued (other than the Rights Shares) and no repurchase of Shares on or before the completion of the Rights Issue), the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share will decrease to approximately HK\$3.07 per Share.

Such decrease in the consolidated net tangible assets per Share upon completion of the Rights Issue is inevitable because the Rights Shares will be issued at a discount to the net tangible assets per Share. Having considered the benefits of the Rights Issue as mentioned in this letter, and that all Qualifying Shareholders are offered the same opportunities to enjoy the benefit of subscribing the Rights Shares at the Subscription Price which is at a discount to the adjusted market price of the Shares, we consider such decrease in the unaudited consolidated net tangible assets per Share acceptable.

*(ii) Gearing and liquidity*

The gearing ratio of the Group as at 30 September 2019, being defined as net debt (representing total bank borrowings net of cash and cash equivalents) to shareholders' funds, was approximately 38.5%. Immediately upon completion of the Rights Issue, there would be an increase in the cash level of the Group and the Company would apply approximately 50.0% of the net proceeds of the Rights Issue (approximately HK\$206.3 million) for the repayment of bank loans. Based on the enhanced cash position, expected decrease in total liabilities and enlarged capital base of the Group upon completion of the Rights Issue, the Group's gearing ratio and liquidity position is expected to be improved.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular the following (which should be read in conjunction with an interpreted in the full context of this letter):

- (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue to maintain their proportionate interests in the Company and participate in the future growth and development of the Company;
- (ii) the background and rationale of the Rights Issue, including (a) the existing financial position of the Group, (b) the use of proceeds, (c) the fund-raising alternatives available to the Group;
- (iii) the Directors of the Company are not aware of any material changes in the financial or trading position or outlook of the Group since 30 September 2019; being the date of the Group's latest published consolidated financial results, and confirm that the Company does not have any inside information that is required to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and in such circumstance, the prevailing trading prices of the Company reflect the market valuation of the Company, and it is the normal market practice and reasonable to set the Subscription Price with reference to prevailing historical trading price of the Shares with a discount to enhance the attractiveness of the Rights Issue;
- (iv) the discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day, five consecutive trading days up to and including the Last Trading Day and ten consecutive trading days up to and including the Last Trading Day fall within the range of the Comparables and is close to the average discount of the Comparables; whereas the discounts of the Subscription Price to the theoretical ex-rights price fall within the range of the Comparables and is lower than the average discount of the Comparables;
- (v) the principal terms of the Rights Issue, including the Subscription Price, were arrived at after arm's length negotiations between the parties to the Underwriting Agreement under the prevailing market conditions;
- (vi) the terms of the Rights issue and Underwriting Agreement are fair so far as the Independent Shareholders are concerned; and
- (vii) the effect on shareholding interests of the Shareholders and the financial effects of the Rights Issue,

we consider that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and the Rights Issue and the Underwriting Agreement are in the interests of the Company and the Independent Shareholders as a



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whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the SGM to approve the Rights Issue and the Underwriting Agreement.

Yours faithfully,  
For and on behalf of  
**Ballas Capital Limited**  
**Alex Lau**                      **Angel Lai**  
*Managing Director*    *Vice President*

*Note:* Mr. Alex Lau of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2003 and Ms. Angel Lai of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity since 2017.

## 1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 March 2019 and the six months ended 30 September 2019 is disclosed in the following documents which have been published on the respective websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (details of website addresses as set out below):

- (a) annual report of the Company for the year ended 31 March 2017 published on 20 July 2017 (pages 55–128)

<http://www.cre8ir.com/static/pdf/00539/2017/LTN20170720221.pdf>

- (b) annual report of the Company for the year ended 31 March 2018 published on 30 July 2018 (pages 74–156)

<http://www.cre8ir.com/static/pdf/00539/2018/LTN20180730347.pdf>

- (c) annual report of the Company for the year ended 31 March 2019 published on 29 July 2019 (pages 78–176)

<http://www.cre8ir.com/static/pdf/00539/2019/LTN20190729459.pdf>

- (d) interim report of the Company for the six months ended 30 September 2019 published on 19 December 2019 (pages 3–49)

<http://www.cre8ir.com/static/pdf/00539/9121/2019121900651.pdf>

## 2. INDEBTEDNESS STATEMENT

### **Borrowings**

At the close of business on 31 December 2019, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had indebtedness totalling approximately HK\$4,845,420,000 comprising the following:

- (1) secured and guaranteed bank borrowings of approximately HK\$157,163,000 which were secured by the Group's property, plant and equipment, right-of-use assets, trade and bills receivables and investment properties as at 31 December 2019;
- (2) unsecured and guaranteed bank borrowings of approximately HK\$4,194,659,000; and
- (3) unsecured and unguaranteed liability component of convertible bonds of approximately HK\$493,598,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at the close of business on 31 December 2019, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

### **3. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, after taking into account the estimated net proceeds from the Rights Issue, its presently available financial resources, including funds internally generated from operation and the available facilities, the Group will have sufficient working capital for its operation for at least the next twelve months from the date of this circular.

### **4. MATERIAL ADVERSE CHANGE**

The Directors confirm that there was no material adverse change in the financial or trading position or outlook of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

### **5. FINANCIAL AND TRADING PROSPECT OF THE GROUP**

Looking forward to second half of 2019/20, the uncertainties surrounding the global economy are expected to linger on and consumer sentiments would become further softened. The Group's remains cautiously optimistic on the outlook of the textiles and garment industry. The Group will continue to leverage on its prominent market position, extensive client network and well-established production bases to respond to the ever-changing market.

During the first half of 2019/20, the global economy remained unstable while consumer sentiments remained sluggish. Uncertainties resulting from the trade war between the US and the PRC noticeably increased. The financial performance of the Group was inevitably affected by a decrease in orders from customers. For the six months ended 30 September 2019, the Group's unaudited consolidated revenue was approximately HK\$2,572 million, representing a decrease of approximately 5.6% as compared to the previous corresponding period (1H2018: HK\$2,725 million).

With respect to the textile business, for the six months ended 30 September 2019, production and sale of knitted fabric and dyed yarn remained the major business segment of the Group, accounting for approximately 94.5% of the Group's consolidated revenue. Revenue for the textile segment was approximately HK\$2,430 million, representing a slight decline of approximately 3.7% from the previous corresponding period (1H2018: HK\$2,524 million). For the six months ended 30 September 2019, cotton price recorded a downward trend which adversely affected the pricing of the Group's textile products. In addition, slowdown in order book particularly since second half of 2019 led to decrease in the

Group's revenue. On the other hand, upgrading of machineries and technology automation kept the utilisation of the production capacity at high level. Together with lean management and stringent cost controls, the Group managed to counterweight the product price adjustment. As a result, revenue of the textile segment dropped slightly by approximately 3.7% and gross profit margin decreased from 18.2% to 17.9% for the six months ended 30 September 2019.

With respect to the garment business, for the six months ended 30 September 2019, revenue of the garment business for the reporting period was approximately HK\$141 million, with a decrease of approximately 29.4% from approximately HK\$200 million in the same period last year. The decrease was mainly attributable to the further consolidation of clientele to focus on customers providing steady order flows and profit margin. Gross profit slightly decreased to approximately HK\$27 million (1H2018: HK\$28 million). There was a net profit of approximately HK\$312,000 as compared to a net loss of HK\$17 million in the same period last year. The increase was mainly attributable to gain on fair value adjustment on investment properties and tax recovered upon disposal of a production facility in Indonesia in February 2019.

As mentioned in the previous announcements of the Company, the Group has planned to construct a fabric manufacturing plant in Bangladesh with a view to lowering the average manufacturing costs and risk diversification. The Expansion will be invested with a business partner who has over 20 years' experience in garment manufacturing with scaled operations in Bangladesh. As the date of this circular, the new joint venture has entered into agreement with relevant government authority for acquisition of land for the new production base. Construction of new production plant is expected to take place in or about February 2020. Fabric production is expected to commence in the second half of 2021. The expected monthly production capacity for fabric production will be approximately 2.5 million pounds. Preliminary assessment of the estimated capital expenditure for the Bangladesh plant is approximately HK\$1,000 million.

In addition, as at 30 September 2019, the Group had total assets of approximately HK\$12,673 million (31 March 2019: HK\$13,261 million) which were financed by current liabilities of approximately HK\$3,560 million (31 March 2019: HK\$3,917 million), long term liabilities of approximately HK\$2,335 million (31 March 2019: HK\$2,540 million) and shareholders' equity of approximately HK\$6,754 million (31 March 2019: HK\$6,779 million). The current ratio was approximately 2.0 (31 March 2019: 2.0) and the gearing ratio, being defined as net debt (representing by total bank borrowings net of cash and cash equivalents) to shareholders' funds, was approximately 38.5% (31 March 2019: 39.5%). As at 30 September 2019, the Company recorded bank balances and cash of approximately HK\$2,078 million (31 March 2019: HK\$2,455 million) and bank borrowings due within one year was approximately HK\$2,421 million (31 March 2019: HK\$2,693 million). It is expected that there will be a further decrease of the Group's bank balances and cash upon repayment of the syndicated loan of approximately HK\$300 million in both June 2020 and December 2020, and therefore the management of the Company considers it is a matter of prudent financial management and treasury policy that sufficient cash be maintained by the Group to repay its bank borrowings when they fall due.

For further details, please refer to the paragraph headed “Reasons for the Rights Issue and use of proceeds” in the section headed “Letter from the Board” of this circular.

Looking ahead, the Group will continue to strengthen the competitiveness of its vertically integrated business foundation. In the backdrop of having a handful of market opportunities ahead, the Group will endeavor to achieve sustainability and stability of its business so as to secure the best interest of its Shareholders.

Looking forward, it is expected that the global economy will continue to be unstable and the consumer markets will remain soft. The US-PRC trade war has no direct business affection as the Group does not export finish products directly from the PRC to the US. However, the indirect and long term impact remain unseen. The US retailers continued to adopt a prudent procurement strategy in preparation for the global economic slowdown. The Group is determined to remain competent in fulfilling orders with high quality under tight schedules. The Group will continue to strengthen its competitive edge by effective allocation of resources to enhance its overall efficiency, focus on research and development of new and value-added products to improve profit margins and expand to new markets and regions to mitigate operation risks.

### 1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue had been completed on 30 September 2019 and taking into account of certain assumptions.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Rights Issue been completed as at 30 September 2019 or at any future date.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019, as extracted from the Group’s unaudited condensed consolidated financial statements for the six months ended 30 September 2019 included in the published interim report of the Group, and is adjusted for the effect of the Rights Issue described below.

	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019	Estimated net proceeds from the Rights Issue HK\$'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 immediately after completion of the Rights Issue HK\$'000 (Note 3)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at the Group 30 September 2019 to owners of the Company as at 30 September 2019 per Share immediately after the completion of the Rights Issue HK\$ (Note 4)
Rights Issue of 1,553,823,962 Rights Shares to be issued at Subscription Price of HK\$0.270 per Rights Share	<u>6,753,559</u>	<u>412,532</u>	<u>7,166,091</u>	<u>8.69</u>
				<u>3.07</u>

*Notes:*

1. The unaudited consolidated net tangible assets of the Group attributable to owners of the Company of HK\$6,753,559,000 as at 30 September 2019 are extracted from the published interim report of the Group for the six months ended 30 September 2019.
2. The estimated net proceeds from the Rights Issue are based on 1,553,823,962 Rights Shares (as defined in the Circular) to be issued at the Subscription Price of HK\$0.270 per Rights Share after deduction of the estimated related expenses of HK\$7,000,000.
3. The calculation of the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 per Share is determined based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company of HK\$6,753,559,000 divided by the number of shares in issue of 776,911,981 as at 30 September 2019.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 per Share immediately after the completion of the Rights Issue is arrived at based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 immediately after completion of the Rights Issue of HK\$7,166,091,000, divided by 2,330,735,943 Shares, which represent 776,911,981 Shares in issue as at 30 September 2019 and 1,553,823,962 Rights Shares to be issued pursuant to the Rights Issue assuming that the Rights Issue had been completed on 30 September 2019.
5. No adjustments have been made to the unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2019.

**2. REPORT ON THE UNAUDITED PRO FORMA CONSOLIDATED NET  
TANGIBLE ASSETS OF THE GROUP**

*The following is the text of the independent reporting accountants' assurance report dated 7 February 2020, prepared for the sole purpose of inclusion in this circular, received from independent reporting accountants, Deloitte Touche Tohmatsu, in respect of the unaudited pro forma financial information of the Group.*

**Deloitte.****德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON  
THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL  
INFORMATION****TO THE DIRECTORS OF VICTORY CITY INTERNATIONAL HOLDINGS  
LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Victory City International Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the circular issued by the Company dated 7 February 2020 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the rights issue on the basis of two Rights Shares for every one existing Share held on the Record Date at HK\$0.270 per Rights Share (the “**Rights Issue**”) on the Group's financial position as at 30 September 2019 as if the Rights Issue had taken place at 30 September 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six months ended 30 September 2019, on which a review report has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and



with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
7 February 2020

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL AND OPTIONS

### (a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue will be, as follows:

<i>Authorised share capital:</i>		<i>HK\$'000</i>
<u>4,000,000,000</u>		<u>400,000</u>
<i>Issued and fully paid share capital:</i>		<i>HK\$'000</i>
776,911,981	Shares in issue as at the Latest Practicable Date	77,691
<u>1,553,823,962</u>	Rights Shares to be issued upon completion of the Rights Issue	<u>155,382</u>
<u>2,330,735,943</u>		<u>233,073</u>

All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank *pari passu* in all respects with the existing Shares in issue on the date of allotment of the Rights Shares in fully-paid form.

The Company will apply to the Listing Committee for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

**(b) Share options**

Details of the outstanding Share Options as at the Latest Practicable Date were as follows:

Name of grantee	Number of underlying Shares subject to outstanding Share options	Date of grant	Exercise price <i>HK\$ per Share</i>	Exercise period
<b>Directors</b>				
<i>Executive Directors</i>				
Mr. Li	40,000	18 April 2019	1.002	18 April 2019 to 17 April 2024
Mr. Chen	40,000	18 April 2019	1.002	18 April 2019 to 17 April 2024
Mr. Lee Yuen Chiu Andy	500,000	18 April 2019	1.002	18 April 2019 to 17 April 2024
Mr. Choi	1,577,495	12 October 2016	3.72	12 October 2016 to 11 October 2021
	3,422,505	18 April 2019	1.002	18 April 2019 to 17 April 2024
<i>Independent non-executive Director</i>				
Mr. Kan Ka Hon	—	—	—	—
Mr. Phaisalakani Vichai	—	—	—	—
Mr. Kwok Sze Chi	—	—	—	—
<b>Others</b>	26,817,420	12 October 2016	3.72	12 October 2016 to 11 October 2021
	36,422,579	18 April 2019	1.002	18 April 2019 to 17 April 2024
	<u>68,819,999</u>			

**(c) Convertible Bonds**

Details of the outstanding Convertible Bonds as at the Latest Practicable Date were as follows:

<b>Date of issue</b>	<b>Principal amount</b> <i>HK\$</i>	<b>Conversion period</b>	<b>Maturity date</b>	<b>Conversion price</b> <i>HK\$ per Share</i>	<b>Number of underlying Shares</b>
28 June 2019	400,000,000	28 June 2019 to 28 June 2021 (extendable to 2024 by agreement)	28 June 2021 (extendable to 2024 by agreement)	1.06	377,358,490
13 August 2019	64,000,000	13 August 2019 to 13 August 2021 (extendable to 2024 by agreement)	13 August 2021 (extendable to 2024 by agreement)	0.64	100,000,000
23 October 2019	65,000,000	23 October 2019 to 25 October 2021 (extendable to 2024 by agreement)	25 October 2021 (extendable to 2024 by agreement)	0.65	100,000,000

Save as disclosed in paragraphs 2(b) and 2(c) above, the Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

As at the Latest Practicable Date, there is no arrangement under which future dividends are waived or agreed to be waived.

## 3. DISCLOSURE OF INTERESTS

## (a) Directors' and chief executives' interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company 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 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 is deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying of share options (Note 1)	Approximate percentage of the relevant class of issued share capital of the Company/ associated corporation
Mr. Li	The Company	Founder of a trust	502,381,445 Shares (L) (Notes 2 & 4)	—	64.66%
	The Company	Beneficial owner	—	40,000 Shares (L) (Note 5)	0.005%
	Victory City Company Limited (Note 16)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	—	50%
	Victory City Overseas Limited (Note 16)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	—	39.4%
Mr. Chen	The Company	Founder of a trust	502,381,445 Shares (L) (Notes 3 & 4)	—	64.66%
	The Company	Beneficial owner	1,647,000 Shares (L) (Note 6)	—	0.21%
	The Company	Beneficial owner	—	40,000 Shares (L) (Note 5)	0.005%
	Victory City Company Limited (Note 16)	Beneficial owner	4,000,000 non-voting deferred shares of HK\$1.00 each (L)	—	50%
	Victory City Overseas Limited (Note 16)	Beneficial owner	1,300 redeemable non-voting preference shares of US\$1.00 each (L)	—	39.4%

Name of Director	The Company/name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying of share options (Note 1)	Approximate percentage of the relevant class of issued share capital of the Company/ associated corporation
Mr. Lee Yuen Chiu Andy	The Company	Beneficial owner	—	500,000 Shares (L) (Note 5)	0.06%
Mr. Choi	The Company	Beneficial owner	6,300,000 Shares (L) (Note 7)	—	0.81%
	The Company	Beneficial owner	—	5,000,000 Shares (L) (Notes 5 and 8)	0.64%
	Victory City Overseas Limited (Note 16)	Beneficial owner	700 redeemable non-voting preference shares of US\$1.00 each (L)	—	21.2%
	Sure Strategy Limited (Note 16)	Interest of controlled corporation	49 ordinary shares of US\$1.00 each (L) (Note 9)	—	49%
	Ford Glory Holdings Limited (Note 16)	Interest of controlled corporation	100 ordinary shares of US\$1.00 each (L) (Note 10)	—	100%
	Ford Glory International Limited (Note 16)	Interest of controlled corporation	5,000,000 ordinary shares of HK\$1.00 each (L) (Note 15)	—	100%
	福之源貿易(上海)有限公司 (Note 16)	Interest of controlled corporation	Registered capital of RMB1,000,000 (L) (Note 11)	—	100%
	Rocwide Limited (Note 16)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 15)	—	100%
	Jiangmen V-Apparel Manufacturing Ltd. (Note 16)	Interest of controlled corporation	Registered capital of HK\$31,260,000 (L) (Note 12)	—	100%
	Happy Noble Holdings Limited (Note 16)	Interest of controlled corporation	70 ordinary shares of US\$1.00 each (L) (Note 15)	—	70%
	Sky Winner Investment Limited (Note 16)	Interest of controlled corporation	100 ordinary shares of HK\$1.00 each (L) (Note 13)	—	100%
	Talent Partner Holdings Limited (Note 16)	Interest of controlled corporation	51 ordinary shares of US\$1.00 each (L) (Note 15)	—	51%
	Green Expert Global Limited (Note 16)	Interest of controlled corporation	1 ordinary share of US\$1.00 each (L) (Note 14)	—	100%

Name of Director	The Company/name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying of share options (Note 1)	Approximate percentage of the relevant class of issued share capital of the Company/ associated corporation
	Major Time Limited (Note 16)	Interest of controlled corporation	1 ordinary share of HK\$1.00 each (L) (Note 14)	—	100%
	Gojifashion Inc. (Note 17)	Interest of controlled corporation	100 common shares of no par value (L) (Note 15)	—	50%
	Just Perfect Holdings Limited (Note 16)	Interest of controlled corporation	10 ordinary shares of US\$1.00 each (L) (Note 15)	—	100%
Mr. Phaisalakani Vichai	The Company	Beneficial owner	1,248,000 Shares (L)	—	0.16%

*Notes:*

- The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.
- These Shares were held by Pearl Garden. Pearl Garden is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for Mr. Li’s family members. These Shares include (i) 104,567,400 Shares held by Pearl Garden; (ii) 188,679,245 Shares to be issued upon full exercise of the conversion rights attached to the June Convertible Bonds issued to Pearl Garden on 28 June 2019 at an adjusted conversion price of HK\$1.06 per conversion share; and (iii) 209,134,800 Rights Shares which Pearl Garden has irrevocably undertaken to subscribe pursuant to the Irrevocable Undertakings.
- These Shares were held by Madian Star. Madian Star is wholly owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for Mr. Chen’s family members. These Shares include (i) 104,567,400 Shares held by Madian Star; (ii) 188,679,245 Shares to be issued upon full exercise of the conversion rights attached to the June Convertible Bonds issued to Madian Star on 28 June 2019 at an adjusted conversion price of HK\$1.06 per conversion share; and (iii) 209,134,800 Rights Shares which Madian Star has irrevocably undertaken to subscribe pursuant to the Irrevocable Undertakings.
- On 28 June 2019, the Company issued the June Convertible Bonds to each of Pearl Garden and Madian Star with a principal sum of HK\$200,000,000 and HK\$200,000,000 respectively for a term of two years. Each of Pearl Garden and Madian Star has the right to convert its portion of the Convertible Bonds for 188,679,245 Shares at an adjusted conversion price for HK\$1.06 per conversion Share upon full exercise of its conversion rights.



5. On 18 April 2019, Mr. Li, Mr. Chen, Mr. Lee Yuen Chiu Andy and Mr. Choi was granted 400,000, 400,000, 5,000,000 and 34,225,047 options respectively under the Scheme to subscribe for 400,000, 400,000, 5,000,000 and 34,225,047 Shares respectively, exercisable at a price of HK\$0.1002 per share of the Company of HK\$0.01 each during a period from 18 April 2019 to 17 April 2024. Upon completion of the Share Consolidation on 24 June 2019, the number of options owned by Mr. Li, Mr. Chen, Mr. Lee Yuen Chiu Andy and Mr. Choi was adjusted to 40,000, 40,000, 500,000 and 3,422,505 options respectively under the Share Option Scheme to subscribe for 40,000, 40,000, 500,000 and 3,422,505 Shares respectively, exercisable at an adjusted price of HK\$1.002 per Share during a period from 18 April 2019 to 17 April 2024.
6. These Shares include (i) 549,000 Shares beneficially owned by Mr. Chen; and (ii) 1,098,000 Rights Shares which Mr. Chen has irrevocably undertaken to subscribe pursuant to the Irrevocable Undertakings.
7. These Shares include (i) 2,100,000 Shares beneficially owned by Mr. Choi; and (ii) 4,200,000 Rights Shares which Mr. Choi has irrevocably undertaken to subscribe pursuant to the Irrevocable Undertakings.
8. On 12 October 2016, Mr. Choi was granted 15,000,000 options under the share option scheme of the Company to subscribe for 15,000,000 Shares, exercisable at a price of HK\$0.391 per share of the Company of HK\$0.01 each during a period from 12 October 2016 to 11 October 2021. Upon completion of the rights issue on 6 January 2017 and 18 April 2019, and the Share Consolidation on 24 June 2019, the number of options owned by Mr. Choi was adjusted to 1,577,495 to subscribe for 1,577,495 Shares, exercisable at an adjusted price of HK\$3.72 per Share during a period from 12 October 2016 to 11 October 2021.
9. These shares were held by Merlotte Enterprise Limited. Sure Strategy Limited was owned as to 49% by Merlotte Enterprise Limited, a company wholly owned by Mr. Choi, and as to 51% owned by Victory City Investments Limited, a wholly-owned subsidiary of the Company.
10. These shares were held by Sure Strategy Limited.
11. This registered capital was beneficially owned by Ford Glory International Limited which is a wholly-owned subsidiary of Ford Glory Holdings Limited.
12. The registered capital was beneficially owned as to 40% by Ford Glory Holdings Limited and as to 60% by Rocwide Limited.
13. These shares were held by Happy Noble Holdings Limited.
14. This ordinary share was beneficially owned by Talent Partner Holdings Limited.
15. These shares or these common shares, as the case may be, were beneficially owned by Ford Glory Holdings Limited.
16. These companies are subsidiaries of the Company.
17. Although Gojifashion Inc. is not a subsidiary of the Company, it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had an interest or short position in any Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which was required to be (i) 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 he was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

**(b) Substantial shareholders and other persons' interests and short positions in Shares and underlying Shares**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than Directors and chief executive of the Company) had an interest or short position in the Shares and/or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of person/entity	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Pearl Garden	502,381,445 (L)	Beneficial owner (Note 2)	64.66%
Cornice Worldwide Limited	502,381,445 (L)	Interest of controlled corporation (Note 2)	64.66%
Madian Star	502,381,445 (L)	Beneficial owner (Note 3)	64.66%
Yonice Limited	502,381,445 (L)	Interest of controlled corporation (Note 3)	64.66%
Fiducia Suisse SA	586,493,290 (L)	Trustee (Note 6)	75.50%
Mr. David Henry Christopher Hill	586,493,290 (L)	Interest of controlled corporation (Note 6)	75.50%
Ms. Rebecca Ann Hill	586,493,290 (L)	Interest of spouse (Note 7)	75.50%
Ms. Ho Yuen Mui Shirley	502,421,445 (L)	Interest of spouse (Note 4)	64.67%
Ms. Or Kwai Ying	504,068,445 (L)	Interest of spouse (Note 5)	64.88%
Mr. Wang Chia Po	100,000,000 (L)	Beneficial owner (Note 8)	12.87%
Ms. Or Min Min	100,000,000 (L)	Interest of spouse (Note 9)	12.87%

Name of person/entity	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Mr. Wong Shu Fat	100,000,000 (L)	Beneficial owner (Note 10)	12.87%
Ms. Chan Sik Chi	100,000,000 (L)	Interest of spouse (Note 11)	12.87%
The Underwriter	1,130,256,362 (L)	Underwriter (Notes 12 and 13)	48.49%
Get Nice Financial Group Limited	1,130,256,362 (L)	Interest of controlled corporation (Notes 12 and 13)	48.49%
Get Nice Incorporated	1,130,256,362 (L)	Interest of controlled corporation (Notes 12 and 13)	48.49%
Get Nice Holdings Limited	1,130,256,362 (L)	Interest of controlled corporation (Notes 12 and 13)	48.49%

*Notes:*

- The letter "L" represents the person's or entity's interests in the Shares and underlying Shares.
- These Shares were held by Pearl Garden. Pearl Garden is wholly owned by Cornice Worldwide Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for Mr. Li's family members. Mr. Chen is a director of each of Pearl Garden and Cornice Worldwide Limited. These Shares include (i) 104,567,400 Shares held by Pearl Garden; (ii) 188,679,245 Shares to be issued upon full exercise of the conversion rights attached to the June Convertible Bonds issued to Pearl Garden on 28 June 2019 at an adjusted conversion price of HK\$1.06 per conversion share; and (iii) 209,134,800 Rights Shares which Pearl Garden has irrevocably undertaken to subscribe pursuant to the Irrevocable Undertakings.
- These Shares were held by Madian Star. Madian Star is wholly owned by Yonice Limited, the entire issued share capital of which is held by Fiducia Suisse SA as discretionary trustee for Mr. Chen's family members. Mr. Li is a director of each of Madian Star and Yonice Limited. These Shares include (i) 104,567,400 Shares held by Madian Star; (ii) 188,679,245 Shares to be issued upon full exercise of the conversion rights attached to the June Convertible Bonds issued to Madian Star on 28 June 2019 at an adjusted conversion price of HK\$1.06 per conversion share; and (iii) 209,134,800 Rights Shares which Madian Star has irrevocably undertaken to subscribe pursuant to the Irrevocable Undertakings.
- Ms. Ho Yuen Mui Shirley is the wife of Mr. Li.
- Ms. Or Kwai Ying is the wife of Mr. Chen.
- These Shares were held by Fiducia Suisse SA as discretionary trustee for Mr. Li's family members and Mr. Chen's family members. Fiducia Suisse SA is wholly owned by Mr. David Henry Christopher Hill.
- Ms. Rebecca Ann Hill is the wife of Mr. David Henry Christopher Hill.

8. On 13 August 2019, the Company issued the August Convertible Bonds to Mr. Wang Chia Po, an independent third party, with a principal amount of HK\$64,000,000 with the rights to convert into 100,000,000 Shares at the initial conversion price of HK\$0.64 per convertible Share.
9. Ms. Or Min Min is the spouse of Mr. Wang Chia Po.
10. On 23 October 2019, the Company issued the October Convertible Bonds to Mr. Wong Shu Fat, an independent third party, with a principal amount of HK\$65,000,000 with the rights to convert into 100,000,000 Shares at the initial conversion price of HK\$0.65 per convertible Share.
11. Ms. Chan Sik Chi is the spouse of Mr. Wong Shu Fat.
12. These Shares were the Underwritten Shares. The interests are based on the Rights Issue has completed.
13. The Underwriter is wholly owned by Get Nice Incorporated, which in turn is owned by Get Nice Financial Group Limited, which in turn is owned as to 72.99% by Get Nice Holdings Limited, a company incorporated in the Cayman Islands with limited liability which shares are listed on the Main Board of the Stock Exchange (stock code: 0064).

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, there was no person (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares and/or underlying Shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

#### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group nor were there any service agreements proposed which would not expire or be determinable by the members of the Group within one year without payment of compensation (other than statutory compensation).

#### **5. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS**

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, save for the agreement dated 15 July 2019 and entered into between Treasure Success International Limited as purchaser, a wholly-owned subsidiary of Jerash Holdings (US) Inc., which is held by Mr. Choi as to approximately 38.01%, and Ford Glory International Limited as vendor, a non-wholly owned subsidiary of the Company, in relation to the disposal of one office premise and four car parking spaces in Hong Kong, which has been terminated on 31 October 2019 as a result of non-fulfilment of conditions precedent, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are

proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Company were made up.

None of the Directors was or will be given any compensation for loss of office or otherwise in connection with the Underwriting Agreement and/or the Rights Issue.

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest within the Group.

## 7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## 8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, had been entered by members of the Group after the date falling two years prior to the issue of this circular and up to the Latest Practicable Date and which are or may be material:

- (a) the underwriting agreement entered into between the Company and the Underwriter on 19 February 2019 in relation to the underwriting arrangement in respect of the April Rights Issue;
- (b) the subscription agreement dated 26 April 2019 and entered into between the Company as the issuer, and Pearl Garden and Madian Star as subscribers, in respect of the issue of the June Convertible Bonds of an aggregate principal amount of HK\$400,000,000;
- (c) the agreement dated 3 July 2019 and entered into between Nanjing Binjiang Investment Development Co., Ltd.\* (南京濱江投資發展有限公司) as purchaser and Nanjing Synergy Textiles Limited\* (南京新一棉紡織印染有限公司) as vendor, an indirectly wholly-owned subsidiary of the Company, in relation to the disposal of a piece of state-owned land with an area of approximately 260.5 mu located at No. 2, Sheng'an Avenue, Binjiang Development Zone, Jiangning District, Nanjing, Jiangsu Province, the PRC;
- (d) the agreement dated 15 July 2019 and entered into between Treasure Success International Limited as purchaser, a wholly-owned subsidiary of Jerash Holdings (US) Inc., which is held by Mr. Choi as to approximately 38.01%, and Ford Glory

International Limited as vendor, a non-wholly owned subsidiary of the Company, in relation to the disposal of one office premise and four car parking spaces in Hong Kong;

- (e) the subscription agreement dated 1 August 2019 and entered into between the Company as the issuer, and Mr. Wang Chia Po as subscriber, in respect of the issue of the August Convertible Bonds in the amount of HK\$64,000,000;
- (f) the subscription agreement dated 14 October 2019 and entered into between the Company as the issuer, and Mr. Wong Shu Fat as subscriber, in respect of the issue of the October Convertible Bonds in the amount of HK\$65,000,000; and
- (g) the Underwriting Agreement.

## 9. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Ballas Capital Limited	A corporation licensed by the SFC to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their reports or letters or its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

Each of the above experts did not have any direct or indirect interests in any assets which have been, since 31 March 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries.

As at the Latest Practicable Date, each of the above experts was not materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

**10. EXPENSES**

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory fees, printing, registration, translation, legal and accountancy charges payable by the Company, are estimated to be approximately HK\$7.0 million.

**11. CORPORATE INFORMATION OF THE COMPANY AND PARTIES INVOLVED IN THE RIGHTS ISSUE**

<b>Registered office</b>	Clarendon House Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business in Hong Kong and office address of all Directors and the authorised representative of the Company</b>	Unit D, 3rd Floor Winfield Industrial Building 3 Kin Kwan Street Tuen Mun, New Territories Hong Kong
<b>Executive directors</b>	<p>Li Ming Hung (<i>Chairman</i>) Unit D, 3rd Floor Winfield Industrial Building 3 Kin Kwan Street Tuen Mun, New Territories Hong Kong</p> <p>Chen Tien Tui (<i>Chief Executive Officer</i>) Unit D, 3rd Floor Winfield Industrial Building 3 Kin Kwan Street Tuen Mun, New Territories Hong Kong</p> <p>Lee Yuen Chiu Andy Unit D, 3rd Floor Winfield Industrial Building 3 Kin Kwan Street Tuen Mun, New Territories Hong Kong</p> <p>Choi Lin Hung Unit D, 3rd Floor Winfield Industrial Building 3 Kin Kwan Street Tuen Mun, New Territories Hong Kong</p>

**Independent non-executive Directors**

Kan Ka Hon  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong

Phaisalakani Vichai  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong

Kwok Sze Chi  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong

**Authorised representatives**

Li Ming Hung  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong

Chen Tien Tui  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong

**Company secretary**

Lee Chung Shing  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun, New Territories  
Hong Kong



<b>Principal share registrar</b>	MUFG Fund Services (Bermuda) Limited 4th Floor North Cedar House 41 Cedar Avenue Hamilton HM 12 Bermuda
<b>Branch share registrar in Hong Kong</b>	Tricor Secretaries Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Auditors and reporting accountants</b>	Deloitte Touche Tohmatsu Certified public accountants 35/F, One Pacific Place 88 Queensway Hong Kong
<b>Principal bankers</b>	The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong  Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong  First Commercial Bank Limited Room 1702, 17/F, Prudential Tower The Gateway, Harbour City 21 Canton Road Tsim Sha Tsui Kowloon Hong Kong  Chong Hing Bank Limited Chong Hing Bank Centre 24 Des Voeux Road Central Hong Kong  Fubon Bank (Hong Kong) Limited Fubon Bank Building 38 Des Voeux Road Central Hong Kong

	China Construction Bank (Asia) Corporation Limited 26/F, CCB Tower 3 Connaught Road Central Hong Kong
	Cathay United Bank Company, Limited 10/F, Lee Garden Three 1 Sunning Road, Causeway Bay Hong Kong
	CTBC Bank Co., Ltd. 28/F., Two International Finance Centre 8 Finance Street Central, Hong Kong
<b>Stock code</b>	539
<b>Website</b>	<a href="http://www.victorycity.com.hk/">http://www.victorycity.com.hk/</a>
<b>Underwriter</b>	Get Nice Securities Limited 10/F, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
<b>Legal advisers to the Company as to Hong Kong laws</b>	Chiu & Partners 40/F, Jardine House 1 Connaught Place Hong Kong

## 12. PARTICULARS OF THE DIRECTORS AND COMPANY SECRETARY

### Executive Directors

**Mr. Li Ming Hung**, aged 68, is the chairman of the Company and a cofounder of the Group. He has over 43 years experience in the textile industry and is responsible for the overall strategic planning of the corporate as well as business development of the Group.

**Mr. Chen Tien Tui**, aged 71, is the chief executive officer of the Company and a co-founder of the Group. Mr. Chen has been an executive Director since February 1996. He has over 40 years' experience in the textile industry and is responsible for the day-to-day operation in respect of production, sales and marketing of the Group. Mr. Chen resigned from his position as an independent non-executive director of China Lilang Limited, a company listed on the Main Board of the Stock Exchange, on 19 April 2016.

**Mr. Lee Yuen Chiu Andy**, aged 54, is an executive Director. He has over 34 years' experience in the textile industry and is responsible for the overall management of the sales and production of the Group. Mr. Lee joined the Group in 1997.

**Mr. Choi Lin Hung**, aged 57, is an executive Director. He holds a Master in Business Administration and is responsible for the strategic planning and corporate development of the Group. Prior to joining the Group in 2001, Mr. Choi has over 9 years' banking experience and 6 years' management experience in garment and textile industry. Mr. Choi is the chairman of the board of directors and the chief executive officer of Jerash Holdings (US) Inc., a company listed on the NASDAQ Stock Market (NASDAQ: JRSH).

#### **Independent non-executive Directors**

**Mr. Kan Ka Hon**, aged 68, has been an independent non-executive Director and was appointed as a Director in March 1996. He graduated from The University of Hong Kong and is a qualified accountant. He is an independent non-executive director of Eminence Enterprise Limited (formerly known as Easyknit Enterprises Holdings Limited), which is a company listed on the Main Board of the Stock Exchange. Mr. Kan has extensive experience in corporate finance, treasury and accounting and has over 30 years' experience at management level in listed companies. Mr. Kan joined the Group in 1996.

**Mr. Phaisalakani Vichai**, aged 71, has been an independent non-executive Director and was appointed as a Director in March 1996. He graduated from Minnesota State University at Mankato, US and is a chartered professional accountant in Canada as well as a member of Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has worked for an international accounting firm for 11 years and has extensive experience in finance and corporate management with major electronics and garments corporations. Mr. Phaisalakani finished the contract of the position of the chief financial office of Analogue Holdings Limited on 31 December 2019, a company listed on the Main Board of the Stock Exchange. Mr. Phaisalakani resigned from his position as an independent non-executive director of Eagle Ride Investment Holdings Limited, a company listed on the Main Board of the Stock Exchange on 1 October 2019. Mr. Phaisalakani joined the Group in 1996.

**Mr. Kwok Sze Chi**, aged 65, has been an independent non-executive Director and was appointed as a Director in March 2006. Mr. Kwok currently holds a registered investment adviser licence and is a director of The Institute of Securities Dealers Limited and a vice chairman of The Hong Kong Institute of Financial Analysts and Professional Commentators Limited. Having served the securities industry for over 40 years, Mr. Kwok has vast experience in securities and futures investment and operation. Since 1985, Mr. Kwok has been invited to appear on television and radio programmes to explain market trends and analyze stock market developments. He also provides professional investment analyses in newspapers and investment websites. Mr.

Kwok resigned his position as an executive director of Bright Smart Securities & Commodities Group Limited, a company listed on the Main Board of the Stock Exchange, in February 2017. Mr. Kwok joined the Group in 2006.

#### **Company secretary**

**Mr. Lee Chung Shing**, aged 52, is the Financial Controller and the Company Secretary of the Group. Mr. Lee is an associate member of the Chartered Institute of Management Accountants and an associate member of HKICPA. Mr. Lee joined the Group in 1998 and has over 30 years' experience in the accounting and finance sector including an international accounting firm and a company listed on the Stock Exchange.

### **13. MISCELLANEOUS**

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

### **14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) at the office of the Company at Unit D, 3rd Floor, Winfield Industrial Building, 3 Kin Kwan Street, Tuen Mun, New Territories, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday, except public holidays during the period of 14 days from the date of this circular.

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the three years ended 31 March 2019;
- (c) the interim report of the Company for the six months ended 30 September 2019;
- (d) the letter from the Independent Board Committee;
- (e) the letter from the Independent Financial Adviser;
- (f) the material contracts (including the Underwriting Agreement) as referred to in the section headed "Material contracts" in this appendix;
- (g) the written consent referred to in the section headed "Expert and consent" in this appendix;
- (h) the accountant's report on the unaudited pro forma financial information of the Group issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;
- (i) the Irrevocable Undertakings;
- (j) the Bondholder's Undertakings;

- (k) the Optionholder's Undertakings;
- (l) the Underwriting Agreement;
- (m) a circular published by the Company on 5 June 2019 in relation to the (i) proposed share consolidation; (ii) proposed change in board lot size; and (iii) connected transaction on redemption of existing convertible bonds by way of issuance of new convertible bonds;
- (n) a circular published by the Company on 15 August 2019 in relation to the discloseable and connected transaction on disposal of properties; and
- (o) this circular.



**VICTORY CITY INTERNATIONAL HOLDINGS LIMITED**

**冠華國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 539)**

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the Special General Meeting (the “**SGM**”) of Victory City International Holdings Limited (the “**Company**”) will be held at Unit D, 3rd Floor, Winfield Industrial Building, 3 Kin Kwan Street, Tuen Mun, New Territories, Hong Kong on Monday, 2 March 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

**ORDINARY RESOLUTION**

1. **“THAT** conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) the Underwriting Agreement (as defined below) becoming unconditional and not being terminated in accordance with its terms:
  - (a) the issue by way of rights issue (the “**Rights Issue**”) of 1,553,823,962 ordinary shares (the “**Rights Shares**”) at the subscription price of HK\$0.270 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the date by reference to which entitlement under the Rights Issue will be determined (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of two (2) Rights Shares for every one (1) existing Share of the Company then held on the Record Date at the subscription price of HK\$0.270 per Rights Share and otherwise on the terms and conditions set out in the Circular be and is hereby approved;

\* *for identification purposes only*

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## NOTICE OF SGM

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- (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 18 December 2019 and entered into among the Company and Get Nice Securities Limited (a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or issued otherwise than *pro rata* to the Qualifying Shareholders and, in particular, the Directors may (i) make such exclusions or other arrangements in relation to the Excluded Shareholders as they may deem necessary, desirable or expedient having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and (ii) offer for application under forms of excess application for any Rights Shares provisionally allotted but not accepted, and to do all such acts and things as they consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (d) the Directors be and are hereby authorised to sign or execute such documents and do all such acts and things in connection with the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as they may in their discretion consider to be appropriate, necessary desirable or expedient to carry out, to give effect to or in connection with the Rights Issue or any transaction contemplated thereunder.”

By Order of the Board  
**Victory City International Holdings Limited**  
**Li Ming Hung**  
*Chairman*

Hong Kong, 7 February 2020

*Registered office:*  
Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*  
Unit D, 3rd Floor  
Winfield Industrial Building  
3 Kin Kwan Street  
Tuen Mun  
New Territories  
Hong Kong

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## NOTICE OF SGM

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### Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares and entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the offices of the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time of the meeting (i.e. 10:00 a.m. on Saturday, 29 February 2020, Hong Kong time) or any adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 25 February 2020 to Monday, 2 March 2020 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the SGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Tricor Secretaries Limited, the branch share registrar of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 24 February 2020.
6. A form of proxy for use at the SGM is enclosed with the circular to the shareholders of the Company.
7. The ordinary resolution set out above will be determined by way of a poll.
8. As at the date of this notice, the board of Directors of the Company comprises Mr. Li Ming Hung, Mr. Chen Tien Tui, Mr. Lee Yuen Chiu, Andy and Mr. Choi Lin Hung as executive Directors and Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi as independent non-executive Directors.