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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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VICTORY CITY INTERNATIONAL HOLDINGS LIMITED

冠華國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 539)

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE AT HK\$0.140 PER RIGHTS SHARE AND NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

 KINGSTON CORPORATE FINANCE

Underwriter of the Rights Issue

 KINGSTON SECURITIES

Independent Financial Adviser to
the Independent Board Committee and Independent Shareholders

BALLAS
CAPITAL

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 11 to 34 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 35 to 36 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 37 to 65 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Tuesday, 14 July 2020. Dealings in the Rights Shares in nil-paid form are expected to take place from Monday, 27 July 2020 to Monday, 3 August 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 Monday, 27 July 2020 to Monday, 3 August 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 Friday, 10 July 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 Wednesday, 8 July 2020, Hong Kong time) or any adjournment thereof.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter 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 9 to 10 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

* for identification purposes only

18 June 2020

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DEFINITIONS

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 11 May 2020 in relation to, among other things, the proposed Rights Issue
“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” of this circular, dated 11 May 2020 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
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Convertible Bonds”	collectively, the June Convertible Bonds, the August Convertible Bonds and the October Convertible Bonds
“COVID-19”	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness
“December Rights Issue”	the proposed rights issue of the Company announced on 18 December 2019
“Director(s)”	director(s) of the Company
“Director Irrevocable Undertaking(s)”	the irrevocable undertaking(s), referred to in the sub-section headed “The Director Irrevocable Undertakings” under the section headed “The Underwriting Agreement” of this circular, dated 11 May 2020 and executed by each of the Undertaking Directors in favour of the Company and the Underwriter
“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

DEFINITIONS

“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
“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 under specific mandate
“Last Trading Day”	11 May 2020, being the last trading day of the Shares on the Stock Exchange before the release of the Announcement
“Latest Practicable Date”	15 June 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 Thursday, 6 August 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 Friday, 7 August 2020, being the first 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

DEFINITIONS

“Optionholder’s Undertaking(s)”	the undertaking(s) executed on 11 May 2020 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”	Thursday, 23 July 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”	Wednesday, 22 July 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

DEFINITIONS

“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 Friday, 10 July 2020, in which resolution will be proposed to consider, and, if thought fit, to approve the Rights Issue and the transactions contemplated thereunder
“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
“Share(s)”	ordinary share(s) in the issued and unissued share capital of the Company of HK\$0.1 each
“Shareholder Irrevocable Undertakings”	the irrevocable undertakings, referred to in the sub-section headed “The Shareholder Irrevocable Undertakings” under the section headed “The Underwriting Agreement” of this circular, dated 11 May 2020 and executed by the Committed Shareholders in favour of the Company and the Underwriter
“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

DEFINITIONS

“Subscription Price”	HK\$0.140 per Rights Share
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers code”	the Hong Kong Code on Takeovers and Mergers
“Undertaking Directors”	Mr. Li, Mr. Lee Yuen Chiu Andy, Mr. Kan Ka Hon, Mr. Phaisalakani Vichai and Mr. Kwok Sze Chi
“Underwriter”	Kingston Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO
“Underwriting Agreement”	the underwriting agreement entered into between the Company and the Underwriter on 11 May 2020 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

EXPECTED TIMETABLE

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 Friday, 3 July
Closure of register of members of the Company for attending the SGM (both days inclusive)	Monday, 6 July to Friday, 10 July
Latest date and time for lodging forms of proxy for the purpose of the SGM	10:00 a.m. on Wednesday, 8 July
Record date for determining attendance and voting at the SGM	Friday, 10 July
Expected date and time of the SGM	10:00 a.m. on Friday, 10 July
Announcement of poll results of the SGM.	Friday, 10 July
Last day of dealings in Shares on a cum-rights basis	Monday, 13 July
First day of dealings in Shares on an ex-rights basis.	Tuesday, 14 July
Latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Wednesday, 15 July
Closure of register of members of the Company for the Rights Issue (both dates inclusive).	Thursday, 16 July to Wednesday, 22 July
Record Date for determining entitlements to the Rights Issue	Wednesday, 22 July
Register of members of the Company re-opens	Thursday, 23 July
Despatch of Prospectus Documents	Thursday, 23 July
First day of dealings in nil-paid Rights Shares.	9:00 a.m. on Monday, 27 July
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Wednesday, 29 July
Latest time for dealings in nil-paid Rights Shares.	4:00 p.m. on Monday, 3 August

EXPECTED TIMETABLE

Event	2020
Latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. on Thursday, 6 August
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional.	4:00 p.m. on Friday, 7 August
Announcement of results of the Rights Issue	Thursday, 13 August
Refund cheques, if any, to be despatched (if the Rights Issue is terminated and in respect of unsuccessful or partially successful application for excess Rights Shares).	Friday, 14 August
Certificates for fully paid Rights Shares to be despatched	Friday, 14 August
Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Monday, 17 August

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.

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.

TERMINATION OF THE UNDERWRITING AGREEMENT

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 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,

TERMINATION OF THE UNDERWRITING AGREEMENT

which event or events is or are in the absolute 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 will 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

18 June 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\$0.140 PER RIGHTS SHARE**

INTRODUCTION

Reference is made to the Announcement, in relation to, among other matters, the Rights Issue. On 11 May 2020, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$217.5 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\$0.140 per Rights Share. The Subscription Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where

* *For identification purposes only*

LETTER FROM THE BOARD

applicable, application for excess Rights Shares under the Rights Issue or when a renouncee 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\$217.5 million (before expenses), which amounts to approximately HK\$212.2 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\$0.140 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 with an aggregate nominal value of HK\$155,382,396.20, 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
Amount to be raised	:	Approximately HK\$217.5 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) 25,555,423 outstanding Share Options, which are exercisable during the period from 12 October 2016 to 11 October 2021; (ii) 38,304,576 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,

LETTER FROM THE BOARD

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.

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 Wednesday, 15 July 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 Wednesday, 15 July 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.

LETTER FROM THE BOARD

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.

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 Monday, 27 July 2020 to Monday, 3 August 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\$0.140 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 renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

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The Subscription Price represents:

- (a) a discount of approximately 39.91% to the closing price of HK\$0.233 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 30.35% to the closing price of HK\$0.201 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 12.50% to the theoretical ex-rights price of approximately HK\$0.160 per Share based on the closing price of HK\$0.201 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (d) a discount of approximately 29.29% to the average of the closing prices of approximately HK\$0.198 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 29.29% to the average of the closing prices of HK\$0.198 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 98.40% 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 20.40% represented by the theoretical diluted price of approximately HK\$0.160 per Share to the benchmarked price of approximately HK\$0.201 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\$0.201 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\$0.197 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 June Convertible Bonds of approximately 16.21%.

The Subscription Price was set at a discount to the recent closing prices of the Shares 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

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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 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.

The Directors (including the members of the Independent Board Committee after considering the advice from the Independent Financial Adviser) consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; (ii) the Qualifying Shareholders who choose to accept their provisional entitlements in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and (iii) the Rights Issue allows 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 relatively low price as compared to the historical market price of the Shares.

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 as a whole, 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) will be approximately HK\$0.137.

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.

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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 Friday, 14 August 2020 by ordinary post to the allottees, at their own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for the excess Rights Shares (if any) are expected to be posted on Friday, 14 August 2020 by ordinary post to the applicants, at their own risk, to their registered addresses. Each Shareholder will receive one share certificate for all allotted Shares.

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 Thursday, 6 August 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

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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.

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.

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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.

THE UNDERWRITING AGREEMENT

On 11 May 2020 (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 Shareholder Irrevocable Undertakings.

Date : 11 May 2020 (after trading hours)

Underwriter : Kingston Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities) regulated activity 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 1.75% 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.

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The Shareholder 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 Shareholder 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 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) not to apply for any Rights Shares in excess of those provisionally allotted to each of them.

Save for the Shareholder Irrevocable Undertakings given by each of 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 Director Irrevocable Undertakings

As at the Latest Practicable Date, Mr. Phaisalakani Vichai is beneficially interested in 1,248,000 Shares, representing approximately 0.16% of the existing issued share capital of the Company. Pursuant to the Director Irrevocable Undertakings, the Undertaking Directors have provided irrevocable and unconditional undertakings to the Company and the Underwriter to, among other things, (i) not to sell or transfer the Shares held by them in any manner before the completion or lapse of the Rights Issue; and (ii) not to apply for any Rights Shares in excess of those provisionally allotted to each of 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.

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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, each of the holders of the Share Options has signed the Optionholder's Undertakings not to exercise the Share Options granted to him/her on or before the Record Date.

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

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jurisdiction relevant to any member of the Group and a change in currency conditions 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,

which event or events is or are in the absolute 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 will be made by the Company if the Underwriting Agreement is terminated by the Underwriter or the Company.

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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;
- (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 Shareholder Irrevocable Undertaking;
- (f) each of the Undertaking Directors complying with his obligations under their respective Director Irrevocable Undertaking;
- (g) each of Pearl Garden, Madian Star, Mr. Wang Chia Po and Mr. Wong Shu Fat complying with its obligations under their respective Bondholder's Undertaking;
- (h) each of the holders of the Share Options complying with his/her obligations under their respective Optionholder's Undertaking;
- (i) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (j) 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
- (k) there being no Specified Event occurring on or before the Latest Time for Termination.

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The conditions precedent set out in paragraphs (a) to (h) above are incapable of being waived by the Underwriter and the Company. The Underwriter may waive the condition precedent set out in paragraphs (j) and (k) 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 (j) and (k), waived in whole or in part by the Underwriter) on or before the Latest Time for Acceptance and/or paragraphs (j) and (k) 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 Shareholder Irrevocable Undertakings, Director Irrevocable Undertakings Bondholder's Undertakings and Optionholder's Undertakings shall lapse upon termination of the Underwriting Agreement.

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) regulated activity 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

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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 Shareholder 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 Shareholder Irrevocable Undertakings (Note 6)	
	Number of Shares	Approximate % (Note 1)	Number of Shares	Approximate % (Note 1)	Number of Shares	Approximate % (Note 1)
Committed Shareholders						
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
Sub-total of Committed Shareholders	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 (Note 6)	—	—	—	—	1,130,256,362	48.49
Mr. Wang Guo Feng (Note 5)	79,272,000	10.20	237,816,000	10.20	79,272,000	3.40
Other public shareholders	484,608,181	62.38	1,453,824,543	62.38	484,608,181	20.80
Total	776,911,981	100.00	2,330,735,943	100.00	2,330,735,943	100.00

Notes:

- 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.
- 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.
- 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. Chen and Mr. Choi are executive Directors, and Mr. Phaisalakani Vichai is an independent non-executive Director.
- Based on the disclosure of interests form filed by Mr. Wang Guo Feng on 8 June 2020, Mr. Wang Guo Feng was the beneficial owner of 64,612,000 Shares and was deemed to be interested in 14,660,000 Shares owned by Ms. Pong Kwong Fai, the spouse of Mr. Wang Guo Feng.
- 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 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 677,928,000 Underwritten Shares. The four sub-underwriters, namely Ceba Alliance Securities Limited, Constance Capital Limited, Emperor Securities Limited and VMS Securities Limited (collectively, the "Sub-underwriters") had agreed to take up 71,500,000,

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221,428,000, 157,000,000 and 228,000,000 Underwritten Shares, respectively. 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.

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.

References are made to the announcement of the Company dated 18 December 2019 and the circular of the Company dated 7 February 2020 in relation to the December Rights Issue. The Group has planned to construct a manufacturing base in Bangladesh for fabric production (the “**Expansion**”). Since January 2020, the unexpected outbreak of COVID-19 has interrupted operation of many companies and has caused great impact on the global economy. As a result, the management noticed that some customers are experiencing financial difficulties due to the COVID-19, leading to the delay in repayment of the Group's receivables. Most of the Group's customers have requested a delay in repayment of the Group's receivables for at least 60 days. As a result, the Group's trade and bills receivables increased by approximately 12.8% from approximately HK\$1,788 million as at 30 September 2019 to approximately HK\$2,017 million as at 29 February 2020 (based on the management accounts of the Group). In addition, as a result of suspension of business operation of corporations across the world, the Group has experienced an increase in cancellation of orders and delay in shipment of goods, which further exacerbated the cash outflow position of the Group. Given the recent unpredictability of the global economy, the COVID-19 outbreak, the customers' own situation, the cash outflow position of the Group, the management is of the view that more general working capital has to be reserved for our operation and there is no certainty when the Group's customers are able to fulfill their repayment obligations under the current economic environment to improve the cash outflow position. Accordingly, the management has decided to defer the Expansion. As the COVID-19 outbreak has caused a global recession and has significantly increased economic and demand uncertainty, the management cannot assess when the Expansion will be implemented or whether it will be implemented at all. The management will closely monitor the economic impact caused by COVID-19 outbreak and will assess prudently the viability of the Expansion by considering the then economic environment in the future. In the event that the Expansion is resumed, subject to the then working capital of the Group, the Expansion will be financed by the net proceeds of (i) approximately HK\$157 million from the placing completed on 18 January 2018; (ii) approximately HK\$63.7 million from the August Convertible Bonds; (iii) approximately HK\$64.7 million from the October Convertible Bonds; and (iv) internal resources of the Group.

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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. Based on the management accounts of the Group, the Group's bank balances and cash amounted to approximately HK\$1,560 million and the bank borrowings due within one year or categorised as current liability amounted to approximately HK\$2,320 million as at 29 February 2020. 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 approximately 24.9% from approximately HK\$2,078 million as at 30 September 2019 to approximately HK\$1,560 million as at 29 February 2020; (iii) the expected further decrease of the Group's bank balances and cash upon repayment of the syndicated loan (the "Syndicated Loan") of approximately HK\$290 million in each of June 2020 and December 2020, and approximately HK\$435 million in June 2021, totalling approximately HK\$1,015 million, and other bank borrowings, including trade loan, term loan and mortgage loan as further described in the table below; (iv) unfavourable feedbacks from lenders in early 2020 in relation to the possibility of refinancing of the Group's existing bank borrowings due to the uncertainty in economic conditions arising from COVID-19; (v) delayed payment from the Group's customers as a result of COVID-19 which the Group is unable to realise the Group's receivables to satisfy the Group's repayment obligations; (vi) 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% as at 30 September 2019; and (vii) the weakened global economy and the uncertainties over the outlook for 2020 pursuant to the trade war between the US and China and the COVID-19, the management of the Company considers that fundraising is required to increase the cash of the Group in meeting the Group's repayment obligation when the Group's bank borrowings fall due.

The breakdown of outstanding bank borrowings as at 29 February 2020 are as follows:

Creditor's profile	Principal amount HK\$ '000	Bank borrowings as at 29 February 2020		Term of repayment	Interest rates
		Outstanding balance as at 29 February 2020 HK\$ '000	2020 due within one year or categorised as current liability HK\$ '000		
Syndicated Loan	2,900,000	2,465,000	580,000	June 2020: HK\$290 million December 2020: HK\$290 million June 2021: HK\$435 million December 2021: HK\$1,450 million	2.5%–3.5% per annum
Trade loan	N/A	1,372,932	1,372,932	May 2020 to August 2020	2.8%–3.8% per annum
Term loan	77,220	69,176	3,864	Approximately HK\$322,000 per month	1.2%–2.3% per annum

LETTER FROM THE BOARD

Creditor's profile	Principal amount <i>HK\$ '000</i>	Bank borrowings as at 29 February 2020		Term of repayment	Interest rates
		Outstanding balance as at 29 February 2020 <i>HK\$ '000</i>	Outstanding balance as at 29 February 2020 due within one year or categorised as current liability <i>HK\$ '000</i>		
Revolving loan	N/A	294,406	294,406	N/A	3.8%–4.5% per annum
Mortgage loan	57,289	49,649	3,540	Approximately HK\$295,000 per month	4%–4.5% per annum
Bank overdraft	N/A	<u>65,756</u>	<u>65,756</u>	N/A	6% per annum
Total		<u>4,316,919</u>	<u>2,320,498</u>		

The Group had discussed with a syndicated of banks in relation to the possibility of refinancing of the Syndicated Loan in early 2020. However, due to the outbreak of COVID-19, banks have been cautious about the economic impact brought by such outbreak and had decided to postpone such discussion until the estimated impact is more certain. It is expected that further discussion with banks for the refinancing of the Syndicated Loan will take place in the second half of 2020. The Group planned to repay the bank loans by the net proceeds as stated below, through refinancing of the Syndicated Loan and working capital of the Group.

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\$217.5 million and HK\$212.2 million, respectively. The estimated expenses of the Rights Issue are approximately HK\$5.3 million, which include underwriting commission and professional fees payable to the financial adviser, 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\$200 million for the repayment of the Syndicated Loan; and
- (ii) approximately HK\$12.2 million as general working capital of the Group, which is preliminary intended to be used for the purchase of raw materials for the Group's production.

The Company proposed the December Rights Issue in December 2019 in order to raise new funding from the Shareholders. However, the December Rights Issue was not approved by the Independent Shareholders. Based on certain verbal feedback from the Independent Shareholders, while the Independent Shareholders noted the need for additional funding, some Independent Shareholders expressed the view that the subscription price of the December Rights Issue of HK\$0.270 per Share was higher than the market price of the Shares traded on the Stock Exchange in March 2020, which was trading in the range of HK\$0.188 per Share to HK\$0.255 per Share due to (i) the recent outbreak of COVID-19

LETTER FROM THE BOARD

that creates uncertainties in the economy; and (ii) the weakening of the investor sentiment in the financial market. Accordingly, the Board has adjusted the Subscription Price and considered that the current Subscription Price of HK\$0.140 per Rights Share, which was set at a discount to the recent market price of the Shares, is more attractive for Independent Shareholders as compared to the subscription price of HK\$0.270 per Share in the December Rights Issue.

The Group has considered other fund raising alternatives, such as placing of new Shares under general mandate which can only raise funds in smaller size and would barely meet the repayment needs of the Group, especially under the current economy brought about by the outbreak of COVID-19 and does not allow the Shareholders to maintain their respective shareholding in the Company, whereas open offer which 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 of 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.

Having considered the above fund raising alternatives for the Group 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.

It is expected that the proceeds from the Rights Issue cannot satisfy the Company's expected funding needs for the next 12 months considering the capital intensive nature of our business and our repayment obligations of the bank borrowings of the Group. The Company plans to satisfy such funding needs by the Group's working capital and future cash inflow when the Group's customers are able to repay its trade debts due to the Group upon the recovery of the global economy.

LETTER FROM THE BOARD

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. Such conclusion is arrived on the assumption that (i) the gradual recovery of the global economy after the outbreak of COVID-19 where the Group's customers are able to repay its trade debts to the Group; (ii) the refinancing of the Syndicated Loan by the banks; and (iii) no significant capital investment is to be conducted by the Group. However, if there shall arise 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.

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.

Date of announcement/ circular/prospectus	Event	Net proceeds (approximate)	Intended use of proceeds as announced	Actual use of proceeds
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.
18 December 2019, 7 February 2020 and 13 March 2020	Rights issue	HK\$412.5 million	Approximately HK\$206.2 million for the Expansion; and approximately HK\$206.3 million for the repayment of bank loans.	The December Rights Issue was not approved by the Independent Shareholders and was not completed.

LETTER FROM THE BOARD

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 (i) the June Convertible Bonds which was issued on 28 June 2019; and (ii) the December Rights Issue which was announced by the Company on 18 December 2019 and was not completed, the Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the date of the Announcement, 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, open offer and/or specific mandate placings 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 June Convertible Bonds.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 July 2020 to Friday, 10 July 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 Thursday, 16 July 2020 to Wednesday, 22 July 2020 (both dates inclusive) for determining the entitlements to the Rights Issue.

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 Friday, 10 July 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 Wednesday, 8 July 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 Thursday, 23 July 2020.

LETTER FROM THE BOARD

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.

The Shares are expected to be dealt in on an ex-rights basis from Tuesday, 14 July 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 Friday, 7 August 2020), and any dealings in the Rights Shares in their nil-paid form from Monday, 27 July 2020 to Monday, 3 August 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 35 to 36 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 37 to 65 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.

LETTER FROM THE BOARD

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

18 June 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\$0.140 PER RIGHTS SHARE**

We refer to the circular of the Company dated 18 June 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 Underwriting Agreement and 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*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*



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

18 June 2020

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE
HELD ON THE RECORD DATE
AT HK\$0.140 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 18 June 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 11 May 2020, the Company announced the Rights Issue and the Underwriting Agreement. The Company proposed to raise approximately HK\$217.5 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\$0.140 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\$212.2 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 94.3% or approximately HK\$200 million will be applied for the repayment of the Syndicated Loan; and (ii) approximately 5.7% or approximately HK\$12.2 million will be applied as general working capital of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, on 11 May 2020 (after trading hours), the Company entered into the Underwriting Agreement with Kingston 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 (i) the June Convertible Bonds which was issued on 28 June 2019; and (ii) the December Rights Issue which was announced by the Company on 18 December 2019 and was not completed, the Company has not conducted any rights issue, open offer or specific mandate placings 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, open offer and/or specific mandate placings 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 “benchmark 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 June Convertible Bonds.

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).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 (i) the discloseable and connected transaction: disposal of properties as disclosed in the Company's circular dated 15 August 2019; and (ii) the December Rights Issue as disclosed in the Company's circular dated 7 February 2020. 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 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, 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.

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.

	For the year ended 31 March		For the six months ended 30 September	
	2018	2019	2018	2019
	(“FY2018”)	(“FY2019”)	(“1H2019”)	(“1H2020”)
	<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>
Total revenue	4,960,298	5,413,027	2,724,508	2,571,603
Cost of sales	<u>(4,091,893)</u>	<u>(4,419,292)</u>	<u>(2,237,270)</u>	<u>(2,110,554)</u>
Gross profit	868,405	993,735	487,238	461,049
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>
Profit before taxation	348,579	293,524	148,689	222,651
Income tax expense	<u>(29,386)</u>	<u>(22,017)</u>	<u>(19,895)</u>	<u>(17,442)</u>
Profit for the year/period	<u>319,193</u>	<u>271,507</u>	<u>128,794</u>	<u>205,209</u>

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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

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\$217.5 million and HK\$212.2 million, respectively. The estimated expenses of the Rights Issue are approximately HK\$5.3 million, which include underwriting commission and professional fees payable to the financial adviser, 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 94.3% or approximately HK\$200 million will be applied for the repayment of the Syndicated Loan; and
- (ii) approximately 5.7% or approximately HK\$12.2 million will be applied as general working capital of the Group, which is preliminary intended to be used for the purchase of raw materials for the Group's production.

Repayment of the Syndicated Loan

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. Based on the management accounts of the Group, the Group's bank balances and cash amounted to approximately HK\$1,560 million and the bank borrowings due within one year or categorised as current liability amounted to approximately HK\$2,320 million as at 29 February 2020. 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 24.9% from approximately HK\$2,078 million as at 30 September 2019 to approximately HK\$1,560 million as at 29 February 2020 mainly attributable to the repayment of bank borrowings; (iii) the expected further decrease of the Group's bank balances and cash upon repayment of the Syndicated Loan of approximately HK\$290 million in each of June 2020 and December 2020, and approximately HK\$435 million in June 2021, totaling approximately HK\$1,015 million if the Syndicated Loan cannot be re-financed at terms agreeable to the Group; (iv) unfavourable feedbacks from lenders in early 2020 in relation to the possibility of refinancing of the Group's existing bank borrowings due to the uncertainty in economic conditions arising from COVID-19; (v) delayed payment from the Group's customers as a result of COVID-19 which affects the Group's short term liquidity and its short term cash reserve to satisfy the Group's short term repayment obligations; (vi) 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% as at 30 September 2019; and (vii) the weakened global economy and the uncertainties over the outlook for 2020 pursuant to the trade war between the US and China and the COVID-19, the management of the Company

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considers that fundraising is required to increase the cash reserve of the Group so that the Group can be in a better financial position in meeting the Group's repayment obligation when the Group's bank borrowings fall due. We note that the estimated cash balance of the Group as at 29 February 2020, after taking into account the net proceeds from the Rights Issue of HK\$212.2 million, the estimated cash balance of the Group is approximately HK\$1,772.2 million in aggregate, which is lower than the amount of bank borrowings of the Group due within one year as at 29 February 2020, 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 re-financing arrangement is allowed by the banks.

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 calculated the gearing ratio of the Group based on its latest consolidated management accounts for the eleven months ended 29 February 2020 and we noted that the Group had a gearing ratio of approximately 40.7% as at 29 February 2020. We have also identified 14 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 80.0% with an average of approximately 21.1%. The gearing ratio of the Group of approximately 40.7% as at 29 February 2020 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 also 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 and approximately 2.4 times for the eleven months ended 29 February 2020. 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 1.8 times to approximately

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128.6 times with an average of approximately 23.3 times. If we exclude three extreme outlier samples which have interest coverage of 50.6 times, 69.3 times and 128.6 times respectively, the adjusted interest coverage will range from approximately 1.8 times to approximately 16.7 times with an average of approximately 7.1 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 the net proceeds from the Rights Issue to repay the Syndicate Loan and for working capital 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.

General working capital

As stated in the Letter from the Board, since January 2020, the unexpected outbreak of COVID-19 has interrupted operation of many companies and has caused great impact on the global economy. Most customers requested to delay in repayment of the Group's receivables for at least 60 days. As a result, the Group's trade and bills receivables increased by approximately 12.8% from HK\$1,788 million as at 30 September 2019 to approximately HK\$2,017 million as at 29 February 2020. In addition, as a result of suspension of business operation of corporations across the world, the Group has experienced an increase in cancellation of orders and delay in shipment of goods, which further exacerbated the cash outflow position of the Group. Given the recent unpredictability of the global economy, the COVID-19 outbreak, the customers' own situation, and the cashflow position of the Group, the management is of the view that more general working capital has to be reserved for our operation.

In this regard, we have discussed with the management of the Company the impact of COVID-19 on the Group's business operation. The Company operates a manufacturing base in Jiangmen, the PRC. Draconian measures to control the outbreak of COVID-19 including (i) travel restrictions imposed in major cities in the PRC, as well as other countries and territories, since January 2020; and (ii) extension of the Chinese New Year holiday and delay in resumption of work announced by the PRC government in February 2020, have affected the production capacity and production schedule of the Group, which have caused a short term adverse effect to the Group's operations. In addition, the Group's short term cash flow was adversely impacted by the delay in repayment of the Group's trade receivables from most of the

Group's customers. Although with the gradual lowering number of reported cases in the PRC, the PRC government relaxed the nationwide lockdown measure and re-classified the entire country as low-risk for COVID-19 from 7 May 2020 and interprovincial travel restrictions have been lifted, the Directors are uncertain as to when the outbreak of COVID-19 will be fully contained and it is also unpredictable if the economic impact will be short-lived or long-lasting. If the outbreak of COVID-19 is not effectively controlled in a short period of time, the business operations and financial condition of the Group may be materially and adversely affected as a result of the slowdown in the global economic growth and the financial position and cash flow of the Group would be adversely affected. Given such uncertainty in business outlook, we concur with the Directors that it is essential to increase the capital and cash reserves under this uncertain market environment and it is reasonable to apply the net proceeds from the Rights Issue to repay bank borrowings and as general working capital of the Group to combat the forthcoming challenges posed by the uncertain business environment.

The December Rights Issue

The Rights Issue was announced shortly after the December Rights Issue was voted down by Independent Shareholders at the special general meeting of the Company on 13 March 2020. As stated in the letter from the Board, based on certain verbal feedback from the Independent Shareholders, while the Independent Shareholders noted the need for additional funding, some Independent Shareholders expressed the view that the subscription price of the December Rights Issue of HK\$0.270 per Share was higher than the market price of the Shares traded on the Stock Exchange in March 2020, which was trading in the range of HK\$0.188 per Share to HK\$0.255 per Share due to (i) the recent outbreak of COVID-19 that creates uncertainties in the economy; and (ii) the weakening of the investor sentiment in the financial market. Accordingly, the Board has adjusted the Subscription Price and considered that the current Subscription Price of HK\$0.140 per Rights Share, which was set at a discount to the recent market price of the Shares, is more attractive for Independent Shareholders as compared to the subscription price of HK\$0.270 per Share in the December Rights Issue. In this regard, we have compared the terms of the December Rights Issue and the Rights Issue, we noted that the Rights Issue had (i) a higher discount rate of the Subscription Price of approximately 30.35% to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day as compared

to that of approximately 22.86% of the December Rights Issue; (ii) a lesser amount of net proceeds of approximately HK\$212.2 million, which represents a decrease of approximately 48.6% as compared to the net proceeds of approximately HK\$412.5 million of the December Rights Issue; and (iii) a higher underwriting commission of 1.75% to be charged by the Underwriter as compared to that of 1.5% of the December Rights Issue. Given that (i) the recent outbreak of COVID-19 had undermined investor confidence and it is justifiable for the Company to set the Subscription Price at a deeper discount and pay a higher underwriting commission for the Rights Issue as compared to that for the December Rights Issue to reflect the current market sentiment; (ii) the Subscription Price and the underwriting commission of the Rights Issue falls within the range of the selected comparable transactions in the analysis as discussed in the section headed “D. Principal terms of the Rights Issue” and “E. Underwriting Agreement” below respectively; and (iii) there is a funding need of the Group for the repayment of its Syndicated Loan and for its general working capital as stated above, we consider that the Rights Issue is fair and reasonable and in the interests of the Company’s shareholders as a whole.

Alternative financing methods

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 fundraising method.

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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
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
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
18 December 2019, 7 February 2020 and 13 March 2020	Issue of rights issue	HK\$412.5 million	Approximately HK\$206.2 million for the Expansion; and approximately HK\$206.3 million for the repayment of bank loans	The December Rights Issue was not approved by the Independent Shareholders and was not completed

It is noted that the Company has raised total funds of approximately HK\$528.4 million in the past 12 months immediately prior to the Latest Practicable Date. As at the Latest Practicable Date, approximately HK\$400 million, or 75.7%, of the net proceeds raised in the past 12 months had been utilised as per the planned use. The remaining 24.3% of the net proceeds of 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 and a rights issue on 17 April 2019. Approximately HK\$157 million raised from the share placement is also intended to finance the Expansion. As stated in the Letter from the Board, the management has decided to defer the Expansion as the COVID-19 outbreak has caused a global recession and has significant increased economic and demand uncertainty, the management cannot assess when the Expansion will be implemented or whether it will be implemented at all. The management will closely monitor the economic impact caused by COVID-19 outbreak and will assess prudently the viability of the Expansion by considering the then economic environment in the future. Subject to the then prevailing market conditions, internal resources of the Group and the availability of re-financing of existing borrowings and the further development plan of the Expansion, the Directors also consider to utilise part of the proceeds reserved for the Expansion to satisfy its repayment

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obligations for the bank borrowings as mentioned above. Further announcements will be made by the Company as and when appropriate in compliance with the requirement under the Listing Rules.

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\$0.140 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
Amount to be raised	:	Approximately HK\$217.5 million before expenses
Rights of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment

As set out in the Letter from the Board, as at the Latest Practicable Date, there are (i) 25,555,423 outstanding Share Options, which are exercisable during the period from 12 October 2016 to 11 October 2021; (ii) 38,304,576 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 11 May 2020, 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) not to apply for any Rights Shares in excess of those provisionally allotted to each of them.

On 11 May 2020, 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 11 May 2020, 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\$0.140 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.

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The Subscription Price of HK\$0.140 per Rights Share represents:

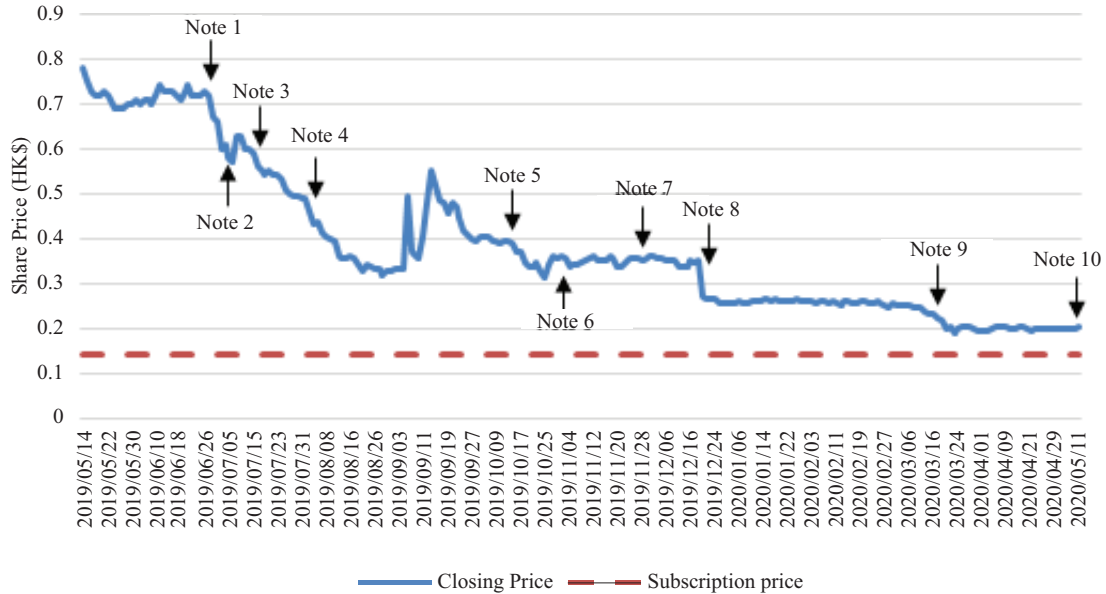
- (i) a discount of approximately 30.35% to the closing price of HK\$0.201 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 12.50% to the theoretical ex-rights price of approximately HK\$0.160 per Share based on the closing price of HK\$0.201 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 29.29% to the average closing prices of approximately HK\$0.198 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 29.29% to the average closing prices of HK\$0.198 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 98.40% 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 Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 20.4%, represented by the theoretical diluted price of approximately HK\$0.160 per Share to the benchmarked price of approximately HK\$0.201 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\$0.201 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 Last Trading Day of approximately HK\$0.197 per Share); and
- (vii) a cumulative theoretical dilution effect (as defined under 7.27B of the Listing Rules) of the Rights Issue and the June Convertible Bonds of approximately 16.21%.

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; (ii) the latest business performance and financial position of the Group; and (iii) the funding and capital needs of the Company.

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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 11 May 2019, 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.



Source: the Stock Exchange's website

Notes:

1. The Company announced the annual results for the year ended 31 March 2019 on 27 June 2019.
2. The Company announced the disposal of land use rights on 3 July 2019.
3. The Company announced the disposal of properties on 15 July 2019.
4. The Company announced the issuance of convertible bonds under general mandate on 1 August 2019.
5. The Company announced the issuance of convertible bonds under general mandate on 14 October 2019.
6. The Company announced the non-fulfillment of conditions precedent of the agreement in relation to the disposal of properties on 31 October 2019.
7. The Company announced the interim results for the six months ended 30 September 2019 on 28 November 2019.

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8. The Company announced the proposed December 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.
9. The Company announced that the proposed December Rights Issue was not approved by the independent shareholders at the special general meeting on 13 March 2020.
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\$0.140 per Rights Share on 11 May 2020.

During the Review Period, the highest and the lowest closing price of the Shares were HK\$0.78 per Share on 14 May 2019 and HK\$0.19 per Share on 23 March 2020 respectively. The Subscription Price of HK\$0.140 is lower than the closing price of the Shares throughout the Review Period. The Subscription Price represents a discount of approximately 82.1% and 26.3% 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\$0.78 per share on 14 May 2019 to HK\$0.201 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 eleven months ended 29 February 2020, 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 save for the impact arising from the outbreak of COVID-19 as disclosed in the Letter from the Board, 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. The Directors also 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 and taking into consideration of the impact of the outbreak of COVID-19.

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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
2019			
May (<i>Note 1</i>)	14	928,351	0.01%
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	20	3,981,437	0.51%
2020			
January	20	2,780,008	0.36%
February	20	2,959,033	0.38%
March	22	1,747,042	0.22%
April	19	1,133,833	0.15%
May (<i>Note 2</i>)	6	2,605,461	0.34%
Maximum		16,453,046	2.12%
Minimum		928,351	0.01%
Average		3,392,769	0.43%

Source: the Stock Exchange

Notes:

1. Represents trading volume for the period from 11 May 2019 to 31 May 2019, both days inclusive.
2. Represents trading volume for the period from 1 May 2020 to the 11 May 2020, the Latest Trading Day, both days inclusive.

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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 928,000 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 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 29 comparable transactions (the “**Comparables**”) which involve issuance of rights shares announced by companies listed on the Stock Exchange since 1 May 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 Yes/No
				(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 previous consecutive trading days up to and including the last trading day (%)	(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 (%)			
9 April 2020	Shen You Holdings Limited	8377	1 for 2	(12.20%)	(8.50%)	(12.20%)	(12.20%)	33.33%	3.50%	Yes
25 March 2020	Anxian Yuan China Holdings Limited	922	3 for 2	(32.89%)	(18.09%)	(35.57%)	(36.24%)	60.00%	Non-underwritten basis	Yes
6 March 2020	Moody Technology Holdings Limited	1400	1 for 2	(26.06%)	(19.19%)	(10.32%)	(12.59%)	33.33%	Non-underwritten basis	Yes
3 March 2020	China New Economy Fund Limited	80	1 for 1	(27.30%)	(15.80%)	(25.70%)	(27.30%)	50.00%	Non-underwritten basis	Yes
11 February 2020	Ares Asia Limited	645	1 for 2	(20.24%)	(14.47%)	(20.24%)	(20.14%)	33.33%	Non-underwritten basis	Yes
4 February 2020	CMMB Vision Holdings Limited	471	1 for 2	(5.80%)	(3.94%)	(12.87%)	(17.41%)	33.33%	Non-underwritten basis	No

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Announcement date	Company name	Stock code	Basis of entitlement	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				Maximum dilution effect (%) (Note)	Underwriting/related commission, as the case may be (%)	Excess application Yes/No
				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 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 (%)			
21 January 2020	FDG Electric Vehicles Limited	729	1 for 2	(14.16%)	(11.50%)	(16.67%)	(12.66%)	33.33%	Fixed amount of HK\$850,000 and/or 3.00% for placing of unsubscribed rights shares	No
14 January 2020	Guotai Junan International Holdings Limited	1788	1 for 3	(2.68%)	(2.03%)	(1.63%)	(0.28%)	25.00%	0.50%	Yes
12 January 2020	Merdeka Financial Group Limited	8163	4 for 1	(8.33%)	(1.79%)	0.00%	2.80%	80.00%	2.00%	Yes
10 January 2020	Neway Group Holdings Limited	55	2 for 1	(20.00%)	(8.68%)	(21.57%)	(21.57%)	66.67%	Nil	No
3 January 2020	Purapharm Corporation Limited	1498	1 for 2	(37.50%)	(28.60%)	(37.90%)	(28.60%)	33.33%	5.50%	Yes
2 January 2020	Wuling Motors Holdings Limited	305	1 for 2	(32.20%)	(23.95%)	(30.80%)	(31.03%)	33.33%	3.00%	Yes
24 December 2019	On Real International Holdings Limited	8245	1 for 2	(61.54%)	(51.61%)	(61.54%)	(62.69%)	33.33%	4.00%	Yes
23 December 2019	Elegance Optical International Holdings Limited	907	1 for 2	(21.79%)	(15.66%)	(21.44%)	(22.44%)	33.33%	4.00%	Yes
18 December 2019	Victory City International Holdings Limited	539	2 for 1	(22.86%)	(9.09%)	(21.28%)	(21.97%)	66.67%	1.50%	Yes
13 December 2019	Greenway Mining Group Limited	2133	1 for 4	0.00%	0.00%	0.00%	(0.90%)	20.00%	1.50%	Yes
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%	Yes
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

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/	(Discount) of the	Premium/	(Discount) of the	Premium/	(Discount) of the	Maximum dilution effect (%) (Note)	Underwriting/related commission, as the case may be (%)	Excess application Yes/No
				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 (%)	the subscription price over the average share price for the five previous consecutive trading days up to and including the last trading day (%)	(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 (%)					
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
			Min	(61.54%)	(51.61%)	(61.54%)	(62.69%)	20.00%	Nil			
			Max	0.00%	0.00%	0.00%	2.80%	80.00%	5.50%			
			Median	(21.79%)	(11.50%)	(21.28%)	(21.57%)	33.33%	2.50%			
			Average	(21.49%)	(13.96%)	(20.97%)	(21.45%)	42.35%	2.41%			
	The Company		2 for 1	(30.35%)	(12.50%)	(29.29%)	(29.29%)	66.67%	1.75%			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, except for Greenway Mining Group Limited which had set the subscription price of its rights issue equal to the prevailing market price of its shares on 13 December 2019, all of the Comparables had set the subscription price of their rights issues at a discount to the prevailing market prices 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 0.00% to approximately 61.54% with average of approximately 21.49%. The discount of approximately 30.35% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls

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within the range of those of the Comparables and is higher than the average discount of the Comparables. Given the uncertainties arising from the recent outbreak of COVID-19 and under such circumstance that the Share price is expected to be subject to higher volatility, we consider that it is justifiable for the Company to set the Subscription Price at a deeper discount to the market average so as to attract the Shareholders to participate in the Rights Issue under the current market sentiment.

The subscription prices of the Comparables represent a discount ranging from 0.00% to approximately 51.61% relative to their respective theoretical ex-rights prices as quoted on the last trading day with average of approximately 13.96%. The discount of approximately 12.50% 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 close to the average discount of the Comparables.

Net asset value

The Subscription Price represents a discount of approximately 98.40% to the unaudited net asset value per Share of approximately HK\$8.724 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 91.1% to 97.8% 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) the prevailing historical trading prices of the Company have already reflected 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) notwithstanding the discount of the Subscription Price to the closing price of the Shares on the Last Trading Day represents a larger discount than the average discount of the Comparables, the discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day fall within the range of the Comparables; (v) the discounts of the Subscription Price to the theoretical ex-rights price fall within the range of the Comparables and is close to the average discount of the Comparables; (vi) the recent outbreak of COVID-19 which creates uncertainties in the economy and weakens the investor sentiment in the financial market; (vii) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter; (viii) the Rights Issue is available to all Qualifying Shareholders by providing them with an equal opportunity to participate in the Rights Issue; and (ix) those Qualifying

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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 Rights 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 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 table above, 22 out of 29 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 issue with arrangement of application for excess rights shares and the shareholding of each Qualifying Shareholder, except those who do not

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take up their full entitlements or those who apply for excess Rights Shares, will be largely maintained after the completion of the Rights Issue. 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, Kingston Securities Limited (“**Kingston**”), is a company incorporated in Hong Kong with limited liability and is a licensed corporation to carry on type 1 (dealing in securities) 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 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 677,928,000 Underwritten Shares. The four sub-underwriters, namely Ceca Alliance Securities Limited, Constance Capital Limited, Emperor Securities Limited and VMS Securities Limited (collectively, the “**Sub-underwriters**”) had agreed to take up 71,500,000, 221,428,000, 157,000,000 and 228,000,000 Underwritten Shares, respectively. 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 1.75% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission. As illustrated in table of Comparables above, the

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underwriting commission of 1.75% to be charged by the Underwriter under the Underwriting Agreement falls within the range of the commission rates of the Comparables of nil to 5.5% and lower than the average commission rate of the Comparables of approximately 2.4%. 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.

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 and gearing ratio and strengthen the capital base of the Company for future expansion opportunities; and (v) debt financing or bank loans will incur further

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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\$6,965.8 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 94.3% of the net proceeds of the Rights Issue (approximately HK\$200 million) for the repayment of the Syndicated Loan and approximately 5.7%

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of the net proceeds of the Rights Issue (approximately HK\$12.2 million) as general working capital of the Group. 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.

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 December Rights Issue was voted down by Independent Shareholders at the special general meeting of the Company on 13 March 2020, and (d) the fund-raising alternatives available to the Group;
- (iii) the Directors confirm that save for the potential impact arising from the outbreak of COVID-19 as disclosed in the Letter from the Board, they were not aware of any material change in the financial position or outlook of the Group since 30 September 2019. The Directors also 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);
- (iv) although 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 higher than the average discount of the Comparables, given the uncertainties arising from the recent outbreak of COVID-19 and under such circumstance that the Share price is expected to be subject to higher volatility, it is justifiable for the Company to set the Subscription Price at a deeper discount to the market average so as to attract the Shareholders to participate in the Rights Issue under the current market sentiment;
- (v) the discounts of the Subscription Price to the theoretical ex-rights price fall within the range of the Comparables and is close to the average discount of the Comparables;
- (vi) 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;

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(vii) the terms of the Rights issue and Underwriting Agreement are fair so far as the Independent Shareholders are concerned; and

(viii) 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 whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution 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 **Lincoln Lam**
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 Mr. Lincoln Lam of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity since 2018.

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) 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 30 April 2020, 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\$5,021,137,000 comprising the following:

- (1) secured and guaranteed bank borrowings of approximately HK\$192,688,000 which were secured by the Group's property, plant and equipment, right-of-use assets, trade and bills receivables and investment properties as at 30 April 2020;
- (2) unsecured and guaranteed bank borrowings of approximately HK\$4,319,088,000; and
- (3) unsecured and unguaranteed liability component of convertible bonds of approximately HK\$509,361,000.

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 30 April 2020, 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

Save as disclosed in the paragraph headed “Reasons for the Rights Issue and use of proceeds” in the section headed “Letter from the Board” and the paragraph headed “Financial and trading prospect of the Group” below, 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. Since January 2020, the unexpected outbreak of COVID-19 has interrupted operation of many companies and has caused great impact on the global economy. As a result, the management noticed that some customers are experiencing financial difficulties due to the COVID-19, leading to the delay in repayment of the Group’s receivables. Given the recent unpredictability of the global economy, the COVID-19 outbreak, the customers’ own situation, the cash outflow position of the Group, the management is of the view that more general working capital has to be reserved for our operation. The management will closely monitor the economic impact caused by COVID-19 outbreak. 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 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\$290 million in each of June 2020 and December 2020, and approximately HK\$435 million in June 2021, and therefore the management of the Company considers that fundraising is required to increase the cash of the Group in meeting the Group's repayment obligation when the Group's bank borrowings 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 under the current situation of US-PRC trade war and COVID-19 outbreak. The 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 consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 <i>HKS'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Rights Issue <i>HKS'000</i> <i>(Note 2)</i>	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 <i>HKS'000</i>	Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 per Share <i>HKS</i> <i>(Note 3)</i>	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 <i>HKS</i> <i>(Note 4)</i>
Rights Issue of 1,553,823,962					
Rights Shares to be issued at Subscription Price of HK\$0.140 per Rights Share	6,753,559	212,235	6,965,794	8.69	2.99

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\$0.140 per Rights Share after deduction of the estimated related expenses of HK\$5,300,000.
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\$6,965,794,000, 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 18 June 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 18 June 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 proposed rights issue on the basis of two Rights Shares for every one existing Share held on the Record Date at HK\$0.140 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
18 June 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>Approximately 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
Directors				
<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	—	—	—	—
Others	23,977,928	12 October 2016	3.72	12 October 2016 to 11 October 2021
	34,302,071	18 April 2019	1.002	18 April 2019 to 17 April 2024
	<u>63,859,999</u>			

(c) Convertible Bonds

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

Date of issue	Principal amount <i>HK\$</i>	Conversion period	Maturity date	Conversion price <i>HK\$ per Share</i>	Number of underlying Shares
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 shares 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%
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%

Name of Director	The Company/name of associated corporation	Capacity	Interest in shares (Note 1)	Interest in underlying shares of share options (Note 1)	Approximate percentage of the relevant class of issued share capital of the Company/ associated corporation
	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%
	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:

1. The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.
2. 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 Shareholder Irrevocable Undertakings.
3. 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 Shareholder Irrevocable Undertakings.
4. 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 Shareholder 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 Shareholder 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	1,004,762,890 (L)	Trustee (Note 6)	129.33%
Mr. David Henry Christopher Hill	1,004,762,890 (L)	Interest of controlled corporation (Note 6)	129.33%
Ms. Rebecca Ann Hill	1,004,762,890 (L)	Interest of spouse (Note 7)	129.33%
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%
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%
Mr. Wang Guo Feng	64,612,000 (L)	Beneficial owner (Note 12)	8.32%
	14,660,000 (L)	Interest of spouse (Note 12)	1.89%
Ms. Pong Kwong Fai	64,612,000 (L)	Interest of spouse (Note 12)	8.32%
	14,660,000 (L)	Beneficial owner (Note 12)	1.89%

Name of person/entity	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Underwriter	1,130,256,362 (L) (Note 13)	Underwriter (Note 14)	48.49%
Galaxy Sky Investments Limited	1,130,256,362 (L) (Note 13)	Interest of controlled corporation (Note 14)	48.49%
Kingston Capital Asia Limited	1,130,256,362 (L) (Note 13)	Interest of controlled corporation (Note 14)	48.49%
Kingston Financial Group Limited	1,130,256,362 (L) (Note 13)	Interest of controlled corporation (Note 14)	48.49%
Active Dynamic Limited	1,130,256,362 (L) (Note 13)	Interest of controlled corporation (Note 14)	48.49%
Mrs. Chu Yuet Wah	1,130,256,362 (L) (Note 13)	Interest of controlled corporation (Note 14)	48.49%
Emperor Securities Limited	157,000,000 (L) (Note 13)	Underwriter (Note 15)	6.74%
Emperor Capital Investment Holdings Limited	157,000,000 (L) (Note 13)	Underwriter (Note 15)	6.74%
Emperor Capital Group Limited	157,000,000 (L) (Note 13)	Interest of controlled corporation (Note 15)	6.74%
Emperor Capital Group Holdings Limited	157,000,000 (L) (Note 13)	Interest of controlled corporation (Note 15)	6.74%
Albert Yeung Capital Holdings Limited	157,000,000 (L) (Note 13)	Interest of controlled corporation (Note 15)	6.74%
CDM Trust & Board Services AG	157,000,000 (L) (Note 13)	Trustee (Note 15)	6.74%
Dr. Yeung Sau Shing, Albert	157,000,000 (L) (Note 13)	Founder of a trust (Note 15)	6.74%
Ms. Luk Siu Man, Semon	157,000,000 (L) (Note 13)	Interest of spouse (Note 16)	6.74%
VMS Securities Limited	228,000,000 (L) (Note 13)	Underwriter (Note 17)	9.78%
VMS Financial Group Limited	228,000,000 (L) (Note 13)	Interest of controlled corporation (Note 17)	9.78%
VMS Securities Holdings Limited	228,000,000 (L) (Note 13)	Interest of controlled corporation (Note 17)	9.78%

Name of person/entity	Number of Shares (Note 1)	Capacity	Approximate percentage of interest
Fastlane Global Investments Limited	228,000,000 (L) (Note 13)	Interest of controlled corporation (Note 17)	9.78%
VMS Holdings Limited	228,000,000 (L) (Note 13)	Interest of controlled corporation (Note 17)	9.78%
Master Competent Limited	228,000,000 (L) (Note 13)	Interest of controlled corporation (Note 17)	9.78%
Ms. Mak Siu Hang Viola	228,000,000 (L) (Note 13)	Interest of controlled corporation (Note 17)	9.78%

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.
- 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.
- 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. Based on the disclosure of interests forms filed by Mr. Wang Guo Feng and Ms. Pong Kwong Fai on 8 June 2020, Mr. Wang Guo Feng was the beneficial owner of 64,612,000 Shares and was deemed to be interested in 14,660,000 Shares owned by Ms. Pong Kwong Fai, the spouse of Mr. Wang Guo Feng.
13. These Shares were the Underwritten Shares. The interests are based on the Rights Issue has completed.
14. The Underwriter is wholly owned by Galaxy Sky Investments Limited, which in turn is wholly owned by Kingston Capital Asia Limited. Kingston Capital Asia Limited is wholly owned by Kingston Financial Group Limited, which is owned as to 74.60% by Active Dynamic Limited, which in turn is wholly owned by Mrs. Chu Yuet Wah.
15. Emperor Securities Limited is the sub-underwriter of the Rights Issue. Based on the disclosure of interests forms filed by CDM Trust & Board Services AG and Dr. Yeung Sau Shing, Albert on 8 June 2020, Emperor Securities Limited is wholly owned by Emperor Capital Investment Holdings Limited, which in turn is wholly owned by Emperor Capital Group Limited. Emperor Capital Group Limited is owned as to 42.72% by Emperor Capital Group Holdings Limited, which is wholly owned by Albert Yeung Capital Holdings Limited, which in turn is held by CDM Trust & Board Services AG, a trustee for a private trust, the founder of which is Dr. Yeung Sau Shing, Albert.
16. Based on the disclosure of interests form filed by Ms. Luk Siu Man, Semon on 8 June 2020, Ms. Luk Siu Man, Semon is the spouse of Dr. Yeung Sau Shing, Albert.
17. VMS Securities Limited is the sub-underwriter of the Rights Issue. Based on the disclosure of interests form filed by Ms. Mak Siu Hang Viola on 8 June 2020, VMS Securities Limited is wholly owned by VMS Financial Group Limited, which in turn is wholly owned by VMS Securities Holdings Limited and in turn wholly owned by Fastlane Global Investments Limited. Fastlane Global Investments Limited is wholly owned by VMS Holdings Limited, which is owned as to 59.80% by Ms. Mak Siu Hang Viola and 32.20% by Master Competent Limited, which is wholly owned by Ms. Mak Siu Hang Viola.

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 Get Nice Securities Limited on 19 February 2019 in relation to the underwriting arrangement in respect of the proposed rights issue on the basis of one rights Share for every two existing Shares held on the record date at HK\$0.098 per rights Share;
- (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;
- (g) the underwriting agreement entered into between the Company and the Get Nice Securities Limited on 18 December 2019 in relation to the underwriting arrangement in respect of the December Rights Issue; and
- (h) 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:

Name	Qualifications
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 Registered Public Interest Entity Auditors

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\$5.3 million.

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

Registered office	Clarendon House Church Street Hamilton HM 11 Bermuda
Head office and principal place of business in Hong Kong and office address of all Directors and the authorised representative of the Company	Unit D, 3rd Floor Winfield Industrial Building 3 Kin Kwan Street Tuen Mun, New Territories Hong Kong
Executive directors	<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
Principal share registrar	MUFG Fund Services (Bermuda) Limited 4th Floor North Cedar House 41 Cedar Avenue Hamilton HM 12 Bermuda
Branch share registrar in Hong Kong	Tricor Secretaries Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

Auditors and reporting accountants

Deloitte Touche Tohmatsu
Certified public accountants
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

Principal bankers

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

Chong Hing Bank Limited
Chong Hing Bank Centre
24 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

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
Stock code	539
Website	http://www.victorycity.com.hk/
Underwriter	Kingston Securities Limited 72/F, The Center 99 Queen's Road Central Central, Hong Kong
Legal advisers to the Company as to Hong Kong laws	Chiu & Partners 40/F, Jardine House 1 Connaught Place Hong Kong
Financial adviser to the Company	Kingston Corporate Finance Limited 72/F, The Center 99 Queen's Road Central Central, Hong Kong

12. PARTICULARS OF THE DIRECTORS AND COMPANY SECRETARY

Executive Directors

Mr. Li Ming Hung, aged 69, is the chairman of the Company and a co-founder 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. He has over 41 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. Lee Yuen Chiu Andy, aged 55, 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 58, 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, is an independent non-executive Director. 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, is an independent non-executive Director. 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 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, and retired the position of the chief financial officer of Analogue Holdings Limited, a company listed on the Main Board of the Stock Exchange, on 1 January 2020. Mr. Phaisalakani joined the Group in 1996.

Mr. Kwok Sze Chi, aged 65, is an independent non-executive Director. 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 53, 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 31 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 Shareholder Irrevocable Undertakings;
- (j) the Director Irrevocable Undertakings;
- (k) the Bondholder's Undertakings;
- (l) the Optionholder's Undertakings;

- (m) the Underwriting Agreement;
- (n) 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;
- (o) a circular published by the Company on 15 August 2019 in relation to the discloseable and connected transaction on disposal of properties;
- (p) a circular published by the Company on 7 February 2020 in relation to the December Rights Issue; and
- (q) 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 Friday, 10 July 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\$0.140 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 of the Company (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\$0.140 per Rights Share and otherwise on the terms and conditions set out in the Circular be and is hereby approved;

* *for identification purposes only*

NOTICE OF SGM

- (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 11 May 2020 and entered into among the Company and Kingston 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 bye-laws 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, 18 June 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

NOTICE OF SGM

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 Wednesday, 8 July 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 Monday, 6 July 2020 to Friday, 10 July 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 Friday, 3 July 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.