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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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This circular is for your information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

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

**If you have sold or transferred** all your shares in **Summi (Group) Holdings Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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森美(集團)控股有限公司  
**Summi (Group) Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 00756)

**(1) CONNECTED TRANSACTIONS IN RELATION TO**  
**(I) PROPOSED ISSUANCE OF BONDS;**  
**(II) PROPOSED ISSUANCE OF CONVERTIBLE BONDS**  
**UNDER CB SPECIFIC MANDATE;**  
**(III) PROPOSED ISSUANCE OF UNLISTED WARRANTS**  
**UNDER WARRANT SPECIFIC MANDATE;**  
**AND**  
**(2) NOTICE OF EGM**

**Financial Adviser to the Company**



**Independent Financial Adviser to the Company**



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The notice convening the EGM of the Company to be held at Room 3E, No. 355, Zhangye Road, Jiading District, Shanghai, China on Friday, 27 December 2019 at 3:30 p.m. is set out on pages EGM-1 to EGM-3 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the proxy form and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) if you so wish.

10 December 2019

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## DEFINITIONS

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

“Bank Creditors”	collectively, the Reduction Creditors and the Rescheduling Creditors
“Board”	the board of the Directors
“Bond(s)”	the 2.28% fixed coupon unlisted bond to be issued by the Company in an aggregate principal amount of HK\$106 million due on the Bond Maturity Date
“Bond Deposit”	the refundable deposit of HK\$16.40 million for the subscription of Bonds to be paid by the Controlling Shareholder pursuant to the Subscription Agreement
“Bond Issue Date”	the date of issuance of the Bonds pursuant to the Subscription Agreement
“Bonds Maturity Date”	the third (3rd) anniversary of the Bond Issue Date
“Business Day(s)”	any day (excluding Saturday, Sunday and any other public holidays) on which banks in Hong Kong are generally open for business
“CB Issue Date”	the date of issuance of the Convertible Bonds pursuant to the Subscription Agreement
“CB Maturity Date”	the third (3rd) anniversary of the CB Issue Date
“CB Specific Mandate”	the specific mandate for the issuance and allotment of up to a maximum of 395,721,925 Conversion Shares, which is subject to the approval by the Independent Shareholders at the EGM
“Company”	Summi (Group) Holdings Limited (森美(集團)控股有限公司), a company incorporated in Cayman Islands with limited liability, its Shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	Rui Er Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability holding 765,444,145 Shares, representing 56.79% of the issued share capital of the Company as at the Latest Practicable Date
“Conversion Period”	the period commencing from the CB Issue Date and ending on the CB Maturity Date

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## DEFINITIONS

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“Conversion Price”	an initial conversion price of HK\$0.187 per Conversion Share at which a Share will be issued upon conversion of the Convertible Bonds into Shares, which shall be subject to adjustments arising from events such as share consolidation and subdivision, capitalisation issue, capital distribution, rights issue and issue of Shares or securities convertible into Shares at more than 20% discount to the Market Price
“Conversion Share(s)”	the 395,721,925 new Shares which may fall to be issued and allotted upon the exercising of all the conversion rights attached to the Convertible Bonds
“Convertible Bonds”	the 2.28% fixed coupon convertible bonds to be issued by the Company in an aggregate principal amount of HK\$74 million due on the CB Maturity Date
“Debt Restructuring”	the process of restructuring the Company’s indebtedness and its other obligations in relation to the Outstanding Liabilities, including but not limited to the Loan Settlement and the Loan Extension
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Convertible Bonds; (ii) the issuance of the Warrants; and (iii) the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares
“Encumbrances”	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), hypothecation, equities, adverse claims, or other encumbrances, priority or security interest, deferred purchase, title retention, leasing, sale-and-purchase, sale-and-leaseback arrangement over or in any property, assets or rights of whatsoever nature or interest or any agreement for any of the same
“Event(s) of Default”	event(s) of default set out under the Subscription Agreement, including but not limited to, breach of obligations under the Subscription Agreement, insolvency, winding-up, seizure, proceeding, withdrawal of listing and suspension of trading in the Shares for a consecutive period of more than 15 Business Days

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## DEFINITIONS

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“First Payment Date”	15 December 2019, subject to written designation by the Reduction Creditors
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong Interbank Offered Rate
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Chen Ying, Mr. Ma Chi Kin and Mr. Kyaw Sai Hong, established to advise the Independent Shareholders as to the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Pelican Financial”	Pelican Financial Limited, a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activities
“Independent Shareholders”	Shareholders other than the Controlling Shareholder and its associates
“Independent Valuer”	Royson Valuation Advisory Limited, an independent professional valuer commissioned by the Company for the purpose of conducting valuation of the Warrants
“Individual” or “Ms. Hu”	Ms. Hu Mingyue, the deputy chief executive officer of the Company
“Individual Warrant(s)”	the total of 120,784,960 unlisted warrants to be issued by the Company to the Individual at the Warrant Subscription Price pursuant to the Warrant Subscription Agreement, each entitles the holder thereof initially to subscribe for Individual Warrant Shares at the Warrant Exercise Price (subject to adjustments) at any time during the Warrant Exercise Period
“Individual Warrant Share(s)”	the new Share(s) to be issued and allotted by the Company upon exercising of the subscription rights attaching to the Individual Warrant(s)
“Last Trading Day”	31 July 2019, being the last trading day of the Shares prior to the entering into of the Subscription Agreement and the Warrant Subscription Agreement
“Latest Practicable Date”	6 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Extension”	the process of extending the repayment schedule for part of the Outstanding Liabilities payable by the Company to the Rescheduling Creditors, which amounts to approximately HK\$209 million
“Loan Settlement”	the process of reducing part of the Outstanding Liabilities payable by the Company to the Reduction Creditors from approximately HK\$570.29 million to the Repayment Amount
“Loan Settlement Agreement”	the agreement entered into between the Company and the Reduction Creditors in relation to the Loan Settlement on 9 December 2019
“Loan Settlement Expenses”	an amount of HK\$2.38 million payable by the Company to the Reduction Creditors, which represents part of the costs and expenses incurred by the Reduction Creditors in connection with the negotiation and execution of the Loan Settlement Agreement
“Market Price”	the average of the closing prices of one (1) Share on the Stock Exchange for the five (5) consecutive dealing days on each of which there is a closing price ending on the last such dealing day immediately preceding the day on or as of which the market price is to be ascertained
“Mr. Wu”	Mr. Wu Shaohao, an executive Director of the Company and the sole owner of the Controlling Shareholder of the Company
“Outstanding Liabilities”	the outstanding liabilities of approximately HK\$779.29 million
“PRC”	the People’s Republic of China
“Proposed Fund Raising”	the proposed fund raising by the issuance of Bonds, Convertible Bonds and Warrants under the Subscription Agreement and the Warrant Subscription Agreement
“Reduction Creditors”	a group of banks who agreed to reduce their respective amounts of Outstanding Liabilities payable by the Company pursuant to the Loan Settlement Agreement
“Repayment Amount”	US\$20.49 million (equivalent to HK\$159.82 million), being the total amount payable by the Company to the Reduction Creditors in connection with the Loan Settlement

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## DEFINITIONS

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“Rescheduling Creditors”	a group of banks who will extend the repayment schedule of their respective amounts of Outstanding Liabilities payable by the Company
“Rui Er Warrant(s)”	the total of 148,715,040 unlisted warrants to be issued by the Company to the Controlling Shareholder at the Warrant Subscription Price, each entitles the holder thereof initially to subscribe for Rui Er Warrant Shares at the Warrant Exercise Price (subject to adjustments) at any time during the Warrant Exercise Period
“Rui Er Warrant Share(s)”	the new Shares to be issued and allotted by the Company upon exercising of the subscription rights attaching to the Rui Er Warrants
“Second Payment Date”	30 December 2019
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	issued ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandates”	collectively, the CB Specific Mandate and the Warrant Specific Mandate
“Standstill”	the undertaking of the Bank Creditors that they will not commence or continue with any legal proceedings against the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 31 July 2019 entered into between the Company and the Controlling Shareholder in relation to the issuance of the Bonds, the issuance of the Convertible Bonds under the CB Specific Mandate and the issuance of the Warrants under the Warrant Specific Mandate
“Subscription Completion”	the completion of the issuance and subscription of the Bonds, the Convertible Bonds and the Rui Er Warrants in accordance with the Subscription Agreement
“Subscription Long Stop Date”	31 December 2019 or such later date as the Controlling Shareholder and the Company may agree in writing
“trading day(s)”	the day(s) on which the Stock Exchange is open for business

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## DEFINITIONS

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“Warrant(s)”	collectively, the Rui Er Warrants and the Individual Warrants
“Warrant Completion”	the completion of the issuance and subscription of the Individual Warrants in accordance with the Warrant Subscription Agreement
“Warrant Exercise Period”	the period of one (1) year commencing from the Warrant Issue Date
“Warrant Exercise Price”	an initial exercise price of HK\$0.157 per Warrant Share at which the holder of the Warrants may subscribe for the Warrant Shares, which shall be subject to adjustments arising from events such as share consolidation and subdivision, capitalisation issue, capital distribution, rights issue and issue of Shares or securities convertible into Shares at more than 10% discount to the Market Price
“Warrant Issue Date”	the date of issuance of the Warrants pursuant to the Warrant Subscription Agreement
“Warrant Long Stop Date”	31 December 2019 or such later date as the Individual and the Company may agree in writing
“Warrant Share(s)”	collectively, the Rui Er Warrant Shares and the Individual Warrant Shares
“Warrant Specific Mandate”	the specific mandate for the issuance and allotment of up to a maximum of 269,500,000 Warrant Shares, which is subject to the approval by the Independent Shareholders at the EGM
“Warrant Subscription Agreement”	the subscription agreement dated 31 July 2019 entered into between the Company and the Individual in relation to the issuance of the Warrants under Warrant Specific Mandate
“Warrant Subscription Price”	HK\$0.04, being the subscription price per Warrant
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

*The exchange rates adopted in this circular for illustration purpose only are US\$1 = HK\$7.80 and RMB1 = HK\$1.14. Such conversion should not be construed as a representation that the currency could actually be converted at that rate.*



森美（集團）控股有限公司  
**Summi (Group) Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 00756)**

**Directors**

*Executive Directors:*

Mr. Wu Shaohao (*Chairman*)  
Mr. Wu Liantao

*Independent non-executive Directors:*

Mr. Chen Ying  
Mr. Ma Chi Kin  
Mr. Kyaw Sai Hong

**Registered office:**

Clifton House, 75 Fort Street  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

**Principal place of business in Hong Kong:**

Room 1012, Block A  
Hung Hom Commercial Centre  
37 Ma Tau Wai Road  
Hung Hom, Hong Kong

10 December 2019

*To the Shareholders*

Dear Sirs or Madams,

**CONNECTED TRANSACTIONS IN RELATION TO  
(I) PROPOSED ISSUANCE OF BONDS;  
(II) PROPOSED ISSUANCE OF CONVERTIBLE BONDS  
UNDER CB SPECIFIC MANDATE;  
AND  
(III) PROPOSED ISSUANCE OF UNLISTED WARRANTS  
UNDER WARRANT SPECIFIC MANDATE**

**INTRODUCTION**

Reference is made to the Company's announcements dated 31 July 2019 and 1 November 2019 in relation to, among others, the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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As disclosed in the Company's annual report for the year ended 30 June 2019, as at 30 June 2019, the borrowings of the Group with an aggregate amount of RMB630.24 million were overdue and/or in breaching of the clauses of the respective loan agreements. Since then, the Company has been actively negotiating with the Bank Creditors for a finance reorganisation and exploring options of financing methods to fulfil its repayment obligations.

Considering the Outstanding Liabilities, and the need of working capital of the Company in the coming months, on 31 July 2019, (i) the Company and the Controlling Shareholder entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Controlling Shareholder conditionally agreed to subscribe for the Bonds, the Convertible Bonds and the Rui Er Warrants; and (ii) the Company and the Individual entered into the Warrant Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Individual conditionally agreed to subscribe for the Individual Warrants.

On 9 December 2019, the Company and certain Bank Creditors (i.e. the Reduction Creditors) entered into the Loan Settlement Agreement, pursuant to which, the Reduction Creditors agreed to reduce their respective amounts of Outstanding Liabilities payable by the Company to the Repayment Amount.

Pursuant to the Loan Settlement Agreement, the amounts to be repaid by the Company to the Reduction Creditors will be US\$20.49 million (equivalent to HK\$159.82 million) and the Loan Settlement Expenses of HK\$2.38 million. Among the aforesaid Repayment Amount, a non-refundable deposit of US\$1.50 million (equivalent to HK\$11.70 million), US\$15.58 million (equivalent to HK\$121.52 million) together with 50% of the Loan Settlement Expenses and US\$3.42 million (equivalent to HK\$26.68 million) together with 50% of the Loan Settlement Expenses shall be settled by the date of entering into of the Loan Settlement Agreement, the First Payment Date and the Second Payment Date respectively. Upon full settlement of the Repayment Amount, the Reduction Creditors shall fully discharge all of the Company's obligations and indebtedness in relation to their respective parts of Outstanding Liabilities, which amount to HK\$570.29 million.

Upon receipt of a deposit and a fund proof, the Reduction Creditors will not commence or continue with any legal proceedings against the Company. However, in the event that (i) the Company fails to fulfill its payment obligations under the Loan Settlement Agreement; or (ii) the Company become subject to any legal action or winding-up petition commenced by any person other than the Reduction Creditors, the Standstill will be terminated immediately.

As at the Latest Practicable Date, the Company is in the course of negotiating with the Rescheduling Creditors in relation to the Loan Extension, and a formal agreement is expected to be entered into by the end of December 2019. Upon entering into of the formal agreement in relation to the Loan Extension, the repayment schedule of the part of Outstanding Liabilities repayable to the Rescheduling Creditors shall be extended, and the repayment of the relevant outstanding principal amount and interest will be made within 60 calendar months, subject to the fulfilment of certain conditions precedent.

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## LETTER FROM THE BOARD

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Notwithstanding the foregoing, the Loan Extension is not a term of the Loan Settlement Agreement and a separate agreement will be entered to effect the Loan Extension.

The Independent Board Committee, comprising all of the independent non-executive Directors, has been established to advise and give recommendations to the Independent Shareholders, and Pelican Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) other information as required under the Listing Rules; and (v) the notice of the EGM.

### SUBSCRIPTION AGREEMENT

Principal terms of the Subscription Agreement are set out below.

- Date : 31 July 2019 (after trading hours)
- Parties : (i) the Company, being the issuer; and  
(ii) the Controlling Shareholder, as the subscriber

### Subject matter

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Controlling Shareholder conditionally agreed to subscribe for, (i) the Bonds at the principal amount of HK\$106 million; (ii) the Convertible Bonds at the principal amount of HK\$74 million; and (iii) 148,715,040 Rui Er Warrants at the Warrant Subscription Price of HK\$0.04 per Rui Er Warrant.

The aggregate consideration payable by the Controlling Shareholder shall be HK\$185.95 million, among which, the Bond Deposit of HK\$16.40 million shall be paid within three (3) days upon entering into of the Subscription Agreement; and the remaining balance of HK\$169.55 million for the subscription of the Bonds, the Convertible Bonds and the Rui Er Warrants shall be paid upon the Subscription Completion.

The aggregate consideration was determined after arm's length negotiations between the Company and the Controlling Shareholder with reference to (i) financial performance and financial positions of the Group; (ii) the Group's imminent capital needs under the proposed Debt Restructuring; and (iii) reasons for and benefits of the Proposed Fund Raising as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" below.

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## LETTER FROM THE BOARD

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### Principal terms of the Bonds

The principal terms of the Bonds are summarised as follows:

- Principal amount : HK\$106 million
- Maturity date : On the third (3rd) anniversary of the Bond Issue Date
- Interest rate : 2.28% per annum on outstanding amounts, equivalent to the 3-month HIBOR quoted on the date of the Subscription Agreement, payable quarterly in arrears
- Status : The obligations of the Company arising under the Bonds constitute, general unsecured and unsubordinated obligations of the Company and rank, and shall rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except for obligations accorded preference by mandatory provisions of applicable law.
- Transferability : The Bonds are not transferable.
- Redemption : *On Bonds Maturity Date*

Upon redemption on the Bonds Maturity Date, the Company shall redeem the Bonds at the redemption amount of 100% of the principal amount of the then outstanding Bonds plus the relevant accrued and unpaid interest.

#### *On Default*

Upon the occurrence of an Event of Default, the Controlling Shareholder may at any time from the Bond Issue Date and prior to the Bonds Maturity Date, by giving not less than 10 Business Days prior notice to the Company, request the Company to redeem the whole or part only of the Bonds at the redemption amount which is 100% of the principal amount of the Bonds being redeemed plus the relevant interest accrued and unpaid.

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## LETTER FROM THE BOARD

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### *Early redemption at the option of the Company*

The Company may, at any time from the Bond Issue Date and prior to the Bonds Maturity Date, by giving not less than 10 Business Days prior notice to the Controlling Shareholder, redeem the whole or part only of the Bonds at 100% of the principal amount of the Bonds being redeemed together with payment of interests accrued up to the date of such early redemption. For the avoidance of doubt, no early redemption may be requested by the Controlling Shareholder.

Voting rights : The Bonds shall not confer on the holder of the Bonds any right to receive notices of, attend or vote at any meeting of the Company.

### **Principal terms of the Convertible Bonds**

The principal terms of the Convertible Bonds are summarised as follows:

Principal amount : HK\$74 million

Conversion Price : HK\$0.187 per Conversion Share subject to adjustments arising from events such as share consolidation and subdivision, capitalisation issue, capital distribution, rights issue and issue of Shares or securities convertible into Shares at more than 20% discount to the market price (further details are set out in the section headed “the Conversion Shares and the Warrant Shares – Adjustment terms of the price of new Shares”)

Number of Conversion Shares to be issued : 395,721,925 Conversion Shares upon full conversion

Maturity date : On the third (3rd) anniversary of the CB Issue Date

Interest rate : 2.28% per annum on outstanding amounts, equivalent to the 3-month HIBOR quoted on the date of the Subscription Agreement, payable quarterly in arrears

Default interests : If the Company defaults in the payment of any sum due and payable under the Convertible Bonds, the Company shall pay interest to the accruing from the due date to date of actual payment in full calculated at 16% per annum accrued on a daily basis.

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## LETTER FROM THE BOARD

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Status : The obligations of the Company arising under the Convertible Bonds constitute, general unsecured and unsubordinated obligations of the Company and rank, and shall rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except for obligations accorded preference by mandatory provisions of applicable law.

Transferability : The Convertible Bonds are not transferable.

Conversion period : The Controlling Shareholder shall have the right to convert the whole or part of the outstanding principal amount of Convertible Bonds into Shares on any Business Day during the period commencing from the CB Issue Date and ending on the CB Maturity Date.

Redemption : *On CB Maturity Date*

Upon redemption on the CB Maturity Date, the Company shall redeem the Convertible Bonds at the redemption amount of 100% of the principal amount of the then outstanding Convertible Bonds plus the relevant accrued and unpaid interest.

*On Default*

Upon the occurrence of an Event of Default, the Controlling Shareholder may at any time from the CB Issue Date and prior to the CB Maturity Date, by giving not less than 10 Business Days prior notice to the Company, request the Company to redeem the whole or part only of the Convertible Bonds at the redemption amount which is 100% of the principal amount of the Convertible Bonds being redeemed plus the relevant interest accrued and unpaid.

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## LETTER FROM THE BOARD

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### *Early redemption at the option of the Company*

The Company may, at any time from the CB Issue Date and prior to the CB Maturity Date, by giving not less than 10 Business Days prior notice to the Controlling Shareholder, redeem the whole or part only of the Convertible Bonds at 100% of the principal amount of the Convertible Bonds being redeemed together with payment of interests accrued up to the date of such early redemption. For the avoidance of doubt, no early redemption may be requested by the Controlling Shareholder.

- Voting rights : The Convertible Bonds shall not confer on the holder of the Convertible Bonds any right to receive notices of, attend or vote at any meeting of the Company.
- Application for listing : No application for the listing of the Convertible Bonds will be sought from the Stock Exchange or any other stock exchange.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **Principal terms of the Rui Er Warrants**

The principal terms of the Rui Er Warrants are summarised as follows:

- Number of Warrants to be issued : 148,715,040 Rui Er Warrants
- Warrant Subscription Price : HK\$0.04 per Rui Er Warrant
- Warrant consideration : HK\$5.95 million
- Net issue price : HK\$0.0361 per Rui Er Warrant
- Subscription rights : Each Rui Er Warrant shall entitle the holder(s) of the Rui Er Warrant(s) to subscribe for one (1) Rui Er Warrant Share at the Warrant Exercise Price (subject to adjustments) on any Business Day during the Warrant Exercise Period.
- Warrant Exercise Period : The period of one (1) year commencing from the Warrant Issue Date

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## LETTER FROM THE BOARD

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- Warrant Exercise Price : HK\$0.157 per Warrant Share, subject to adjustments arising from events such as share consolidation and subdivision, capitalisation issue, capital distribution, rights issue and issue of Shares or securities convertible into Shares at more than 20% discount to the market price (further details are set out in the section headed “the Conversion Shares and the Warrant Shares – Adjustment terms of the price of new Shares”)
- Number of Warrant Shares to be issued : 148,715,040 Rui Er Warrants Shares (subject to adjustments) upon full exercising of the subscription rights attaching to the Rui Er Warrants.
- Status of the Rui Er Warrants : The obligations of the Company arising under the Rui Er Warrants constitute, general unsecured and unsubordinated obligations of the Company and rank, and shall rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except for obligations accorded preference by mandatory provisions of applicable law.
- Rights of the Rui Er Warrants : The Rui Er Warrants shall not confer on the holder(s) of the Rui Er Warrants any right to receive notices of, attend or vote at any meeting of the Company.
- The holders of the Rui Er Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.
- Rights of the Rui Er Warrant Shares: : The Rui Er Warrant Shares that fall to be issued upon exercising of the subscription rights attaching to the Rui Er Warrants will rank *pari passu* in all respects with the Shares in issue on the relevant date of registration of the name of the relevant holder(s) of the Rui Er Warrants on the register of members of the Company as holder of such Rui Er Warrant Shares.
- Rights on liquidation : If the Company is wound up before the Subscription Long Stop Date, all subscription rights which have not been exercised prior to the commencement of the winding-up shall lapse and the Controlling Shareholders Warrants will cease to be valid for the purpose of exercising any subscription right.

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## LETTER FROM THE BOARD

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Transferability : The Rui Er Warrants may be transferred or assigned in whole or in integral multiples of 1,000,000 Rui Er Warrants to any person subject to the Listing Rules for so long as the Shares are listed on the Stock Exchange, provided that the Rui Er Warrants (or any part(s) thereof) shall not be transferred or assigned to a connected person (as defined under the Listing Rules) of the Company without prior written consent of the Company.

Application for listing : No listing of the Rui Er Warrants will be sought on the Stock Exchange or any other stock exchanges.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Rui Er Warrant Shares.

### Conditions precedent

The Subscription Completion shall be conditional upon the fulfilment of the following conditions:

- (i) the Company having obtained approvals from the Stock Exchange for the issuance of the Bonds, the Convertible Bonds and the Rui Er Warrants;
- (ii) the Company having obtained approvals from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the Rui Er Warrant Shares which fall to be issued and allotted upon exercising of the subscription rights attached to the Convertible Bonds and the Rui Er Warrants respectively;
- (iii) all requisite resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder having been passed by the Independent Shareholders at the EGM;
- (iv) all necessary consents and approvals on the part of the Controlling Shareholder and the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect;
- (v) there having been no action, proceedings, suit, public investigation or public enquiry taken, instituted, enacted, made or publicly proposed by any relevant authority in any jurisdiction, and there having been no outstanding statute, regulation, demand or order that would make the transactions contemplated under the Subscription Agreement void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect of such transactions;

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## LETTER FROM THE BOARD

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- (vi) the Controlling Shareholder and its counsel and professional advisers having conducted legal, business and financial due diligence investigations against the Group, the results of which shall be satisfactory to the Controlling Shareholder in its sole and absolute discretion;
- (vii) the entering into of formal agreement(s) in relation to the Loan Settlement; and
- (viii) the completion of the Warrant Subscription Agreement and the transactions contemplated thereunder.

Conditions precedent (iv) to (viii) as set out above may be waived in writing by the Controlling Shareholder at its sole and absolute discretion. Save as aforesaid, none of the conditions precedent above is waivable. If any of the conditions precedent set out above are not fulfilled or waived at or before 3:00 p.m. (Hong Kong time) on the Subscription Long Stop Date, the Subscription Agreement shall lapse, and the Bond Deposit shall be returned to the Controlling Shareholder.

As at the Latest Practicable Date, conditions precedent (i), (iv), (vi) and (vii) have been fulfilled.

### **Subscription Completion**

The Company shall issue the Bonds, the Convertible Bonds and the Rui Er Warrants free and clear from all Encumbrances to the Controlling Shareholder, and the Controlling Shareholder shall subscribe for the Bonds, the Convertible Bonds and the Rui Er Warrants free and clear from all Encumbrances, at the principal amount of the Bonds, the principal amount of the Convertible Bonds and Warrant Subscription Price respectively, on or before the fifth (5th) Business Days following the date on which the conditions precedent to the Subscription Agreement are fulfilled.

The Subscription Completion and the Warrant Completion are inter-conditional.

### **THE WARRANT SUBSCRIPTION AGREEMENT**

- Date : 31 July 2019 (after trading hours)
- Parties : (i) the Company, being the issuer; and  
(ii) Ms. Hu, as the subscriber

### **Subject matter**

Pursuant to the Warrant Subscription Agreement, the Company conditionally agreed to issue, and the Individual conditionally agreed to subscribe for 120,784,960 Individual Warrants at the Warrant Subscription Price of HK\$0.04 per Individual Warrant.

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## LETTER FROM THE BOARD

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The aggregate consideration payable by the Individual shall be HK\$4.83 million. The aggregate consideration was determined after arm's length negotiations between the Company and the Individual with reference to (i) financial performance and financial positions of the Group; and (ii) reasons and benefits of the as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" below.

To the best information, belief and knowledge of the Directors, having made all reasonable enquiries, save as being an employee of the Company, Ms. Hu is an independent third party who is not connected person of the Company and is independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

### Principal terms of the Individual Warrants

The principal terms of the Individual Warrants are summarised as follows:

Number of Warrants to be issued	:	120,784,960 Individual Warrants
Warrant Subscription Price	:	HK\$0.04 per Individual Warrant
Warrant consideration	:	HK\$4.83 million
Net issue price	:	HK\$0.0361 per Individual Warrant
Subscription rights	:	Each Individual Warrant shall entitle the holder(s) of the Individual Warrant(s) to subscribe for one (1) Individual Warrant Share at the Warrant Exercise Price (subject to adjustments) on any Business Day during the Warrant Exercise Period.
Warrant Exercise Period	:	The period of one (1) year commencing from the Warrant Issue Date
Warrant Exercise Price	:	HK\$0.157 per Individual Warrant Share subject to adjustments arising from events such as share consolidation and subdivision, capitalisation issue, capital distribution, rights issue and issue of Shares or securities convertible into Shares at more than 20% discount to the market price (further details are set out in the section headed "the Conversion Shares and the Warrant Shares – Adjustment terms of the price of new Shares")

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## LETTER FROM THE BOARD

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- Number of Warrants Shares to be issued : 120,784,960 Individual Warrants Shares (subject to adjustments) upon full exercising of the subscription rights attaching to the Individual Warrants.
- Form and denomination : The Individual Warrants are issued in registered form in denominations of HK\$1,000,000 and integral multiples thereof.
- Status of the Individual Warrants : The obligations of the Company arising under the Individual Warrants constitute, general unsecured and unsubordinated obligations of the Company and rank, and shall rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except for obligations accorded preference by mandatory provisions of applicable law.
- Rights of the Individual Warrants : The Individual Warrants shall not confer on the holder(s) of the Individual Warrants any right to receive notices of, attend or vote at any meeting of the Company.
- The holder(s) of the Individual Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.
- Rights of the Individual Warrant Shares : The Individual Warrant Shares that fall to be issued upon exercising of the subscription rights attaching to the Individual Warrants will rank *pari passu* in all respects with the Shares in issue on the relevant date of registration of the name of the relevant holder(s) of the Individual Warrants on the register of members of the Company as holder of such Individual Warrant Shares.
- Rights on liquidation : If the Company is wound up before the Warrant Long Stop Date, all subscription rights which have not been exercised prior to the commencement of the winding-up shall lapse and the Individual Warrants will cease to be valid for the purpose of exercising any subscription right.

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## LETTER FROM THE BOARD

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Transferability : The Individual Warrants may be transferred or assigned in whole or in integral multiples of 1,000,000 Individual Warrants to any person subject to the Listing Rules for so long as the Shares are listed on the Stock Exchange, provided that the Individual Warrants (or any part(s) thereof) shall not be transferred or assigned to a connected person (as defined under the Listing Rules) of the Company without prior written consent of the Company.

Application for listing : No listing of the Individual Warrants will be sought on the Stock Exchange or any other stock exchanges.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Individual Warrant Shares.

### Conditions precedent

The Warrant Completion shall be conditional upon the fulfilment of the following conditions:

- (i) the Stock Exchange shall have approved the issuance of the Individual Warrants, either unconditionally or subject to conditions to which neither the Company nor the Individual shall reasonably object and the satisfaction of such conditions;
- (ii) the Stock Exchange shall have granted (either unconditionally or subject to conditions to which neither the Company nor the Individual shall reasonably object) the listing of, and permission to deal in, the Individual Warrant Shares which fall to be allotted and issued upon the exercise of the subscription rights attached to the Individual Warrants;
- (iii) the Shareholders shall have passed the requisite resolution(s) at the EGM approving the Warrant Subscription Agreement and the transactions contemplated thereunder;
- (iv) all necessary consents and approvals to be obtained on the part of the Individual and the Company in respect of the Warrant Subscription Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect;
- (v) no relevant authority in any jurisdiction having taken or instituted any action, proceedings, suit, public investigation or public enquiry, or enacted or made or publicly proposed, and there is no outstanding statute, regulation, demand or order that would make the transactions contemplated under the Warrant

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## LETTER FROM THE BOARD

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Subscription Agreement void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect of such transactions;

- (vi) the Individual and its counsel and professional advisers having conducted legal, business and financial due diligence investigations against the Group, the results of which shall be satisfactory to the Individual in its sole and absolute discretion;
- (vii) the entering into of formal agreement(s) in relation to the Loan Settlement; and
- (viii) the completion of transactions contemplated under the Subscription Agreement.

Conditions precedent (iv) to (viii) as set out above may be waived in writing by the Individual at its sole and absolute discretion at any time. If any of the conditions precedent set out above are not fulfilled or waived at or before 3:00 p.m. (Hong Kong time) on the Warrant Long Stop Date, the Warrant Subscription Agreement shall lapse.

As at the Latest Practicable Date, conditions precedent (i), (iv), (vi) and (vii) have been fulfilled.

### **Warrant Completion**

The Company shall issue the Individual Warrants free and clear from all Encumbrances to the Individual, and the Individual shall subscribe for the Individual Warrants free and clear from all Encumbrances, at the Warrant Subscription Price on or before the fifth (5th) Business Days following the date on which the conditions precedent to the Warrant Subscription Agreement are fulfilled.

The Subscription Completion and the Warrant Completion are inter-conditional.

## **INFORMATION ON THE GROUP, THE CONTROLLING SHAREHOLDER AND THE INDIVIDUAL**

### **The Group**

The Group is principally engaged in the production and sales of orange juice and related products.

### **Controlling Shareholder**

The Controlling Shareholder was incorporated in the British Virgin Islands with limited liability and is an investment holding company. It is wholly and beneficially owned by Mr. Wu, its sole director. As at the Latest Practicable Date, the Controlling Shareholder owns 765,444,145 Shares, representing 56.79% of the issued share capital of the Company.

Save as the Subscription Agreement and the employment contracts between the Company and Mr. Wu, as at the Latest Practicable Date, the Company has not entered or contemplated to enter into any other arrangements, agreements or understanding (whether formal or informal and whether express or implied) with the Controlling Shareholder.

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## LETTER FROM THE BOARD

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### **The Individual**

Ms. Hu Mingyue, graduated from Hong Kong Baptist University with a master degree of Social Sciences in Media Management in 2012. She joined Karl-Thomson Securities Company Limited in 2013 and has been appointed as a responsible officer to carry on Type 1 (dealing in securities) regulated activities under the SFO since 2017. She is also the executive vice president of its parent company, Hong Kong Finance Investment Holding Group Limited (stock code: 0007.HK). Ms. Hu did not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and other members of the Group or other major appointments and professional qualifications. As at the Latest Practicable Date, Ms. Hu does not hold any equity interest in the Company.

She has been appointed as the deputy chief executive officer of the Company on 2 January 2019 and is responsible for (i) the corporate finance activities of the Company (ii) assisting the Directors on overall management of the Company; and (iii) facilitating the establishment the Company's corporate structure in Hong Kong and in charge of administrative matters of the headquarter in Hong Kong. Further, she has been assisting Mr. Wu and actively participating in the formulation of the potential Debt Restructuring, in particular, (i) participating in the meetings with the Company's professional advisers to identify the possible solutions of fund raising exercises; (ii) liaising with the creditors in respect of the amount and schedule of repayment under the potential Debt Restructuring; (iii) making recommendation to the Directors in relation to the negotiations of the terms and conditions of the Debt Restructuring; and (iv) coordinating with the finance team in Hong Kong in liaising with the creditors.

Save as the Warrant Subscription Agreement and the employment contracts between the Company and the Individual, as at the Latest Practicable Date, the Company has not entered or contemplated to enter into any other arrangements, agreements or understanding (whether formal or informal and whether express or implied) with the Individual.

### **USE OF PROCEEDS AND REASONS FOR AND BENEFITS OF THE PROPOSED FUND RAISING**

#### **Reasons for and benefits of the Proposed Fund Raising**

The Group is currently facing severe financial condition. The Group recorded in its latest audited annual results a consolidated net loss of RMB2,383.67 million for the year ended 30 June 2019 and a consolidated net liabilities of RMB660.86 million as at 30 June 2019 as a result of the cessation of operation of the orange plantation. Further, the Bank Creditors demanded for immediate repayment of the Outstanding Liabilities, which causes acute liquidity pressure to the Company. Yet, the Group's cash and cash equivalent only amounted to RMB4.36 million as at 30 June 2019, which is insufficient to meet the Group's capital needs.

To improve the Group's financial condition, the Board has been actively negotiating with its creditors to formulate fund raising plans and the management of the Company has been proactively developing new business plans.

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## LETTER FROM THE BOARD

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Given the execution of the Loan Settlement Agreement by the Company, the Group puts forward the Proposed Fund Raising with the support of the Controlling Shareholder to facilitate the formulation of the Loan Settlement Agreement and meet the repayment obligations thereunder.

Set out below is a summary of the Outstanding Liabilities and the effect of the Loan Settlement and the Proposed Fund Raising:

	<b>Outstanding amount as at the Latest Practicable Date</b> <i>(approx. HK\$' mil)</i>	<b>Outstanding amount immediately after the Debt Restructuring</b> <i>(approx. HK\$' mil)</i>	<b>Outstanding amount upon completion of the Loan Settlement and the Proposed Fund Raising</b> <i>(approx. HK\$' mil)</i>
Loan Settlement	570	162	0
Loan Extension	209	209	209
<b>Total Outstanding Liabilities</b>	<b>779</b>	<b>371</b>	<b>209</b>

Under the Proposed Fund Raising, the issuance of the Bonds and the Convertible Bonds provides the Group with definite amount of capital, while the issuance of the Warrants provide the Group with certain flexibility in raising additional funds with pre-determined terms. Meanwhile, the Company is aware of the Controlling Shareholder's support to the Company through (i) low interest rate (2.28% per annum) attached to the Bonds and the Convertible Bonds; (ii) the early redemption provisions in the Bonds and the Convertible Bonds that enable the Group to substitute the Bonds and the Convertible Bonds with alternative financing with better terms at the Group's discretion; and (iii) the subscription of the Bonds and the Convertible Bonds despite the Group's deteriorating financial conditions. In view of such, the Company considers that the issuance of Rui Er Warrants is a way to recognise his prompt and continuing support to the Group.

Apart from these, the issuance of Warrants serves as an incentive for the subscribers' continuing support to the Group. Since the Controlling Shareholder acquired its stake in the Company in late 2018, the Individual has been assisting the Company and the Controlling Shareholders in various matters including the operating restructuring in the PRC and actively participating in the negotiations of the Debt Restructuring. The Directors consider that the Individual has demonstrated her support and commitment to the Company and her extensive knowledge and experience in the finance industry. The Directors consider that the Individual will continue to play a vital role in the Company, particularly in financing matters in the future and will help the Company to tide over the financial difficulties through, among others, (i) participating in the negotiations in respect of the Debt Restructuring; (ii) representing the Company in the negotiations in relation to the restructuring of debts owed to the other creditors; (iii) identifying additional fund raising exercises in the future if necessary; (iv) actively involved in the investigation relating

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## LETTER FROM THE BOARD

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to the orange plantation matters in the PRC; (v) engaging in the Group's operating restructuring in the PRC; and (vi) preparing and implementing the Group's business plan to recover the revenue. In view of such, the Company considers the subscription of the Warrants by the Individual, which requires her to contribute over HK\$4.8 million as subscription monies upfront, is a measure that not only recognises her prompt support and contribution in alleviating the imminent financial stress of the Company, but also effectively aligns the Company's financial interests with the Individual.

Apart from the fund proofs provided by the Controlling Shareholder, the Company also understands that the Individual has obtained a bank facility to finance the fund needed for exercising the Individual Warrants, and the Company has obtained the relevant facility letter issued by the lender. Given the contribution of funds by the Controlling Shareholder and the Individual, the financial interests of the Controlling Shareholder and the Individual are aligned with the Company and based on the fund proof provided by the Controlling Shareholder and the bank facility letter provided by the Individual, the Company believes that the Controlling Shareholders and the Individual have the financial ability to exercise the subscription rights attaching to the Warrants when the Company is in need of fund. Although it is the holders of the Warrants to decide when and whether to exercise the subscription rights attaching to the Warrants, the Controlling Shareholder and the Individual agree to (i) exercise such rights to provide funding to the Group (ii) make best efforts to ensure the transferee of the Warrants will exercise such rights to provide funding to the Group, as and when requested by the Group. Accordingly, the Company considers the issuance of Warrants will provide flexibility to the Company to raise additional funds to match with its capital requirements in the near future.

### **Use of proceeds**

Upon the Subscription Completion and the Warrant Completion (excluding the proceeds from the exercising of the Warrants), gross amount of HK\$190.78 million will be raised.

After excluding the expenses, the net proceeds are HK\$190.08 million.

The aforesaid net proceeds are intended to be applied as follows:

- (i) HK\$162.20 million from the Proposed Fund Raising to settle the Repayment Amount under the Loan Settlement Agreement which includes the amount of US\$20.49 million (equivalent to HK\$159.82 million) and the Loan Settlement Expenses of HK\$2.38 million;
- (ii) HK\$10.80 million from the Proposed Fund Raising to partially settle the outstanding interest payment owing to the other creditors, including but not limited to the Rescheduling Creditors;
- (iii) HK\$7 million from the Proposed Fund Raising to fund its operating restructuring in the PRC; and

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## LETTER FROM THE BOARD

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- (iv) HK\$10.08 million from the Proposed Fund Raising to fund the general working capital of the Company.

In addition to the above, the proceeds of HK\$42.31 million to be further raised from the exercising of the Warrants are intended to be applied to fund the general working capital of the Company.

The Company believes that the aforementioned proceeds will enable to the Group to improve its financial condition, including through the Loan Settlement, which is in the best interest of the Company and the Shareholders as a whole. Upon completion of the Loan Settlement and the Proposed Fund Raising, it is expected that (i) the Outstanding Liabilities will be reduced to HK\$209 million and hence the Company's indebtedness will be substantially reduced; (ii) the liquidity position of the Company will be significantly improved; (iii) the Company's interest burden will be alleviated; and (iv) the Company will record a gain on Debt Restructuring which would be the partial waiver on the Outstanding Liabilities.

### **Alternative financing plans considered**

In formulating the Proposed Fund Raising, the Directors have considered various financing alternative, including (i) new debt financing arrangement with financial institutions; (ii) placing of new debts and/or Shares; and (iii) pre-emptive offerings.

The Company considered refinancing its debt with other financial institutions. Yet, given the loss-making positions and the indebtedness level of the Group and the increasingly difficult business environment, the Company was unable to identify any financial institutions that are willing to provide funds that are sufficient to refinancing the Group's current borrowings with terms comparable to those of the Bonds and the Convertible Bonds.

The Company also explored with two independent agents on the possibility for (i) placing of Shares or debts with terms comparable to those of the Proposed Fund Raising or (ii) underwriting the Company's pre-emptive offerings. Yet, based on the Company's preliminary discussions with prospective financial intermediaries, the Company believes that it is unlikely to proceed with a placing of debts and/or Shares and pre-offerings before solving the Group's financial difficulties.

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## LETTER FROM THE BOARD

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In view of the above, the Company considers that issuance of the Bonds and the Convertible Bonds has merits over the alternative financing plans, including (i) the Company can raise definite amount of capital without uncertainty arising from under-subscription; (ii) the Company can raise the capital needed within a relative short timeframe; and (iii) the issuance of the Bonds and the Convertible Bonds under current terms saves the Company associated costs, especially underwriting commissions when comparing with placing of new debts and/or Shares and pre-emptive offerings.

Further, the Company also notes that the Bonds and the Convertible Bonds allow the Company to redeem the Bonds and the Convertible in whole or in part at the Company's discretion any time from the issue date to the maturity date. The Company is of the view that such provisions enable the Company to substitute the Bonds and the Convertible Bonds with alternative financing with better terms after the Group has solved its financial difficulties.

As such, the Company considers that raising funds by the issuance of Bonds and Convertible Bonds is more practicable in solving the imminent demand of the repayment amounts of the Company.

### **The Company's view on the Loan Settlement and the Proposed Fund Raising**

Notwithstanding the dilution in shareholding to be caused by the conversion of Convertible Bonds and exercising of Warrants, having considered (i) the Company is under severe financial difficulties; (ii) the Conversion Price of HK\$0.187 and the aggregate of Warrant Subscription Price and the Warrant Exercise Price of the Warrants of HK\$0.197 represent premiums to the market price of Shares; and (iii) the implementation of the Proposed Fund Raising will enhance the Company's net asset value per Share, the Directors (except the independent non-executive Directors) are of the view that the Loan Settlement and the Proposed Fund Raising are in the interest of the Company and its Shareholders as a whole.

The Bond, the Convertible Bond and the Warrants form part and partial of the Proposed Fund Raising as first proposed to the Company by the Controlling Shareholders and the Individual. The Proposed Fund Raising will not be able to complete if the either one of the Subscription Agreement and the Warrant Subscription Agreement is not approved. Each of the Bond, the Convertible Bond and the Warrants will not diminish the merit of the Proposed Fund Raising as discussed above.

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## LETTER FROM THE BOARD

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### **Business plans**

As disclosed in the Company's annual report for the year ended 30 June 2019, the Group was undergoing business reorganisation during the reporting period and the Group has been experiencing challenges in the operation of its major segments, namely (i) production and sale of Summi fresh orange juice and other product business (the "**Summi Products Business**") and (ii) production and sale of frozen concentrate orange juice ("**FCOJ**") and other related products business (the "**FCOJ Business**"). Notwithstanding the challenges faced by the Group, the Group intends to continue the operation of its existing five production plants in the PRC for the aforementioned segments, with no plan to downsize their scale of operation. Further, to cope with the challenges and continue its operation in the aforementioned segments, the Company implements the following business plans:

#### ***Summi Products Business***

The Summi Products Business segment had been making losses since its commencement in the financial year 2015. In order to maximise its competitive advantages while reserving financial resources, the Group decided to change from a retail product producer to an OEM factory which sells its fresh orange juice to the local distributors since 2019, such that the marketing and distribution costs can be shifted to the local distributors. Recently, the Group has signed sales contracts with 12 local distributors, 14 online sales platforms and 14 restaurant channels and has been actively negotiating with 8 local distributors in relation to the aforesaid arrangement. In addition, the Group is now under several negotiations with other beverage manufacturers for selling the fresh orange juice for their further processing.

As to the retail business, the Group has withdrawn most of its mass distribution in the PRC. Currently, the Group operates 3 major distributors in China, mainly located in Shanghai. The Group is about to conclude the negotiation and sign certain new long-term sales contracts of fresh orange juice within the PRC. Despite the change in its retail business in the PRC, the Group's participation in Hong Kong market remains active, with approximately 500 retail points in Hong Kong. Going forward, the Group intends to gradually rebuild the sales network in a much conservative and sustainable manner.

In addition, the Group has been developing a new product (the "**Second Brand Orange Juice**") with a lower production costs and longer shelf life. The Group has been developing the Second Brand Orange Juice by substantially reducing the cost of the raw material (i.e. oranges) used for squeezing. Currently, the Company has been in the negotiation with a Malaysia based local distributor for exporting the Second Brand Orange Juice to Myanmar and Malaysia.

The Group has been working with an organic fruit juice producer in Spain since early 2019 in developing a series of European organic fruit juice and importing these products to local retail markets. The products are at the final stage of development and sample tests have been performed by the local distributor in Hong Kong. It is expected that the products will be launched in the Hong Kong retail market in early 2020. The Group also plans to introduce the product into the PRC retail markets in 2021 to 2022.

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## LETTER FROM THE BOARD

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### *FCOJ Business*

One of the top food and beverage brands (the “**Largest Customer**”) has been purchasing FCOJ and FCOJ pulps from the Group since 2003 and remains as the largest customer of the Group in the current year. The Group’s sale contract with the Largest Customer will expire in December 2019. The Group has been actively negotiating with the Largest Customer for a new sales contract for the year 2020. In the meantime, the Group has signed sales contracts with 8 customers and has been exploring new customers and negotiating actively with 20 potential customers.

In addition, the Group has been developing new orange pulp products, with new packaging design. Instead of delivering the orange pulps as raw materials and packed in standard iron barrel, the Group plans to set up a new production line which produces the orange pulps packed in can, which can be readily consumed by retail customers. The new products will be used by food and beverage industry such as restaurants, fruit juice shops, cafes, and etc. The Group has already solicited certain potential customers and considered setting up the production line.

### **THE CONVERSION SHARES AND THE WARRANT SHARES**

#### **Number of the new Shares**

The 395,721,925 Conversion Shares to be issued and allotted at the Conversion Price of HK\$0.187 upon full conversion represent:

- (i) approximately 29.40% of the issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 22.70% of the issued share capital of the Company as enlarged by the issuance and allotment of the Conversion Shares upon full conversion of the Convertible Bonds (assuming there being no other changes in the issued share capital of the Company); and
- (iii) approximately 19.66% of the issued share capital of the Company as enlarged by the issuance and allotment of the Conversion Shares and the Warrant Shares upon full conversion of the Convertible Bonds and full exercising of the subscription rights attaching to the Warrants (assuming there being no other changes in the issued share capital of the Company).

The 148,715,040 Rui Er Warrants Shares to be issued and allotted (subject to adjustments) at the Warrant Exercise Price of HK\$0.157 upon full exercising of the subscription rights attaching to the Rui Er Warrants represent:

- (i) approximately 11.03% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 9.94% of the issued share capital of the Company as enlarged by the issuance and allotment of the Rui Er Warrant Shares upon full exercising of the subscription rights attaching to the Rui Er Warrants (assuming there being no other changes in the issued share capital of the Company); and

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## LETTER FROM THE BOARD

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- (iii) approximately 7.39% of the issued share capital of the Company as enlarged by the issuance and allotment of the Warrant Shares and Conversion Shares upon full exercising of the subscription rights attaching to the Warrants and full conversion of the Convertible Bonds (assuming there being no other changes in the issued share capital of the Company).

The 120,784,960 Individual Warrants Shares to be issued and allotted (subject to adjustments) at the Warrant Exercise Price of HK\$0.157 upon full exercising of the subscription rights attaching to the Individual Warrants represent:

- (i) approximately 8.96% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 8.22% of the issued share capital of the Company as enlarged by the issuance and allotment of the Individual Warrant Shares upon full exercising of the subscription rights attaching to the Individual Warrants (assuming there being no other changes in the issued share capital of the Company); and
- (iii) approximately 6.00% of the issued share capital of the Company as enlarged by the issuance and allotment of the Warrant Shares and Conversion Shares upon full exercising of the subscription rights attaching to the Warrants and full conversion of the Convertible Bonds (assuming there being no other changes in the issued share capital of the Company).

### Price of the new Shares

The Conversion Price of HK\$0.187 represents:

- (i) a premium of approximately 16.88% over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 18.35% over the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 14.72% over the average closing price of HK\$0.163 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 71.56% over the closing price of HK\$0.109 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As the Company recorded consolidated net liabilities as at 30 June 2019, the comparison of the Conversion Price with the net asset value of the Company is not applicable.

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## LETTER FROM THE BOARD

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The Conversion Price was determined after arm's length negotiations between the Company and the Controlling Shareholder with reference to (i) the Group's existing financial position, which recorded a consolidated net liabilities of RMB660.86 million as at 30 June 2019; (ii) the historical Share price, which indicated that the average Share price of HK\$0.182 for the period from 1 January 2019 to the Last Trading Day was lower than the Conversion Price and the Share price has been lower than the Conversion Price since mid of April 2019; (iii) liquidity of the Shares in the market that was relatively low, which would normally require the Company to offer a considerable discount to the market prices of the Shares in order to attract public investors to invest in the Shares in the open market; (iv) the current market sentiment that is relatively negative; and (v) the reasons and benefits as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" below. Accordingly, the Directors (excluding the independent non-executive Director) consider that the terms of the Convertible Bonds are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

The Warrant Exercise Price of HK\$0.157 represents:

- (i) a discount of approximately 1.88% to the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 0.63% to the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 3.68% to the average closing price of HK\$0.163 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 44.04% over the closing price of HK\$0.109 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The aggregate of the Warrant Subscription Price and the Warrant Exercise Price, i.e. HK\$0.197, represents:

- (i) a premium of approximately 23.13% over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 24.68% over the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 20.86% over the average closing price of HK\$0.163 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 80.73% over the closing price of HK\$0.109 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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## LETTER FROM THE BOARD

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As the Company recorded consolidated net liabilities as at 30 June 2019, the comparisons of (i) the Warrant Exercise Price; and (ii) the aggregate of the Warrant Subscription Price and the Warrant Exercise Price, with the net asset value of the Company are not applicable.

The Warrant Exercise Price and the aggregation of it with the Warrant Subscription Price were determined after arm's length negotiations between the Company and the Individual with reference to (i) the Group's existing financial position, which recorded a consolidated net liabilities of RMB660.86 million as at 30 June 2019; (ii) the historical Share price, the historical Share price, which indicated that the average Share price of HK\$0.182 for the period from 1 January 2019 to the Last Trading Day was lower than the aggregate of the Warrant Subscription Price and the Warrant Exercise Price and the Share price has been lower than the aggregate of the Warrant Subscription Price and the Warrant Exercise Price since mid of April 2019; (iii) liquidity of the Shares in the market that was relatively low, which would normally require the Company to offer a considerable discount to the market prices of the Shares in order to attract public investors to invest in the Shares in the open market; (iv) the number of Warrant Shares, which represents approximately 20% of the issued share capital of the Company as at the Latest Practicable Date, assuming full exercising of the subscription rights attaching to the Warrants; (v) the current market sentiment that is relatively negative; and (vi) the reasons and benefits as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" below.

The Company also made a preliminary assessment in relation to the fair value of the Warrants by using binomial option pricing model based on (i) the terms of the Warrants, in particular, the strike price of HK\$0.157 and the 1-year exercise period; (ii) the historical annualised stock price volatility of the Company of approximately 60% as calculated by using the closing prices of the Share as quoted on the Stock Exchange for the trading days within one year immediately prior to the Last Trading Day; (iii) the assumptions that the closing price of HK\$0.16 per Share is the fair value of Shares as at 31 July 2019. According to the preliminary assessment, the unit Warrant value was HK\$0.04 as at 31 July 2019.

The Company has also engaged the Independent Valuer to conduct a valuation on the Warrants (details of which are set out in Appendix I to this circular) and noted that the result of the aforesaid preliminary assessment is in line with the result of the valuation conducted by the Independent Valuer.

Accordingly, the Directors (excluding the independent non-executive Directors) consider that the terms of the Warrants are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Adjustment terms of the price of new Shares

#### *Adjustment terms of Conversion Price*

The Conversion Price shall be subject to adjustments arising from the following events:

*(i) Consolidation or subdivision*

If and whenever there shall be an alteration to the nominal amount of the Shares by reason of any consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior thereto by the following fraction:

$$\frac{A}{B}$$

where:

A = the nominal amount of one Share immediately after such alteration; and

B = the nominal amount of one Share immediately before such alteration.

Such adjustment shall be effective from the close of business on the Business Day immediately preceding the date on which the relevant consolidation or subdivision (as the case may be) becomes effective.

*(ii) Capitalisation of profits or reserves*

If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{C}{D}$$

where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall be effective from the commencement of the day next following the record date for such issue.

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## LETTER FROM THE BOARD

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*(iii) Capital distribution*

If and whenever the Company shall make any capital distribution to the Shareholders or shall grant to such Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such capital distribution or grant by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the Market Price of one Share on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) last day preceding the date of the capital distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the last preceding day, as determined in good faith by a licensed financial adviser for the time being, of the portion of the capital distribution or of such rights which is attributable to one Share.

Such adjustment shall be effective from the commencement of the day next following the record date for the relevant capital distribution or grant.

*(iv) Rights issues of Shares or options or Warrants over Shares*

If and whenever the Company shall offer to the Shareholders new Shares for subscription by way of rights, or shall grant to the Shareholders any options, warrants or other rights to subscribe for or purchase any Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H \times I/J}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered for subscription;

I = the amount (if any) payable for the rights, options or warrants or other rights to subscribe for each new Share, plus the subscription price payable for each new Share; and

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## LETTER FROM THE BOARD

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J = the Market Price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective from the commencement of the day next following the record date for the relevant offer or grant.

(v) *Issue of other securities*

- (a) If and whenever the Company or any other company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of subscription for new Shares, and the total effective consideration per new Share initially receivable for such securities is less than 80% of the Market Price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{K + L}{K + M}$$

where:

K = the number of Shares in issue immediately before the date of the issue of such securities;

L = the number of Shares which the total effective consideration receivable for such securities would purchase at such Market Price; and

M = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities, at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective from the close of business in Hong Kong on the last preceding Business Day whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

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## LETTER FROM THE BOARD

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- (b) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in sub-paragraph (a) above of this paragraph (v) are altered so that the total effective consideration per new Share initially receivable for such securities shall be less than 80% of the Market Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by following fraction:

$$\frac{N + O}{N + P}$$

where:

- N = the number of Shares in issue immediately before the date of such modification;
- O = the number of Shares which the total effective consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such Market Price; and
- P = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect.

*(vi) Shares issues for cash at less than Market Price*

If and whenever the Company shall issue wholly for cash any new Shares at a price per Share which is less than 80% of the Market Price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{Q + R}{Q + S}$$

where:

- Q = the number of Shares in issue immediately before the date of such announcement;
- R = the number of Shares which the aggregate amount payable for such issue would purchase at such Market Price; and

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## LETTER FROM THE BOARD

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S = the number of Shares allotted pursuant to such issue.

Such adjustment shall become effective on the date of the issue.

### *Adjustment terms of Warrant Exercise Price*

The Warrant Exercise Price shall be subject to adjustments arising from the following events:

#### *(i) Consolidation or Subdivision*

If and whenever there shall be an alteration to the nominal amount of the Shares by reason of any consolidation or subdivision, the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately prior thereto by the following fraction:

$$\frac{A}{B}$$

where:

A = the nominal amount of one Share immediately after such alteration; and

B = the nominal amount of one Share immediately before such alteration.

Such adjustment shall be effective from the close of business on the Business Day immediately preceding the date on which the relevant consolidation or subdivision (as the case may be) becomes effective.

#### *(ii) Capitalisation of profits or reserves*

If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately prior to such issue by the following fraction:

$$\frac{C}{D}$$

where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the issued Shares immediately after such issue.

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## LETTER FROM THE BOARD

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Such adjustment shall be effective from the commencement of the day next following the record date for such issue.

*(iii) Capital distribution*

If and whenever the Company shall make any capital distribution to the Shareholders or shall grant to such Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries, the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately prior to such capital distribution or grant by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the closing price per Share on the Stock Exchange on the dealing day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced; and

F = the amount calculated by dividing the fair market value on the day of such announcement or (as the case may require) the day immediately preceding the date on which the Share is traded before such capital distribution or, as the case may be, the grant, as determined in good faith by either an approved merchant bank or the auditors (at the option of the Company), of such capital distribution or of such rights by the number of Shares participating in such capital distribution or, as the case may be, in the grant of such rights.

Such adjustment shall be effective from the commencement of the day next following the record date for the relevant capital distribution or grant.

*(iv) Rights issues of Shares or options or Warrants over Shares*

If and whenever the Company shall offer to the Shareholders new Shares for subscription by way of rights, or shall grant to the Shareholders any options or warrants to subscribe for new Shares, at a price per new Share which is less than 90% of the Market Price at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the Shareholders or other persons), the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

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## LETTER FROM THE BOARD

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where:

- G = the number of Shares in issue immediately before the date of such announcement;
- H = the number of Shares which the aggregate of the two following amounts would purchase at such Market Price:
- (a) the total amount (if any) payable for the rights, options or warrants being offered or granted; and
  - (b) the total amount payable for all of the new Shares being offered for subscription or comprised in the options or warrants being granted; and
- I = the aggregate number of Shares being offered for subscription or comprised in the options or warrants being granted.

Such adjustment shall become effective from the commencement of the day next following the record date for the relevant offer or grant.

*(v) Issue of other securities*

- (a) If and whenever the Company or any other company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of subscription for new Shares, and the total effective consideration per new Share initially receivable for such securities is less than 90% of the Market Price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the Shareholders or other persons), the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately prior to such issue by the following fraction:

$$\frac{J + K}{J + L}$$

where:

- J = the number of Shares in issue immediately before the date of the issue of such securities;
- K = the number of Shares which the total effective consideration receivable for such securities would purchase at such Market Price; and
- L = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or subscription price.

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## LETTER FROM THE BOARD

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Such adjustment shall become effective from the relevant security issue date.

- (b) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in sub-paragraph (a) above of this paragraph (v) are altered so that the total effective consideration per new Share initially receivable for such securities shall be less than 90% of the Market Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately prior to such modification by following fraction:

$$\frac{M + N}{M + O}$$

where:

M = the number of Shares in issue immediately before the date of such modification;

N = the number of Shares which the total Effective Consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such Market Price; and

O = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect.

*(vi) Shares issues for cash at less than Market Price*

If and whenever the Company shall issue wholly for cash any new Shares at a price per Share which is less than 90% of the Market Price at the date of the announcement of the terms of such issue, the Warrant Exercise Price shall be adjusted by multiplying the Warrant Exercise Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{P + Q}{P + R}$$

where:

P = the number of Shares in issue immediately before the date of such announcement;

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## LETTER FROM THE BOARD

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Q = the number of Shares which the aggregate amount payable for such issue would purchase at such Market Price; and

R = the number of Shares allotted pursuant to such issue.

Such adjustment shall become effective on the date of the issue.

### EFFECT OF THE SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has a total of 1,347,860,727 Shares in issue. For illustration purposes only and assuming that there will be no further changes in the issued share capital of the Company prior to such conversion of Convertible Bonds or exercising of Warrants and no adjustment to the Conversion Price and the Warrant Exercise Price, the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately upon conversion of the Convertible Bonds in full; and (iii) immediately upon conversion of the Convertible Bonds and exercising of the subscription rights attaching to the Warrants in full, are as follows:

	As at the Latest Practicable Date		Immediately after the exercising of the Warrants in full (prior to the conversion of Convertible Bonds)		Immediately after the conversion of the Convertible Bonds in full (prior to the exercising of the Warrants)		Immediately after the conversion of the Convertible Bonds and exercising the Warrants in full	
	<i>Approximate percentage of total issued</i>		<i>Approximate percentage of total issued</i>		<i>Approximate percentage of total issued</i>		<i>Approximate percentage of total issued</i>	
	<i>No. of Shares</i>	<i>Shares</i>	<i>No. of Shares</i>	<i>Shares</i>	<i>No. of Shares</i>	<i>Shares</i>	<i>No. of Shares</i>	<i>Shares</i>
<b>Substantial Shareholders</b>	<i>(Shares)</i>	<i>(%)</i>	<i>(Shares)</i>	<i>(%)</i>	<i>(Shares)</i>	<i>(%)</i>	<i>(Shares)</i>	<i>(%)</i>
Mr. WU, Shaohao ( <i>Note 1</i> )	765,444,145	56.8	914,159,185	56.52	1,161,166,070	66.6	1,309,881,110	65.1
The Individual	—	—	120,784,960	7.47	—	—	120,784,960	6.0
CITIC Securities Company Limited ( <i>Note 2</i> )	68,915,200	5.1	68,915,200	4.26	68,915,200	3.9	68,915,200	3.4
Public Shareholders	513,501,382	38.1	513,501,382	31.75	513,501,382	29.5	513,501,382	25.5
<b>Total</b>	<u>1,347,860,727</u>	<u>100.0</u>	<u>1,617,360,727</u>	<u>100.00</u>	<u>1,743,582,652</u>	<u>100.0</u>	<u>2,013,082,652</u>	<u>100.0</u>

*Notes:*

- Mr. Wu Shaohao, an executive Director, is deemed (by virtue of the SFO) to be interested in 765,444,145 Shares held by the Controlling Shareholder, which is owned as to 100% by him.
- CITIC Securities Company Limited is deemed (by virtue of the SFO) to be interested in 68,915,200 Shares held by CSI Capital Management Limited, being its wholly-owned subsidiary.

### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### ACQUISITIONS, DISPOSALS OR OTHER MATTERS

As at the Latest Practicable Date, the Directors are not aware of any contemplated acquisitions, disposals or other matters during the Warrant Exercise Period that may have a material impact on the Company.

### IMPLICATIONS UNDER THE LISTING RULES

Rui Er Holdings Company Limited, being the controlling shareholder of the Company, is a connected person of the Company. As such, the Subscription Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

Pursuant to Rule 15.02(1) of Listing Rules, the Warrant Shares to be issued on exercise of the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Warrants are issued. Options granted under share option schemes which comply with Chapter 17 of the Listing Rules are excluded for the purpose of such limit. As at the Latest Practicable Date, the Company does not have any securities with subscription rights outstanding and not yet exercised. Assuming full exercising of the subscription rights attaching to the Warrants, the maximum number of Warrant Shares to be issued is 269,500,000 Shares, representing approximately 20.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 13.4% of the issued share capital of the Company as enlarged by the Conversion Shares and the Warrant Shares. Accordingly, the issue of Warrants is in compliance with Rule 15.02(1).

### EGM

The EGM will be convened and held to consider and, if thought fit, pass the requisite resolution(s) to approve, among other things, the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Bonds; (ii) the issuance of the Convertible Bonds; (iii) the issuance of the Warrants; and (iv) the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares.

The Controlling Shareholder, Mr. Wu (being the sole owner of the Controlling Shareholder) and their associates will abstain from voting at the EGM. Save as aforesaid, to the best knowledge of the Directors, none of the Directors and Shareholders has a material interest in the transactions contemplated under the Subscription Agreement and the Warrant Subscription Agreement, and no other Shareholders will be required to abstain from voting on the resolution to approve the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder at the EGM.

The notice convening the EGM of the Company to be held at 3:30 p.m., on Friday, 27 December 2019, at Room 3E, No. 355, Zhangye Road, Jiading District, Shanghai, China is set out on pages EGM-1 to EGM-3 of this circular.

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## LETTER FROM THE BOARD

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A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to read the notice of EGM and complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meetings should you so wish.

### RECOMMENDATIONS

The Directors (including the independent non-executive Directors, whose view has been included in the section headed "Letter from the Independent Board Committee" in this circular) consider the terms of the Subscription Agreement and the Warrant Subscription Agreement, and the transactions contemplated thereunder are fair and reasonable, and the Proposed Fund Raising is on normal commercial terms and is in the interests of the Company and the Independent Shareholders as a whole, despite the entering into of the Subscription Agreement and the Warrant Subscription Agreement not being in the ordinary and usual course of business of the Company. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to the granting of the Specific Mandate for the issuance and allotment of the Conversion Shares and the Warrant Shares.

### ADDITIONAL INFORMATION

The Independent Board Committee, comprising all of the independent non-executive Directors, has been established to advise and give recommendations to the Independent Shareholders, and Pelican Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder.

Accordingly, your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 42 to 43 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser set out on pages 44 to 80 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholder; and (iii) the general information set out in the Appendix to this circular.

By Order of the Board  
**Summi (Group) Holdings Limited**  
**Lee Kwok Lun**  
*Company Secretary*



森美（集團）控股有限公司  
**Summi (Group) Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 00756)**

10 December 2019

*To the Independent Shareholders:*

Dear Sirs or Madams,

**CONNECTED TRANSACTIONS IN RELATION TO  
(I) PROPOSED ISSUANCE OF BONDS;  
(II) PROPOSED ISSUANCE OF CONVERTIBLE BONDS  
UNDER CB SPECIFIC MANDATE;  
AND  
(III) PROPOSED ISSUANCE OF UNLISTED WARRANTS  
UNDER WARRANT SPECIFIC MANDATE**

We refer to the circular dated 10 December 2019 (the “**Circular**”) issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on the fairness and the reasonableness of the terms of the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Bonds; (ii) the issuance of the Convertible Bonds; (iii) the issuance of the Warrants; and (iv) the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares. Pelican Financial has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the letter from the Board set out on pages 7 to 41 of the Circular; (ii) the letter from the Independent Financial Adviser as set out on pages 44 to 80 of the Circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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thereunder, as well as the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation; and (iii) the additional information as set out in the Appendix II to the Circular.

After taking account of the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that the terms of the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Bonds; (ii) the issuance of the Convertible Bonds; (iii) the issuance of the Warrants; and (iv) the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares, are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interest of the Company and the Independent Shareholders as a whole, despite the entering into of the Subscription Agreement and the Warrant Subscription Agreement not being in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Bonds; (ii) the issuance of the Convertible Bonds; (iii) the issuance of the Warrants; and (iv) the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares, at the EGM.

Yours faithfully

For and on behalf of the

**Independent Board Committee**

**Mr. CHEN Ying**

**Mr. MA Chi Kin**

**Mr. KYAW Sai Hong**

*Independent non-executive Directors*



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**PELICAN FINANCIAL LIMITED**

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15/F, East Exchange Tower, 38-40 Leighton Road, Causeway Bay, Hong Kong

10 December 2019

*To the Independent Board Committee and the Independent Shareholders of  
Summi (Group) Holdings Limited*

Dear Sirs,

**CONNECTED TRANSACTIONS IN RELATION TO  
(I) PROPOSED ISSUANCE OF BONDS;  
(II) PROPOSED ISSUANCE OF CONVERTIBLE BONDS  
UNDER CB SPECIFIC MANDATE;  
AND  
(III) PROPOSED ISSUANCE OF UNLISTED WARRANTS  
UNDER WARRANT SPECIFIC MANDATE**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Bonds; (ii) the issuance of the Convertible Bonds; (iii) the issuance of the Warrants; and (iv) the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 10 December 2019 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As disclosed in the Company’s audited consolidated annual results for the year ended 30 June 2019 (the “**2019 Annual Report**”), as at 30 June 2019, the borrowings of the Group with an aggregate amount of RMB630.24 million were overdue and/or in breaching of the clauses of the respective loan agreements. Since then, the Company has been actively negotiating with the Bank Creditors for a finance reorganisation and exploring options of financing methods to fulfil its repayment obligations.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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With reference to the reasons set out in the Board Letter, considering the Outstanding Liabilities, and the need of working capital of the Company in the coming months, on 31 July 2019, (i) the Company and the Controlling Shareholder entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Controlling Shareholder conditionally agreed to subscribe for the Bonds, the Convertible Bonds and the Rui Er Warrants; and (ii) the Company and the Individual entered into the Warrant Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Individual conditionally agreed to subscribe for the Individual Warrants.

Rui Er Holdings Company Limited, being the controlling shareholder of the Company, is a connected person of the Company. As such, the Subscription Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

Meanwhile, on 9 December 2019, the Company and certain Bank Creditors (i.e. the Reduction Creditors) entered into the Loan Settlement Agreement, pursuant to which, the Reduction Creditors agreed to reduce their respective amounts of Outstanding Liabilities payable by the Company to the Repayment Amount.

Pursuant to the Loan Settlement Agreement, the amounts to be repaid by the Company to the Reduction Creditors will be US\$20.5 million (equivalent to approximately HK\$159.8 million) and the Loan Settlement Expenses of HK\$2.4 million. Among the aforesaid Repayment Amount, a non-refundable deposit of US\$1.5 million (equivalent to HK\$11.7 million), US\$15.6 million (equivalent to HK\$121.5 million) together with 50% of the Loan Settlement Expense and US\$3.4 million (equivalent to HK\$26.7 million) together with 50% of the Loan Settlement Expense shall be settled by the date of entering into of the Loan Settlement Agreement, the First Payment Date and the Second Payment Date respectively. Upon full settlement of the Repayment Amount, the Reduction Creditors shall fully discharge all of the Company's obligations and indebtedness in relation to their respective parts of Outstanding Liabilities, which amount to HK\$570.3 million.

On the other hand, as at the Latest Practicable Date, the Company is in the course of negotiating with the Rescheduling Creditors in relation to the Loan Extension, and a formal agreement is expected to be entered into by the end of December 2019. Upon the entering into of the formal agreement in relation to the Loan Extension, the repayment schedule for the part of the Outstanding Liabilities payable by the Company to the Rescheduling Creditors shall be extended, and the repayment of the relevant outstanding principal amount and interests shall be made within 60 calendar months, subject to the fulfilment of certain conditions precedent. Notwithstanding the foregoing, the Loan Extension is not a term of the Loan Settlement Agreement and a separate agreement will be entered to effect the Loan Extension.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Board currently comprises two executive Directors and three independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, Mr. Chen Ying, Mr. Ma Chi Kin and Mr. Kyaw Sai Hong, has been established to advise the Independent Shareholders as to the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

We are not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates and also there is no relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence to act as independent financial adviser to the Company and therefore we considered that we are suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. In the last two years, other than our role as the independent financial adviser to the Company in respect of the conditional mandatory cash offers as disclosed in the Company's circular dated 30 November 2018, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive or substantial shareholders of the Company or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Subscription Agreement and the Warrant Subscription Agreement, and the transactions contemplated thereunder are fair and reasonable, and the Proposed Fund Raising is on normal commercial terms and is in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to the granting of the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions. Our procedures include, among other things, review of relevant agreements, documents as well as information provided by the Company and verification of such information, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Subscription Agreement, the Warrant Subscription Agreement, the Loan Settlement Agreement, the 2019 Annual Report, the unaudited consolidated interim results for the six months ended 31 December 2018 (the “**2018 Interim Report**”), the valuation report of the Warrants prepared by the Independent Valuer and the said valuation report (the “**Valuation Report**”) and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**PRINCIPAL FACTORS TAKEN INTO CONSIDERATION**

In formulating our opinion in respect of the terms of the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

**1. Background information of the Group, the Controlling Shareholder and the Individual**

**(a) The Group**

The Group is principally engaged in the production and sales of orange juice and related products.

Set out below is a summary of the financial information of the Group for the two financial years ended 30 June 2019 as extracted from the 2019 Annual Report and for the six months ended 31 December 2018 and 31 December 2017 respectively as extracted from the 2018 Interim Report.

	<b>For the six months ended 31 December</b>		<b>For the financial year ended 30 June</b>	
	<b>2018</b>	<b>2017</b>	<b>2019</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited and restated)</i>
<i>Revenue by product</i>				
— Frozen concentrated orange juice (“FCOJ”) and related products	18,351	153,691	27,376	361,461
— Summi products and other products	5,612	76,381	29,725	186,252
— Plantation and sale of agricultural produce	—	86,165	—	—
<b>Total Revenue</b>	<b>23,963</b>	<b>316,237</b>	<b>57,101</b>	<b>547,713</b>
<b>Gross (loss) profit</b>	<b>1,366</b>	<b>115,650</b>	<b>(19,700)</b>	<b>229,778</b>
<b>(Loss) profit for the period/year</b>	<b>(97,500)</b>	<b>47,197</b>	<b>(2,383,670)</b>	<b>11,562</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the 2018 Interim Report, for the six months ended 31 December 2018, as a result of the Group's business restructuring and the significant change in its management, the Group's performance had been negatively impacted and the revenue of all three business segment recorded a significant decline. In addition, as some fruit trees and soil in the Group's plantations were experiencing health problems and malnutrition, the Group had devoted a large amount of capital to maintain the output of the plantations for the six months ended 31 December 2018. As a result, the unaudited total revenue of the Group for the six months ended 31 December 2018 amounted to approximately RMB24.0 million (equivalently to approximately HK\$27.3 million), representing a drop of about 92% compared to the same period in 2017. Meanwhile, the Group's unaudited net loss for the same period was approximately RMB97.5 million (equivalently to approximately HK\$111.2 million), turning profit into loss compared to the same period in 2017. In order to repair its business, the management of the Group had been negotiating with various stakeholders, but the Group expected its business would remain at a low level for some time. Looking forward, the Group hopes to regain customers' confidence and regain its financial position through the quality of Summi products.

Total revenue of the Group for the financial year ended 30 June 2019 amounted to approximately RMB57.1 million (equivalently to approximately HK\$65.1 million), representing a drop of close to 90% compared to the financial year ended 30 June 2018, which was attributed to the significant drop in the sale of FCOJ and related products as well as Summi products and other products. According to the 2019 Annual Report, for the financial year ended 30 June 2019, while the sale of FCOJ and related products had dropped significantly as the Group lost certain major customers because of the change of its management, the revenue of Summi Products had also reduced substantially as the Group changed its sales strategy, dismissed its former sales team and withdrew from most supermarkets in China. As stated in the 2019 Annual Report, the Company has changed its sales strategy to limiting itself as a producer and not to spend unnecessary resources to promote Summi Products, and has been soliciting local distributors in different regions in China so that they will be responsible for the promotion of Summi Products. For the financial year ended 30 June 2019, the Group recorded a loss for the year of approximately RMB2.4 billion (equivalently to approximately HK\$2.7 billion) as compared to a profit of approximately RMB11.6 million (equivalently to approximately HK\$13.2 million) for the financial year ended 30 June 2018, mainly as a result of the loss from the discontinued plantation and sale of agricultural produce business. For details on the changes in the Group's sales strategy, please refer to the sub-section headed "Business plans" under the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" of the Board Letter.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The consolidated assets and liabilities of the Group as at 30 June 2019 as extracted from the 2019 Annual Report, are summarized as follows:

	<b>As at 30 June 2019 RMB'000</b>
Total assets	
— non-current assets	173,419
— current assets	61,134
Total liabilities	
— non-current liabilities	(2,430)
— current liabilities	(892,987)
<b>Net current liabilities</b>	<b>(831,853)</b>
<b>Net liabilities</b>	<b>(660,864)</b>
<b>Deficiency of equity attributable to owners of the Company</b>	<b>(660,864)</b>

As at 30 June 2019, the consolidated non-current assets of the Group amounted to approximately RMB173.4 million (equivalently to approximately HK\$197.7 million), of which approximately RMB152.0 million (equivalently to approximately HK\$173.3 million) was property, plant and equipment and approximately RMB21.4 million (equivalently to approximately HK\$24.4 million) were land use rights. The current assets of the Group amounted to approximately RMB61.1 million (equivalently to approximately HK\$69.7 million), of which approximately RMB26.5 million (equivalently to approximately HK\$30.2 million) were trade and other receivables, RMB22.0 million (equivalently to approximately HK\$25.1 million) were inventories, and the remaining balance of approximately RMB12.6 million (equivalently to approximately HK\$14.4 million) were pledged bank deposits and cash and cash equivalents.

The consolidated non-current liabilities of the Group amounted to approximately RMB2.4 million (equivalently to approximately HK\$2.7 million), which were comprised of deferred tax liabilities of approximately RMB1.3 million (equivalently to approximately HK\$1.5 million) and deferred income of approximately RMB1.2 million (equivalently to approximately HK\$1.4 million). The current liabilities of the Group amounted to approximately RMB893.0 million (equivalently to approximately HK\$1018.0 million), of which approximately RMB767.9 million (equivalently to approximately HK\$875.4 million) were borrowings, approximately RMB86.1 million (equivalently to approximately HK\$98.2 million) were trade and other payables and the remaining balance of approximately RMB38.9 million (equivalently to approximately HK\$44.3 million) were corporate bonds.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 30 June 2019, the consolidated net current liabilities and net liabilities of the Group were approximately RMB831.9 million (equivalently to approximately HK\$948.4 million) and RMB660.9 million (equivalently to approximately HK\$753.4 million) respectively. The current ratio, which is calculated as current assets over current liabilities, was approximately 0.07 as at 30 June 2019.

The Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

***(b) The Controlling Shareholder and the Individual***

The Controlling Shareholder was incorporated in the British Virgin Islands with limited liability and is an investment holding company. It is wholly and beneficially owned by Mr. Wu, its sole director. As at the Latest Practicable Date, the Controlling Shareholder owns 765,444,145 Shares, representing 56.79% of the issued share capital of the Company.

The Individual, Ms. Hu Mingyue, is the deputy chief executive officer of the Company. As at the Latest Practicable Date, Ms. Hu does not hold any equity interest in the Company.

For detailed biography of the Individual, Ms. Hu Mingyue, please refer to the section headed “The Individual” in the Board Letter.

## **2. Use of proceeds and reasons for and benefits of the Proposed Fund Raising**

As set out in the section headed “Use of proceeds and reasons for and benefits of the Proposed Fund Raising” in the Board Letter, upon the Subscription Completion and the Warrant Completion (excluding the proceeds from the exercising of the Warrants), a gross amount of HK\$190.8 million will be raised. After excluding the expenses, the net proceeds are HK\$190.1 million.

The aforesaid net proceeds are intended to be applied as follows:

- (i) HK\$162.2 million from the Proposed Fund Raising to settle the Repayment Amount under the Loan Settlement Agreement which includes the amount of US\$20.5 million (equivalent to HK\$159.8 million) and the Loan Settlement Expenses of HK\$2.4 million;
- (ii) HK\$10.8 million from the Proposed Fund Raising to partially settle the outstanding interest payment owing to the other creditors, including but not limited to the Rescheduling Creditors; and
- (iii) HK\$7.0 million from the Proposed Fund Raising to fund its operating restructuring in the PRC; and
- (iv) HK\$10.1 million from the Proposed Fund Raising to fund the general working capital of the Company.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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In addition to the above, the proceeds of HK\$42.3 million to be further raised from the exercising of the Warrants are intended to be applied to fund the general working capital of the Company.

Both the Subscription Completion and the Warrant Completion are conditional upon the entering into of the formal agreement(s) in relation to the Debt Restructuring. In the event that the Loan Settlement Agreement is not executed, both the Subscription Agreement and the Warrant Subscription Agreement will lapse, and the Bond Deposit shall be returned to the Controlling Shareholder.

For the purpose of analysing the reasons for and benefits of the entering into the Subscription Agreement and the Warrant Subscription Agreement, we have further investigated the use of the relevant proceeds as follows.

Regarding the use of proceeds from the Proposed Fund Raising of HK\$162.2 million to settle the Repayment Amount under the Loan Settlement Agreement and the Loan Settlement Expenses which amount to US\$20.5 million (equivalent to HK\$159.8 million) and HK\$2.4 million respectively, we have further enquired with the Company and noted that the Repayment Amount shall be split into three payment tranches on (i) the date of the entering into of the Loan Settlement Agreement; (ii) the First Payment Date; and (iii) the Second Payment Date respectively. Upon full settlement of the Repayment Amount, the Reduction Creditors shall fully discharge all of the Company's obligations and indebtedness in relation to their respective parts of Outstanding Liabilities, which amount to HK\$570.3 million.

Set out below is a summary of the Outstanding Liabilities and the effect of the Loan Settlement and the Proposed Fund Raising:

	<b>Outstanding amount as at the Latest Practicable Date</b> <i>(approx. HK\$ million)</i>	<b>Outstanding amount immediately after the Debt Restructuring</b> <i>(approx. HK\$ million)</i>	<b>Outstanding amount upon completion of the Loan Settlement and the Proposed Fund Raising</b> <i>(approx. HK\$ million)</i>
Loan Settlement	570	162	0
Loan Extension	<u>209</u>	<u>209</u>	<u>209</u>
<b>Total Outstanding Liabilities</b>	<u><u>779</u></u>	<u><u>371</u></u>	<u><u>209</u></u>

Upon receipt of a deposit and a fund proof, the Reduction Creditors will not commence or continue with any legal proceedings against the Company. However, in the event that (i) the Company fails to fulfill its payment obligations under the Loan Settlement Agreement; or (ii) the Company become subject to any legal action or winding up petition commenced by any person other than the Reduction Creditors, the Standstill will be terminated immediately.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have reviewed the Loan Settlement Agreement and confirmed the payment dates for the Repayment Amount are in the near future. Meanwhile, according to the Group's 2019 Annual Report, as a result of the substantial reduction of revenue due to the Group's operating restructuring and change in sales strategies in the PRC, the Group recorded a consolidated net loss of approximately RMB2.4 billion (equivalent to approximately HK\$2.7 billion) for the year ended 30 June 2019 and cash and cash equivalents and pledged bank deposits of only about RMB12.6 million (equivalent to approximately HK\$14.4 million) as at 31 December 2018, which is insufficient for the Group to satisfy its payment obligations, let alone its general working capital needs. Given the above considerations, we consider that the Group would need to raise capital within a relatively short timeframe.

As for the use of proceeds from the Proposed Fund Raising of HK\$10.8 million to partially settle the outstanding interest payment owing to the other creditors, including but not limited to the Rescheduling Creditors, we noted that the consolidated amount of finance costs of the Group for the year ended 30 June 2019 was approximately RMB67.5 million (equivalent to approximately HK\$77.0 million), and we are of the view that even after the settlement of the Repayment Amount, which will lower the financial costs of the Group, there will still be a need of fund for the Group to settle, including but not limited to, its interest payments for its outstanding borrowings and the interest payments to be incurred upon the issuance of Bonds and Convertible Bonds. Given the latest bank balances and cash position of the Group, we are of the view that the Group would need to raise additional funds to settle the relevant interest payment.

We also understand from the Company that, as a result of the change in major shareholders and management of the Company, the Group has recorded a substantial revenue reduction due to the loss of certain major customers and change in its sales strategies for the year ended 30 June 2019, and that the Company has been soliciting for new customers and exploring overseas markets to support the sustainable development of the principle business of the Group. We understand that the operating restructuring in the PRC would continue to incur costs including but not limited to the costs for hiring legal advisors and other experts as well as resources to promote the Group. On the other hand, according to the 2019 Annual Report, the consolidated amount of net current liabilities of the Group was approximately RMB831.9 million (equivalent to approximately HK\$948.4 million) as at 30 June 2019, meaning the Group had negative working capital despite its imminent capital needs under the proposed Debt Restructuring as well as for its operation. Considering the above, we are of the view that it is reasonable and necessary for the Group to apply the proceeds from the Proposed Fund Raising of HK\$17.1 million to fund its operating restructuring in the PRC and general working capital of the Company.

In respect of whether the Controlling Shareholder and the Individual would have financial ability to settle the consideration upon the exercise of the subscription rights attached to the Warrants, we have enquired the Company and noted that apart from the fund proofs provided by the Controlling Shareholder, the Company also understands that the Individual has obtained a bank facility to finance the fund needed for exercising the Individual Warrants, and the Company has obtained the relevant facility letter issued by the lender. Given the contribution of funds by the Controlling Shareholder and the Individual, the financial interests of the Controlling Shareholder and the Individual are aligned with

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the Company and based on the fund proof provided by the Controlling Shareholder and the bank facility letter provided by the Individual, the Company believes that the Controlling Shareholders and the Individual have the financial ability to exercise the subscription rights attaching to the Warrants when the Company is in need of fund. Although it is the holders of the Warrants to decide when and whether to exercise the subscription rights attaching to the Warrants, the Controlling Shareholder and the Individual agree to (i) exercise such rights to provide funding to the Group and (ii) make best efforts to ensure the transferee of the Warrants will exercise such rights to provide funding to the Group, as and when requested by the Group. Accordingly, we are of the view that the subscribers have sufficient financial ability to settle the consideration upon the exercise of the subscription rights attached to the Warrants, and we concur with the Company that the issuance of Warrants will provide flexibility to the Company to raise additional funds to match with its capital requirements in the near future.

Having taken into account that (i) the Repayment Amount is substantial and the payment dates for the Repayment Amount are in the near future; (ii) the finance costs of the Group would remain at a high level; (iii) the Group's operating restructuring in the PRC would continue to require funding; (iv) the Group currently has negative working capital and would require immediate working capital for its operation; and (v) the low level of bank balances and cash of about RMB12.6 million (equivalent to approximately HK\$14.4 million) as at 30 June 2019 according to its 2019 Annual Report, we consider it appropriate for the Company to meet its repayment obligations and immediate working capital needs by entering into the Subscription Agreement and the Warrant Subscription Agreement.

In light of the above, we consider the Proposed Fund Raising as an immediate funding solution to allow the Group to satisfy its repayment obligations and immediate working capital needs without immediate dilution of the shareholding of the existing Shareholders. As such, we consider that both the Proposed Fund Raising and the Company's intended use of proceeds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **3. Alternative financing plans considered**

We were given to understand that apart from the Proposed Fund Raising, the Directors have considered other fund raising alternatives, including (i) new debt financing arrangement with financial institutions; (ii) placing of new debts and/or Shares; and (iii) pre-emptive offerings. However, as set out in the section headed "Alternative financing plans considered" in the Circular, the Company are of the view that the above plans are less practicable and desirable and may take a long time to materialize than the issuance of Bonds and the Convertible Bonds.

In this regard, we have enquired with the Company and are advised that up to the Latest Practicable Date, the Company has not been able to identify any financial institutions that are willing to provide funds that are sufficient to refinancing the Group's current borrowings with terms comparable to those of the Bonds and the Convertible Bonds, and we concur with the Company that is likely because of the result of the Group's current loss-making positions and indebtedness level as well as the increasingly difficult

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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business environment. We are also of the view that debt financing may not be the most practicable financing plan for the Group to meet its imminent capital needs under the proposed Debt Restructuring as well as for its operation, as (i) it may involve lengthy negotiation with banks for terms comparable to those of the Bonds and the Convertible Bonds, and be subject to extensive due diligence by the banks especially given the Company's current financial condition, and (ii) given the Repayment Amount and the Group's working capital needs, financing through bank borrowing will incur significant interest expenses which would adversely affect the Group's profitability and further deteriorate its financial position. On the other hand, upon full conversion of the Conversion Bonds into Conversion Shares, the capital base of the Company will be enlarged and strengthened. Given the above, we are of the view that the issuance of the Convertible Bonds, being an equity financing means, is more practicable than external debt financing and is in the interests of the Company and the Shareholders as a whole.

In respect of other equity financing means such as placing of new debts and/or Shares and pre-emptive offerings, we note that the Company has explored with two independent brokers and agents on their possibility, however, based on the Company's preliminary discussions with prospective financial intermediaries, the Company believes that it is unlikely to proceed with a placing of debts and/or Shares before solving the Group's financial difficulties. In this regard, we concur with the Company that issuance of the Bonds and the Convertible Bonds are more practical and desirable. In addition, as placing of new debts and/or Shares or pre-emptive offerings (i) are generally more time-consuming, which is not favourable to the negotiation between the Company and the Reduction Creditors, as it normally takes more than two months to complete a placing or pre-emptive offering transaction, during which the Company would need to engage a placing agent or underwriter, negotiate the terms and fees of the relevant engagement and finalise the terms of the placing or the pre-emptive offerings; (ii) are generally more costly as in addition to the high documentation preparation costs and/or professional fees, the Company would need to pay placing or underwriting commissions of the aggregate placing or underwriting amount, while no such commission is involved in the issuance of the Bonds and the Convertible Bonds; (iii) generally requires a considerable discount to the market prices of the Shares, especially given the low historical trading volumes of the Shares as illustrated in the section headed "Evaluation of the terms of the Bonds, the Convertible Bonds and the Warrants" later in this letter; (iv) represents an immediate dilution effect on the shareholding interests of the existing Shareholders. In contrast, the issuance of the Bonds and the Convertible Bonds provides immediate funding for the Company without immediate dilution of the shareholding of the existing Shareholders.

Lastly, in respect of the issuance of Warrants, we concur with the Company that it will provide the Group with certain flexibility in raising additional funds with predetermined terms and will serve as an incentive for the subscribers' continuing support to the Group. In coming to such opinion, we have considered that (i) the issuance and exercise of the Warrants will allow the Group to strengthen its capital base and financial position and therefore better equip the Group for future business development; (ii) the Warrants are non-interest bearing and do not incur any other significant costs and expenses to the Company; (iii) the issuance of the Warrants does not have any immediate dilution effect on the shareholding of the existing Shareholders; (iv) the issuance of the Warrants will align

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the Company's financial interests with the subscribers; and (v) the subscribers' sufficient financial ability to exercise the subscription rights attaching to the Warrants when the Company is in need of fund.

Having considered the above, we concur with the Company that the Proposed Fund Raising is more practicable in solving the Company's imminent capital needs and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **4. Principal terms of the Subscription Agreement and Warrant Subscription Agreement**

##### *Subscription Agreement*

Set out below are the summary of principal terms of the Subscription Agreement as extracted from the Circular.

- Date : 31 July 2019 (after trading hours)
- Parties : (i) the Company, being the issuer; and  
(ii) the Controlling Shareholder, as the subscriber

##### *(a) Subject matter*

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Controlling Shareholder conditionally agreed to subscribe for, (i) the Bonds at the principal amount of HK\$106.0 million; (ii) the Convertible Bonds at the principal amount of HK\$74.0 million; and (iii) 148,715,040 Rui Er Warrants at the Warrant Subscription Price of HK\$0.04 per Rui Er Warrant.

The aggregate consideration payable by the Controlling Shareholder shall be HK\$186.0 million, among which, the Bond Deposit of HK\$16.4 million shall be paid within three (3) days upon entering into of the Subscription Agreement; and the remaining balance of HK\$169.6 million for the subscription of the Bonds, the Convertible Bonds and the Rui Er Warrants shall be paid upon the Subscription Completion.

The aggregate consideration was determined after arm's length negotiations between the Company and the Controlling Shareholder with reference to (i) financial performance and financial positions of the Group; (ii) the Group's imminent capital needs under the proposed Debt Restructuring; and (iii) reasons for and benefits of the Proposed Fund Raising as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" in the Circular.

For details on the principal terms of the Bonds, the Convertible Bonds and the Rui Er Warrants, please refer to sections titled "Principal terms of the Bonds", "Principal terms of the Convertible Bonds" and "Principal terms of the Rui Er Warrants" in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(b) Conditions precedent*

The Subscription Completion shall be conditional upon the fulfilment of the following conditions:

- (i) the Company having obtained approvals from the Stock Exchange for the issuance of the Bonds, the Convertible Bonds and the Rui Er Warrants;
- (ii) the Company having obtained approvals from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the Rui Er Warrant Shares which fall to be issued and allotted upon exercising of the subscription rights attached to the Convertible Bonds and the Rui Er Warrants respectively;
- (iii) all requisite resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder having been passed by the Independent Shareholders at the EGM;
- (iv) all necessary consents and approvals on the part of the Controlling Shareholder and the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect;
- (v) there having been no action, proceedings, suit, public investigation or public enquiry taken, instituted, enacted, made or publicly proposed by any relevant authority in any jurisdiction, and there having been no outstanding statute, regulation, demand or order that would make the transactions contemplated under the Subscription Agreement void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect of such transactions;
- (vi) the Controlling Shareholder and its counsel and professional advisers having conducted legal, business and financial due diligence investigations against the Group, the results of which shall be satisfactory to the Controlling Shareholder in its sole and absolute discretion;
- (vii) the entering into of formal agreement(s) in relation to the Loan Settlement; and
- (viii) the completion of the Warrant Subscription Agreement and the transactions contemplated thereunder.

Conditions precedent (iv) to (viii) as set out above may be waived in writing by the Controlling Shareholder at its sole and absolute discretion. Save as aforesaid, none of the conditions precedent above is waivable. If any of the conditions precedent set out above are not fulfilled or waived at or before 3:00 p.m. (Hong Kong time) on the Subscription Long Stop Date, the Subscription Agreement shall lapse, and the Bond Deposit shall be returned to the Controlling Shareholder.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, conditions precedent (i), (iv), (vi) and (vii) have been fulfilled.

*(c) Subscription Completion*

Subscription Completion shall take place on or before the fifth (5th) Business Days following the date on which the conditions precedent to the Subscription Agreement are fulfilled.

The Subscription Completion and the Warrant Completion are inter-conditional.

***Warrant Subscription Agreement***

Set out below are the summary of principal terms of the Warrant Subscription Agreement as extracted from the Circular.

Date : 31 July 2019 (after trading hours)

Parties : (i) the Company, being the issuer; and  
(ii) Ms. Hu, as the subscriber

*(a) Subject matter*

Pursuant to the Warrant Subscription Agreement, the Company conditionally agreed to issue, and the Individual conditionally agreed to subscribe for 120,784,960 Individual Warrants at the Warrant Subscription Price of HK\$0.04 per Individual Warrant.

The aggregate consideration payable by the Individual shall be HK\$4.8 million. The aggregate consideration was determined after arm's length negotiations between the Company and the Individual with reference to (i) financial performance and financial positions of the Group; and (ii) reasons and benefits of the Proposed Fund Raising as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" in the Circular.

To the best information, belief and knowledge of the Directors, having made all reasonable enquiries, save as being an employee of the Company, Ms. Hu is an independent third party who is not a connected person of the Company and is independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

For details on the principal terms of the Individual Warrants, please refer to sections titled "Principal terms of the Individual Warrants" in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(b) Conditions precedent*

The Warrant Completion shall be conditional upon the fulfilment of the following conditions:

- (i) the Stock Exchange shall have approved the issuance of the Individual Warrants, either unconditionally or subject to conditions to which neither the Company nor the Individual shall reasonably object and the satisfaction of such conditions;
- (ii) the Stock Exchange shall have granted (either unconditionally or subject to conditions to which neither the Company nor the Individual shall reasonably object) the listing of, and permission to deal in, the Individual Warrant Shares which fall to be allotted and issued upon the exercise of the subscription rights attached to the Individual Warrants;
- (iii) the Shareholders shall have passed the requisite resolution(s) at the EGM approving the Warrant Subscription Agreement and the transactions contemplated thereunder;
- (iv) all necessary consents and approvals to be obtained on the part of the Individual and the Company in respect of the Warrant Subscription Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect;
- (v) no relevant authority in any jurisdiction having taken or instituted any action, proceedings, suit, public investigation or public enquiry, or enacted or made or publicly proposed, and there is no outstanding statute, regulation, demand or order that would make the transactions contemplated under the Warrant Subscription Agreement void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect of such transactions;
- (vi) the Individual and its counsel and professional advisers having conducted legal, business and financial due diligence investigations against the Group, the results of which shall be satisfactory to the Individual in its sole and absolute discretion;
- (vii) the entering into of formal agreement(s) in relation to the Loan Settlement; and
- (viii) the completion of transactions contemplated under the Subscription Agreement.

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Conditions precedent (iv) to (viii) as set out above may be waived in writing by the Individual at its sole and absolute discretion at any time. If any of the conditions precedent set out above are not fulfilled or waived at or before 3:00 p.m. (Hong Kong time) on the Warrant Long Stop Date, the Warrant Subscription Agreement shall lapse.

As at the Latest Practicable Date, conditions precedent (i), (iv), (vi) and (vii) have been fulfilled.

*(c) Warrant Completion*

Warrant Completion shall take place on or before the fifth (5th) Business Days following the date on which the conditions precedent to the Warrant Subscription Agreement are fulfilled.

The Subscription Completion and the Warrant Completion are inter-conditional.

The Bond, the Convertible Bond and the Warrants form part and partial of the Proposed Fund Raising as first proposed to the Company by the Controlling Shareholders and the Individual. The Proposed Fund Raising will not be able to complete if the either one of the Subscription Agreement and the Warrant Subscription Agreement is not approved.

### **5. The Conversion Shares and the Warrant Shares**

*Conversion Price*

The Conversion Price of HK\$0.187 represents:

- (i) a premium of approximately 16.9% over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 18.4% over the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 14.7% over the average closing price of HK\$0.163 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 71.6% over the closing price of HK\$0.109 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As the Company recorded consolidated net liabilities as at 30 June 2019, the comparison of the Conversion Price with the net asset value of the Company is not applicable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Conversion Price was determined after arm's length negotiations between the Company and the Controlling Shareholder with reference to (i) the Group's existing financial position, which recorded a consolidated net liabilities of approximately RMB660.9 million (equivalently to approximately HK\$753.4 million) as at 30 June 2019; (ii) the historical Share price, which indicated that the average Share price of HK\$0.182 for the period from 1 January 2019 to the Last Trading Day was lower than the Conversion Price and the Share price has been lower than the Conversion Price since mid-April 2019; (iii) liquidity of the Shares in the market that was relatively low, which would normally require the Company to offer a considerable discount to the market prices of the Shares in order to attract public investors to invest in the Shares in the open market; (iv) the current market sentiment that is relatively negative; and (v) the reasons and benefits as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" below. Accordingly, the Directors (excluding the independent non-executive Director) consider that the terms of the Convertible Bonds are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Conversion Price shall also be subject to adjustments upon the occurrence of (i) consolidation or subdivision; (ii) capitalisation of profits or reserves; (iii) capital distribution; (iv) right issues of Shares or options or Warrants over Shares; (v) issuance of other securities; and (vi) Shares issues for cash at less than Market Price. We have reviewed five similar transactions in relation to the issuance of convertible securities under specific mandate published on the website of the Stock Exchange in 2019 and noted that the adjustment terms of the Conversion Price are customary terms adopted in the issuance of convertible securities<sup>1</sup>. Therefore, we are of the view that such adjustments terms are fair and reasonable and on normal commercial terms. For details of the adjustment terms of the Conversion Price, please refer to the section headed "The Conversion Shares and the Warrant Shares" in the Board Letter.

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<sup>1</sup> The transactions reviewed include:

- (1) Tus International Limited (stock code: 872) — Connected transaction in relation to issue of new shares and convertible bonds under specific mandate:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0115/ltn20190115053.pdf>;
- (2) Capital Finance Holdings Limited (stock code: 8239) — Connected transaction in relation to the proposed extension of maturity date of convertible bonds under the specific mandate:  
<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329535.pdf>;
- (3) Jiyi Household International Holdings Limited (stock code: 1495) — Proposed issue of convertible bonds under specific mandate;  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0510/ltn20190510416.pdf>;
- (4) China Logistic Property Holdings Co., Ltd. (stock code: 1589) — Connected transaction — proposed issue of HK\$1,109,000,000 6.95% convertible bonds due 2024:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0609/ltn20190609021.pdf>; and
- (5) Ko Yo Chemical (Group) Limited (stock code: 827) — Connected transaction relating to issue of convertible bonds under specific mandate:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1016/2019101600041.pdf>.

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Having considered that (i) the Conversion Price represents a premium over the closing price of the Shares on the Last Trading Day, for the last five and ten consecutive trading days up to and including the Last Trading Day, and on the Latest Practicable Date; (ii) the Conversion Price was determined after arm's length negotiations between the Company and the Controlling Shareholder; and (iii) the analysis in the next section headed "Evaluation of the terms of the Bonds, the Convertible Bonds and the Warrants" of this letter which further supports our view, we consider that the Conversion Price is fair and reasonable and in the interests of the Company and its shareholders as a whole.

### *Warrant Exercise Price and Warrant Subscription Price*

The Warrant Exercise Price of HK\$0.157 represents:

- (i) a discount of approximately 1.9% to the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 0.6% to the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 3.7% to the average closing price of HK\$0.163 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 44.0% over the closing price of HK\$0.109 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The aggregate of the Warrant Subscription Price and the Warrant Exercise Price (the "**Aggregate Price**") of HK\$0.197 represents:

- (i) a premium of approximately 23.1% over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 24.7% over the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 20.9% over the average closing price of HK\$0.163 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 80.7% over the closing price of HK\$0.109 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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As the Company recorded consolidated net liabilities as at 30 June 2019, the comparisons of (i) the Warrant Exercise Price; and (ii) the aggregate of the Warrant Subscription Price and the Warrant Exercise Price, with the net asset value of the Company are not applicable.

The Warrant Exercise Price and the Aggregate Price were determined after arm's length negotiations between the Company and the Individual with reference to (i) the Group's existing financial position, which recorded a consolidated net liabilities of approximately RMB660.9 million (equivalently to approximately HK\$753.4 million) as at 30 June 2019; (ii) the historical Share price, which indicated that the average Share price of HK\$0.182 for the period from 1 January 2019 to the Last Trading Day was lower than the Aggregate Price and the Share price has been lower than the Aggregate Price since mid-April 2019; (iii) liquidity of the Shares in the market that was relatively low, which would normally require the Company to offer a considerable discount to the market prices of the Shares in order to attract public investors to invest in the Shares in the open market; (iv) the number of Warrant Shares, which represents approximately 20.0% of the issued share capital of the Company as at the Latest Practicable Date, assuming full exercising of the subscription rights attaching to the Warrants; (v) the current market sentiment that is relatively negative; and (vi) the reasons and benefits as set out in the section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" below.

The Company also made a preliminary assessment in relation to the fair value of the Warrants by using binomial option pricing model based on (i) the terms of the Warrants, in particular, the strike price of HK\$0.157 and the 1-year exercise period; (ii) the historical annualised stock price volatility of the Company of approximately 60% as calculated by using the closing prices of the Share as quoted on the Stock Exchange for the trading days within one year immediately prior to the Last Trading Day; and (iii) the assumptions that the closing price of HK\$0.16 per Share is the fair value of Shares as at 31 July 2019. According to the preliminary assessment, the unit Warrant value was HK\$0.04 as at 31 July 2019. The Company has also engaged the Independent Valuer to conduct a valuation on the Warrants (details of which are set out in Appendix I to the Circular) and noted that the result of the aforesaid preliminary assessment is in line with the result of the valuation conducted by the Independent Valuer.

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The Warrant Exercise Price shall also be subject to adjustments upon the occurrence of (i) consolidation or subdivision; (ii) capitalisation of profits or reserves; (iii) capital distribution; (iv) right issues of Shares or options or Warrants over Shares; (v) issue of other securities; and (vi) Shares issues for cash at less than Market Price. We have reviewed three similar transactions in relation to the issuance of unlisted warrants under specific mandate published on the website of the Stock Exchange in the past three years and noted that the adjustment terms of the Warrant Exercise Price are customary terms adopted in the issuance of unlisted warrants<sup>2</sup>. Therefore, we are of the view that such adjustments terms are fair and reasonable and on normal commercial terms. For details of the adjustment terms of the Warrant Exercise Price, please refer to the section headed “The Conversion Shares and the Warrant Shares” in the Board Letter.

Having considered that (i) the Aggregate Price represents a premium over the closing price of the Shares on the Last Trading Day, for the last five and ten consecutive trading days up to and including the Last Trading Day, and on the Latest Practicable Date; (ii) the Warrant Exercise Price is only at a slight discount to the closing price of the Shares on the Last Trading Day, for the last five and ten consecutive trading days up to and including the Last Trading Day, and represents a premium over the closing price of the Shares on the Latest Practicable Date; (iii) the Warrant Exercise Price and the Aggregate Price were determined after arm’s length negotiations between the Company and the Individual; and (iv) the analysis in the next section headed “Evaluation of the terms of the Bonds, the Convertible Bonds and the Warrants” of this letter which further supports our view, we consider that the Aggregate Price is fair and reasonable and in the interests of the Company and its shareholders as a whole.

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<sup>2</sup> The transactions reviewed include:

- (1) E-commodities Holdings Limited (stock code: 1733) — Proposed issue of unlisted convertible bonds and unlisted warrants under specific mandate:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0706/ltn20170706437.pdf>;
- (2) Fortunet E-commerce Group Limited (stock code: 1039) — Connected transaction in relation to the issue of unlisted warrants under specific mandate:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0705/ltn20180705305.pdf>; and
- (3) China U-ton Holdings Limited (stock code: 6168) — Placing of unlisted warrants under specific mandate:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0702/ltn20190702025.pdf>.

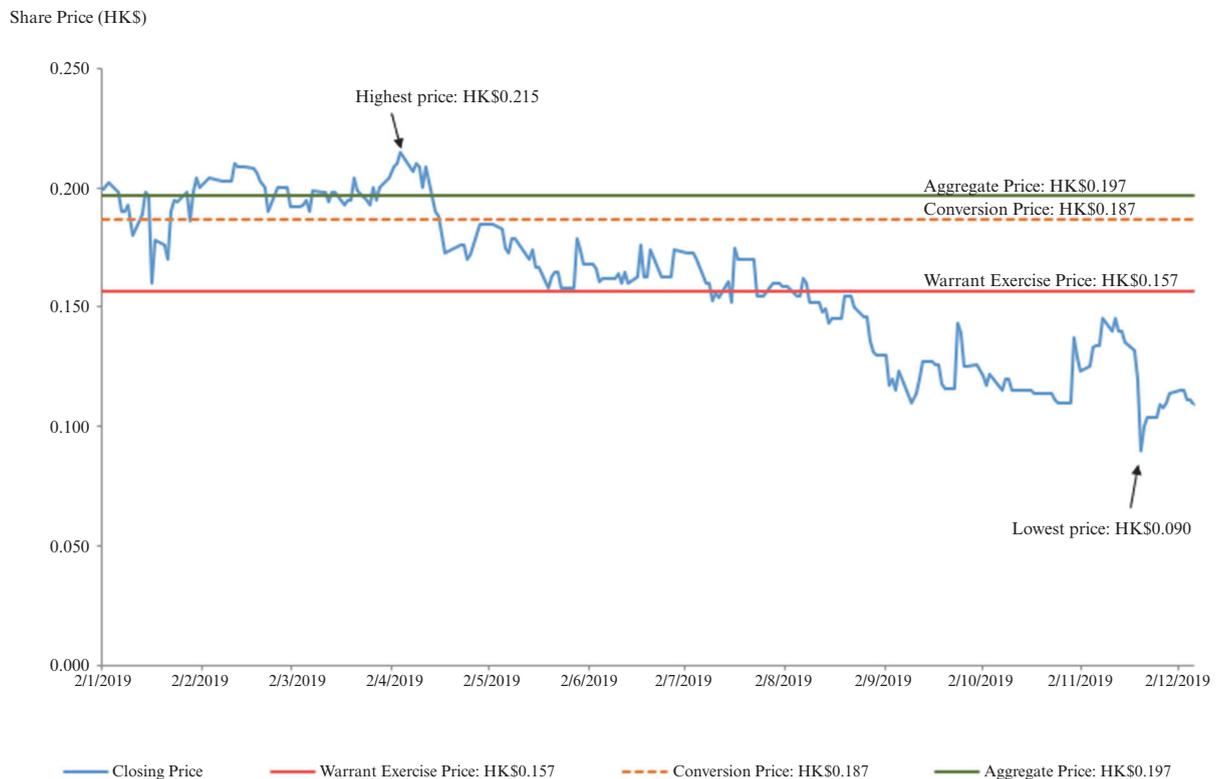
**6. Evaluation of the terms of the Bonds, the Convertible Bonds and the Warrants**

In considering the fairness and reasonableness of the terms of the Bonds, the Convertible Bonds and the Warrants, we have conducted the following analyses:

*(a) Historical share price performance*

We have reviewed the daily closing prices of the Shares as quoted on the Stock Exchange during the period since the day after the close of the share offer and the option offer on 31 December 2018 (i.e. 1 January 2019) (for details on the transaction, please refer to the Company’s announcement published on 31 December 2018), up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the sampling period of more than eleven months is adequate as it represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Conversion Price. In addition, we consider starting the Review Period from the day after the close of the share offer and the option offer and hence the change in shareholding structure of the Company would provide a more meaningful reflection of the Shares’ current performance. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

**Chart 1: Historical daily closing prices of the Shares during the Review Period**



Source: the website of the Stock Exchange

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the chart above, the Share price closed at a minimum of HK\$0.09 on 20 November 2019 and a maximum of HK\$0.21 on 4 April 2019, and at an average of HK\$0.161.

The Conversion Price of HK\$0.187 per Share represents a premium of approximately 170.8% over the minimum closing price and approximately 16.1% over the average closing price, and a discount of approximately 13.0% to the maximum closing price of the Shares during the Review Period respectively.

The Warrant Exercise Price of HK\$0.157 per Share represents a premium of approximately 74.4% over the minimum closing price, a discount of approximately 27.0% to the maximum closing price and 2.5% to the average closing price of the Shares during the Review Period respectively.

The Aggregate Price of HK\$0.197 per Share represents a premium of approximately 118.9% over the minimum closing price and 22.4% over the average closing price, and a discount of approximately 8.4% to the maximum closing price of the Shares during the Review Period respectively.

Having considered that (i) the Conversion Price and the Aggregate Price both present a premium over the average closing price of the Shares during the Review Period; (ii) the Warrant Exercise Price is only at a slight discount to the average closing price of the Shares during the Review Period; and (iii) our analysis in the previous section headed “The Conversion Shares and the Warrant Shares” of this letter which supports our view, we consider that the Conversion Price, the Warrant Exercise Price and the Aggregate Price are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

***(b) Historical trading volume***

We have also reviewed the trading liquidity of the Shares during the Review Period. The table below sets out the trading volume of the Shares on the Stock Exchange during the Review Period.

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**Table 1: Historical monthly trading volume of the Shares during the Review Period**

Months	Total number of issued Shares as at the end of the month/period	Total trading volume of Shares for the month/ period	Number of trading days	Average daily trading volume <i>(Note 1)</i>	% of average daily trading volume to total issued Shares <i>(Note 2)</i>
<b>2019</b>					
January	1,347,860,727	34,140,000	22	1,551,818	0.115%
February	1,347,860,727	4,108,000	17	241,647	0.018%
March	1,347,860,727	6,908,000	21	328,952	0.024%
April	1,347,860,727	18,412,200	19	969,063	0.072%
May	1,347,860,727	4,912,200	21	233,914	0.017%
June	1,347,860,727	3,560,000	19	187,368	0.014%
July	1,347,860,727	34,528,000	22	1,569,455	0.116%
August	1,347,860,727	8,126,947	22	369,407	0.027%
September	1,347,860,727	17,636,000	21	839,810	0.062%
October	1,347,860,727	26,316,000	21	1,253,143	0.093%
November	1,347,860,727	59,972,000	21	2,855,810	0.21%
December <i>(Note 3)</i>	1,347,860,727	804,000	5	160,800	0.01%
<b>Minimum</b>					0.012%
<b>Average</b>					0.065%
<b>Maximum</b>					0.212%

*Source: the website of the Stock Exchange*

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
2. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.

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3. The period represents the trading volume for the period from 1 December 2019 to the Latest Practicable Day.

As set out in the above table, during the Review Period, the average daily trading volume of the Shares ranged between approximately 0.012% to 0.212% of the total number of issued Shares as at the respective month/period, at an average of approximately 0.065%, revealing that the liquidity of the Shares was relatively low most of the time and the Company would likely be required to offer a considerable discount to the market prices of the Shares in order to attract public investors to invest in the Shares in the open market.

### *(c) Analysis on the Bonds*

The Bonds are interest bearing bonds which carry an interest of 2.28% per annum and will mature on the third (3rd) anniversary of the Bond Issue Date. The interest rate of 2.28% per annum was equivalent to the 3-month HIBOR quoted on the date of the Subscription Agreement. Given that (i) the HIBOR, i.e. Hong Kong Interbank Offer Rate, is generally lower than the prime lending rates offered by commercial banks in Hong Kong and that (ii) according to the 2018 Interim Report, the effective interest rates (which are also equal to contracted interest rates) on the Group's previous interest-bearing bank loans (before all bank borrowings became default and immediately repayable) were at least 4.12% per annum, the interest rate of the Bonds is more favourable than the market lending rates and the previous interest rates of the Company's bank loans. As such, we consider that the issuance of Bonds and their interest rate are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company.

### *(d) Valuation of Warrants*

As disclosed in the Board Letter, the Company engaged the Independent Valuer to assess the fair value of the Warrants by referring to the binomial option pricing model. Based on the model, the unit Warrant value as valued by the Independent Valuer was HK\$0.0353 as at 31 July 2019, representing a discount of 11.8% to the Warrant Subscription Price.

To assess the fairness and reasonableness of the valuation, we have performed the works as required under Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Valuation Report, which included (i) assessment of the Independent Valuer's experiences in valuing equity derivatives similar to the Warrants; (ii) obtaining information on the Independent Valuer's track records on other similar valuations; (iii) inquiry on the Independent Valuer's current and prior relationship with the Group and other parties to the Subscription Agreement and the Warrant Subscription Agreement; (iv) review of the terms of the Independent Valuer's engagement, in particular its scope of work, for the assessment of the valuation of the Warrants; and (v) discussion with the Independent Valuer regarding the bases, methodology and assumptions adopted in the Valuation Report.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(a) *Valuer*

We understand that Ms. Amy W.S. Chan (“**Ms. Chan**”), the director of the Independent Valuer and the signor of the Valuation Report, is a member of the Hong Kong Institute of Certified Public Accountants. She has been working in the valuation field since 2010 and has participated in over 700 assignments regarding business valuation, equity derivatives valuation, intangible assets valuation and purchase price allocation for numerous listed companies and private entities in different industries. We have also obtained information on the Independent Valuer’s track records on other equity derivative valuations and confirmed that the Independent Valuer has a track record in conducting similar valuations. As such, we are of the view that the Independent Valuer and Ms. Chan are qualified, experienced and competent in performing valuations of equity derivatives and providing a reliable opinion in respect of the valuation of the Warrants.

We have also enquired with the Independent Valuer as to its independence from the Group and the parties to the Subscription Agreement and the Warrant Subscription Agreement and were given to understand that the Independent Valuer is an independent third party of the Group and its connected persons. The Independent Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates.

Furthermore, we also noted from the engagement letter entered into between the Company and the Independent Valuer that the scope of work was appropriate for the Independent Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report.

(b) *Valuation basis*

We have reviewed the Valuation Report and understand that the Valuation Report was conducted on a fair value basis. According to the Valuation Report, “*as defined in Hong Kong Financial Reporting Standard 13 Fair Value Measurement (HKFRS 13), fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*”

Since no unusual matters had come to our attention that led us to believe that the Valuation Report was not prepared on a reasonable basis, we believe that the valuation fairly represents the fair value of the Warrants and forms a fair and reasonable basis for our further assessment on such.

*(c) Valuation methodology*

We have reviewed the Valuation Report and studied the methodology adopted in valuing the Warrants as at 31 July 2019, and we noted that the Independent Valuer has adopted the binomial option pricing model developed by Cox, Ross, and Rubinstein in 1979.

According to the Valuation Report,

*“The model is one of a set of numerical procedures used in derivatives pricing, which is more versatile and especially applicable for pricing American options, exotic derivatives securities and real option. The model is based on a discrete-time framework to trace the evolution of the option’s key underlying variable via a binomial lattice (tree), for a given number of time steps between the appraisal date and the maturity date. Each node of the lattice represents a possible price of the underlying asset and its derivatives at a particular point of time.”*

We have performed independent research on the application of the binomial option pricing model and noted that the model is one of the most generally adopted valuation models in valuing equity derivatives. We also understand that the model produces a binomial distribution of all the possible upward and downward price movements of a stock during the life of the derivative. A binomial distribution, or as referred to as the “tree” in the Valuation Report, assumes that the price of a stock can only move upwards or downwards during the lifetime of the derivative, and all such price movements are mapped out in a “tree”. Accordingly, the binomial option pricing model calculates the value of a derivative holder exercising that derivative contract with every possible future upward and downward price movements and the effects of such price movements on the present value of that derivative, hence providing a more accurate theoretical price of that derivative compared to other equity derivative valuation models. Given the above and the fact that the purpose of the Valuation Report is to verify the preliminary assessment in relation to the fair value of the Warrants performed by the Company, we are of the view that such valuation methodology forms a fair and reasonable ground for the valuation of the Warrants.

*(d) Valuation assumptions*

We noted that the Independent Valuer has made various assumptions for the valuation of the Warrants, details of which are set out in the section headed “Valuation Assumptions” in Appendix I to the Circular. We have discussed with the Independent Valuer and reviewed the assumptions made and nothing has come to our attention which would lead us to doubt the fairness and reasonableness of the assumptions adopted in the Valuation Report.

*(e) Section conclusion*

In light of the above and given (i) the aggregate consideration for the Warrants was determined after arm's length negotiations between the Company and the Controlling Shareholder or the Individual, as the case may be; (ii) the valuation of the Warrants performed by the Independent Valuer is in line with the preliminary assessment of the same as performed by the Company; (iii) the Warrant Subscription Price of HK\$0.04 represents a premium of approximately 13.3% over the valuation of the Warrants of HK\$0.0353 as at 31 July 2019 as performed by the Independent Valuer; and (iv) the potential benefits as discussed in the above section headed "Use of proceeds and reasons for and benefits of the Proposed Fund Raising" of this letter, we consider that the issuance of Warrants and the Warrant Subscription Price are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company.

For details of key assumptions and parameters applied by the Independent Valuer in the assessment of the fair value of the Warrants, please refer to Appendix I to the Circular.

*(e) Market comparable analysis on the Convertible Bonds and the Warrants*

*The Convertible Bonds*

To assess the fairness and reasonableness of the key terms of the Convertible Bonds, namely (i) the Conversion Price; (ii) interest rate; and (iii) term to maturity, we have conducted a search of recent issuance/placings of convertible bonds/notes (excluding convertible into A shares) (the "**Comparable CB Issuances**") to connected persons and independent third parties by listed issuers in Hong Kong announced during the five-month period prior to the Last Practicable Date (the "**CB Comparison Period**") to understand the trend of the recent market practice. We consider that the five-month CB Comparison Period is appropriate in providing a general reference for the recent market practice in relation to the key terms of the Comparable CB Issuances under similar market conditions, given that (i) the timeframe is sufficient in generating a reasonable and meaningful amount of samples for the purpose of our analysis; and (ii) the inclusion of all Comparable CB Issuances without any artificial selection or filtering on our part represents a true and fair view of the recent market trends for similar transactions conducted by other listed issuers in Hong Kong.

In this regard, we have identified a total of 25 Comparable CB Issuances during the CB Comparison Period. Although the Comparable CB Issuances may have different sizes compared to that of the Company, we consider that the Comparable CB Issuances are fair and representative samples, given that (i) we are not aware of any correlation between the sizes of the convertible bonds/notes and their underlying principal terms; and (ii) we are of the view that including Comparable CB Issuances of different sizes can reflect a more comprehensive market sentiment in our analysis.

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Although the principal businesses, market capitalisations, profitability and financial positions of the companies of the Comparable CB Issuances may be different from those of the Company, we consider that the Comparable CB Issuances were determined under similar market conditions and sentiment and hence, provide a general reference on the key terms for this type of transaction in Hong Kong. Therefore, we consider, to the best of our knowledge and ability, that the Comparable CB Issuances are exhaustive, fair and indicative in assessing the fairness and reasonableness of the key terms of the Convertible Bonds.

**Table 2: Analysis of the Comparable CB Issuances**

Date of announcement	Name of company	Stock code	Interest rate (%)	Term (Year)	Premium/ (Discount) of the conversion price over/to the closing price on the respective last trading day	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days
5-Dec-19	Code Agriculture (Holdings) Limited	8153	0.0%	4	122.2%	132.6%
5-Dec-19	Bosideng International Holdings Limited	3998	1.0%	5	27.5%	29.6%
29-Nov-19	Shougang Concord International Enterprises Company Limited	697	0.0%	2	(13.0%)	(15.3%)
26-Nov-19	iDreamSky Technology Holdings Limited	1119	2.5%	3	2.4%	5.2%
25-Nov-19	Spring Asset Management Limited	1426	1.8%	2	14.2%	12.5%
31-Oct-19	Pacific Basin Shipping Limited	2343	3.0%	6	31.9%	36.4%
24-Oct-19	Synergis Holdings Limited	2340	7.0%	2	2.0%	4.2%
14-Oct-19	Ban Loong Holdings Limited	30	3.0%	2	(0.8%)	0.0%
14-Oct-19	Victory City International Holdings Limited	539	5.0%	2	64.6%	65.0
9-Oct-19	China Touyun Tech Group Limited	1332	8.0%	2	(7.7%)	(2.9%)
25-Sep-19	Synertone Communication Corporation	1613	6.0%	2	16.8%	0.0%
24-Sep-19	Asia Television Holdings Limited	707	6.0%	3	85.2%	72.4%
16-Sep-19	Shunten International (Holdings) Limited	932	10.0%	1	2.4%	0.0%
10-Sep-19	China E-Information Technology Group Limited	8055	5.0%	2	44.5%	40.0%
11-Sep-19	Kiu Hung International Holdings Limited	381	0.0%	3	316.7%	313.2%
4-Sep-19	WuXi AppTec Co., Ltd.	2359	0.0%	5	30.0%	29.3%
19-Aug-19	National Arts Entertainment and Culture Group Limited	8228	1.0%	5	167.0%	171.7%
16-Aug-19	Huajun International Group Limited	377	1.5%	5	327.0%	327.0%
1-Aug-19	Dafy Holdings Limited	1826	8.0%	0.5	42.9%	33.0%
1-Aug-19	Victory City International Holdings Limited	539	5.0%	2	30.6%	29.6%
19-Jul-19	China Ocean Industry Group Limited	651	10.0%	3	0.0%	3.9%
11-Jul-19	Echo International Holdings Group Limited	8218	7.0%	5	2.1%	0.0%
10-Jul-19	Ko Yo Chemical (Group) Limited	827	5.0%	5	(19.9%)	(19.7%)
9-Jul-19	Lamtex Holdings Limited	1041	3.0%	3	2.5%	0.0%
1-Jul-19	Value Convergence Holdings Limited	821	0.0%	3	(18.2%)	(16.7%)
	<b>Maximum</b>		10.0%	6	327.0%	327.0%
	<b>Median</b>		3.00%	3	16.8%	12.5%
	<b>Minimum</b>		0.0%	0.5	(19.9%)	(19.7%)
	<b>Average</b>		4.0%	3.1	50.9%	50.0%
<b>31-Jul-19</b>	<b>The Group</b>	<b>756</b>	<b>2.28%</b>	<b>3</b>	<b>16.9%</b>	<b>18.4%</b>

Source: the website of the Stock Exchange

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. The respective interest rate per annum, term to maturity and the relevant premium/discount are extracted from the relevant published announcements of the companies for the Comparable CB Issuances.
2. We have excluded the Company's announcement dated 31 July 2019 in relation to, among others, the Subscription Agreements, the Warrant Subscription Agreements and the transactions contemplated thereunder to ensure the list of Comparable CB Issuances solely represents the market sentiment.

(a) The Conversion Price

As shown in the above table, the above list of Comparable CB Issuances produces a wide range of premium/(discount). As such, in order to provide a more meaningful analysis and avoid the effects of the outliers which may skew the averages, the median figures, instead of the average ones, are used in our analysis.

We noted that the premium/(discount) of the conversion price over/to the closing price of the respective shares on the respective last trading day of the Comparable CB Issuances ranged from a discount of approximately 19.9% to a premium of approximately 327.0%, with the average and median being a premium of approximately 50.9% and 16.8%, respectively. The premium of approximately 16.9% represented by the Conversion Price over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day, therefore falls within the range of the premium/(discount) to the closing price of the last trading day of the Comparable CB Issuances and is above the median figure thereof.

For the premium/(discount) of the conversion price over/to the average closing price for the respective last five trading days of the respective shares of the Comparable CB Issuances, they are ranged from a discount of approximately 19.7% to a premium of approximately 327.0%, with the average and median being a premium of approximately 50.0% and 12.5%, respectively. The premium of approximately 18.4% represented by the Conversion Price over the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day, therefore falls within the range of the premium/(discount) to the average closing price of the last five trading days of the Comparable CB Issuances and is above the median figure thereof.

Having considered that (i) the Conversion Price is within the range of closing prices of the Shares and close to the average of the closing prices of the Shares during the Review Period; (ii) the liquidity of the Shares was relatively low during most of the time of the Review Period; (iii) the Conversion Price is higher than the prevailing prices of the Shares; and (iv) the premium to the closing price on the Last Trading Day, as well as the premium to the average closing price for the last five trading days of the Shares represented by the Conversion Price fall within the range of the Comparable CB Issuances and are above the median figures thereof; and (v) our analysis in the previous section headed "The Conversion Shares and

the Warrant Shares” of this letter which supports our view, we consider that the Conversion Price is fair and reasonable and in the interests of the Company and its shareholders as a whole.

(b) Interest rate

We further note that the interest rates in respect of the Comparable CB Issuances ranged from nil to 10.0% per annum, with an average and median of approximately 4.0% and 3.0% per annum respectively. The interest rate of the Convertible Bonds, being 2.28% per annum, therefore falls within the range of the interest rates of the Comparable CB Issuances and is lower than the average interest rate of the Comparable CB Issuances.

(c) Term to maturity

As for the terms to maturity, we note that the term to maturity in respect of the Comparable CB Issuances ranged from half year to 6 years, with an average and median of around 3 years. The term to maturity of the Convertible Bonds of 3 years, therefore falls within the range of the term to maturity of the Comparable CB Issuances and is in line with the average and median maturity period of the Comparable CB Issuances.

*The Warrants*

To assess the fairness and reasonableness of the key terms of the Warrants, namely the Aggregate Price, we have conducted a search of recent placing/subscription of unlisted warrants (the “**Comparable Warrant Issuances**”) to connected persons and independent third parties by listed issuers in Hong Kong announced during the twelve-month period prior to the Last Practicable Date (the “**Warrant Comparison Period**”) to understand the trend of the recent market practice. The twelve-month Warrant Comparison Period was used as we noted that there are not many Comparable Warrant Issuances recently and a longer review period would provide more samples for a meaningful analysis.

During our research, we noted that the sample size is relatively small as we could only identified 9 Comparable Warrant Issuances throughout the Warrant Comparison Period. However, we are of the view that the twelve-month Warrant Comparison Period is appropriate and sufficient in providing a general reference for the recent market practice in relation to the key terms of the Comparable Warrant Issuances under similar market conditions, especially when we have not conducted any artificial selection or filtering of the Comparable Warrant Issuances and therefore they represent a fair representation of the recent market trends for similar transactions conducted by other listed issuers in Hong Kong. Through our research, we also noted that the Comparable Warrant Issuances were mainly for the companies to strengthen their equity base and increase their working capital, which is similar to the case of the Company, where the Warrants are issued for the purpose of providing the Group with certain flexibility in raising additional funds with predetermined terms. As such, we consider that the Comparable Warrant Issuances are exhaustive, fair and indicative in

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assessing the fairness and reasonableness of the Aggregate Price for our analysis purpose. Nonetheless, it should be noted that the principal businesses, market capitalisations, profitability and financial positions of the companies of the Comparable Warrant Issuances may be different from those of the Company.

**Table 3: Analysis of the Comparable Warrant Issuances**

Date of announcement	Name of company	Stock code	Exercise Period (Year)	Premium/ (Discount) of the subscription price and the exercise price, if any, (the “aggregate price”) over/to the closing price on the respective last trading day	Premium/ (Discount) of the aggregate price of the warrants over/ to the net asset value per share of the company (Note 3)	Reasons for the issuance of warrants
22-Nov-2019	China Netcom Technology Holdings Limited	8071	3	61.8%	316.6%	To serve as performance incentive for the subscriber whose shareholders are parties to a joint venture agreement with the company
10-Nov-19	BC Technology Group Limited	863	2	(100.0%)	(94.1%)	To align the interests of the subscriber with those of the company and its businesses
10-Nov-19	NetDragon Websoft Holdings Limited	777	5	13.4%	93.9%	To strengthen the business partnership with the subscriber
22-Sep-19	Zhuguang Holdings Group Company Limited	1176	3	46.8%	60.7%	To raise funds to repay the company’s indebtedness
29-Jul-19	Styland Holdings Limited	211	1	(82.0%)	(90.3%)	To strengthen the equity base of the company and increase the company’s working capital
26-Jul-19	Persta Resources Inc. (Note 4)	3395	2	NA	NA	To strengthen the equity base of the company and increase the company’s working capital
13-Jun-19	International Standard Resources Holdings Limited	91	1	(77.65%)	(53.7%)	To strengthen the equity base of the company and increase the company’s working capital
31-May-19	China U-Ton Holdings Limited	6168	2	22.37%	596.1%	To strengthen the equity base of the company and increase the company’s working capital
24-Dec-18	China Shengmu Organic Milk Limited	1432	1.5	10.00%	(36.1%)	To strengthen the business partnership with the subscriber and the equity base of the company and to increase the company’s working capital
	<b>Maximum</b>		5	61.8%	596.1%	
	<b>Median</b>		2	11.7%	12.3%	
	<b>Minimum</b>		1	(100.0%)	(94.1%)	
	<b>Average</b>		5	(13.2%)	99.1%	
<b>31-Jul-19</b>	<b>The Group</b>	<b>756</b>	<b>1</b>	<b>23.1%</b>	<b>NA (Note 5)</b>	

Source: the website of the Stock Exchange

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*Notes:*

1. The respective exercise period and the relevant premium/discount are extracted from the relevant published announcements of the companies for the Comparable Warrant Issuances.
2. We have excluded the Company's announcement dated 18 January 2019 in relation to, among others, the placing of non-listed warrants under specific mandate to ensure the list of Comparable Warrant Issuances solely represents the market sentiment.
3. The values of the net asset value per share are calculated based on (i) the latest net asset value attributable to the owners of the respective companies of the Comparable Warrant Issuances as shown in their annual report or interim report; and (ii) the number of issued share capital of these companies prior to the date of announcement.
4. The issue price was HK\$0.0108 per warrant while the exercise price per warrant share was 90% of the volume weighted average price of the shares as quoted on the Stock Exchange for the trading day immediately preceding the date on which the holder of the warrant(s) submits an irrevocable notice of exercise to the company.
5. According to the Company's 2019 Annual Report, the Company recorded consolidated net liabilities of approximately RMB660.9 million (equivalent to approximately HK\$753.4 million) as at ended 30 June 2019. As such, the latest estimated net asset value per Share is -HK\$0.56.

Based on the above table, we note that the premium of 23.1% of the Aggregate Price over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the Last Trading Day (i) falls within the range of the aggregate price of the Comparable Warrant Issuances from a premium of approximately 61.8% to a discount of approximately 100.0%; and (ii) is higher than both the average (i.e. a discount of approximately 13.2%) and the median (i.e. a premium of approximately 11.7%) among the Comparable Warrant Issuances during the Warrant Comparison Period, and is therefore, more favourable.

Meanwhile, the aggregate prices of the Comparable Warrant Issuances have a median and an average of a premium of approximately 12.3% and 99.1% over the latest reported net asset value per share. According to the Company's 2019 Annual Report, the Company recorded consolidated net liabilities of approximately RMB660.9 million (equivalent to approximately HK\$753.4 million) as at 30 June 2019. As such, the Aggregate Price of HK\$0.197, which carries a premium, aligns with the recent market trend and is more favourable than the Company's recent net liabilities position.

Having considered that (i) the Aggregate Price is within the range of closing prices of the Shares, and close to the average of the closing prices of the Shares during the Review Period; (ii) the liquidity of the Shares was relatively low during most of the time of the Review Period; (iii) the Aggregate Price is higher than the prevailing prices of the Shares; (iv) the premium to the closing price on the Last Trading Day of the Shares represented by the Aggregate Price fall within the range of the Comparable Warrant Issuances and are above the average and median figures thereof; (v) the Aggregate Price of HK\$0.197, which carries a premium, is more favourable than the Company's recent net liabilities position; and (vi) our analysis in the previous section

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headed “The Conversion Shares and the Warrant Shares” of this letter which supports our view, we consider that the Aggregate Price is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company.

**7. Dilution Effects on the shareholding structure of the Company**

Set out below is shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately upon conversion of the Convertible Bonds in full; and (iii) immediately upon conversion of the Convertible Bonds and exercising of the subscription rights attaching to the Warrants in full (assuming no further changes in the issued share capital of the Company prior to such conversion of Convertible Bonds or exercising of Warrants and no adjustment to the Conversion Price and the Warrant Exercise Price).

**Table 3: Shareholding structure of the Company**

	As at the Latest Practicable Date		Immediately after the exercising of the Warrants in full (prior to the conversion of Convertible Bonds)		Immediately after the conversion of the Convertible Bonds in full (prior to the exercising of the Warrants)		Immediately after the conversion of the Convertible Bonds and exercising the Warrants in full	
	Approximate percentage of total issued		Approximate percentage of total issued		Approximate percentage of total issued		Approximate percentage of total issued	
	No. of Shares (Shares)	Shares (%)	No. of Shares (Shares)	Shares (%)	No. of Shares (Shares)	Shares (%)	No. of Shares (Shares)	Shares (%)
<b>Substantial Shareholders</b>								
Mr. WU, Shaohao (Note 1)	765,444,145	56.8	914,159,185	56.52	1,161,166,070	66.6	1,309,881,110	65.1
The Individual	—	—	120,784,960	7.47	—	—	120,784,960	6.0
CITIC Securities Company								
Limited (Note 2)	68,915,200	5.1	68,915,200	4.26	68,915,200	3.9	68,915,200	3.4
Public Shareholders	513,501,382	38.1	513,501,382	31.75	513,501,382	29.5	513,501,382	25.5
Total	<u>1,347,860,727</u>	<u>100</u>	<u>1,617,360,727</u>	<u>100.00</u>	<u>1,743,582,652</u>	<u>100</u>	<u>2,013,082,652</u>	<u>100</u>

*Notes:*

1. Mr. Wu Shaohao, an executive Director, is deemed (by virtue of the SFO) to be interested in 765,444,145 Shares held by the Controlling Shareholder, which is owned as to 100% by him.
2. CITIC Securities Company Limited is deemed (by virtue of the SFO) to be interested in 68,915,200 Shares held by CSI Capital Management Limited, being its wholly-owned subsidiary.

As shown in the above table, the shareholding of the existing public Shareholders will be diluted by approximately 8.6% from approximately 38.1% as at the Latest Practicable Date to 29.5% immediately after the full conversion of the Convertible Bonds into Conversion Shares under the Subscription Agreement.

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Meanwhile, the shareholding of the existing public Shareholders will be diluted by approximately 12.6% from approximately 38.1% as at the Latest Practicable Date to 25.5% immediately after the full conversion of the Convertible Bonds into Conversion Shares and full exercising of the subscription rights attaching to the Warrants under the Subscription Agreement and Warrant Subscription Agreement.

Despite such dilution effect on the shareholding of the existing Shareholders, taking into account that (i) the issuance of the Convertible Bonds and the Warrants and the use of proceeds therefrom are fair and reasonable and in the interests of the Company and the Shareholders as a whole, due to the reasons set out in the section headed “Use of proceeds and reasons for and benefits of the Proposed Fund Raising” in this letter; (ii) each of the Conversion Price and the Aggregate Price represent a premium over the market price of the Shares as at the Last Trading Day and the Latest Practicable Date and are more favourable than those of the Comparable CB Issuances and the Comparable Warrant Issuances; (iii) the collective shareholding in the Company held by Mr. Wu and Ms. Hu shall never reach more than 75% and the minimum public float of the Shares shall never be lower than 25%, hence limiting the exercise of the conversion rights and the dilution impact; and (iv) the Convertible Bond, when converted into Conversion Shares, will be recognized as equity of the Company and hence reduce the gearing ratio, enlarge the capital base and improve the net asset position of the Company, we consider that the possible dilution effects on the shareholding interests of the public Shareholders is acceptable.

### **8. Potential financial effects of the issuances of the Bonds, the Convertible Bonds and the Warrants**

Set out below are the financial effects of the issuance of the Bonds, the Convertible Bonds and the Warrants on the Group’s earnings, cash flow, net asset value and gearing. It should be noted that the analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon the Subscription Completion and Warrant Completion.

#### ***(a) Earnings***

The Bonds and the Convertible Bonds are interest bearing bonds which carry an interest of 2.28% per annum and will mature on the third (3rd) anniversary of the Bond Issue Date and the CB Issue Date, respectively. As such, it is expected that the future earnings of the Group will be reduced by the amount of interest expenses on the Bonds and the Convertible Bonds upon their maturity, and/or early redemption at the option of the Company and/or the conversion of the Convertible Bonds. Meanwhile, assuming the changes in the fair value of the conversion option derivative in relation to the Convertible Bonds will be recognized in the Group’s consolidated statement of profit or loss, there will be an impact on the Group’s earnings and hence net profit due to the fair value change at each of the financial year end upon the maturity of the Convertible Bonds, and/or early redemption at the option of the Company and/or the conversion of the Convertible Bonds.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As for the issuance of the Warrant, save for the expenses relating to the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, there will be no immediate material impact to the earnings of the Group.

***(b) Cash flow***

It is expected that a cash inflow of approximately HK\$190.8 million (being the aggregate consideration payable by the Controlling Shareholder and the Individual of HK\$186.0 million and HK\$4.8 million, respectively), being the proceeds from the issuance of the Bonds, the Convertible Bonds and the Warrants, will be recognised immediately upon their issuance.

Meanwhile, apart from the proceeds from the issuance of the Warrants of over HK\$10.8 million, which will be immediately recognised as the Group's cash and cash equivalents, the working capital position of the Group will also increase upon part or full exercising of the subscription rights attaching to the Warrants. Although there is no certainty as to whether the subscribers will exercise the Warrants in part or full and whether the additional proceeds will be generated, we noted that according to the Board Letter, the Controlling Shareholder and the Individual, being the subscribers of the Warrants, agrees to exercise such rights to provide funding to the Group and (ii) make best efforts to ensure the transferee of the Warrants will exercise such rights to provide funding to the Group, as and when requested by the Group. As such, it is expected that the Group will be able to maintain a positive working capital position through leveraging its relationship with the subscribers.

***(c) Net asset value and gearing***

As set out above, the proceeds from the issuance of the Bonds, the Convertible Bonds and the Warrants of approximately HK\$190.8 million will immediately increase the cash and cash equivalents of the Group by the same amount. Under the Hong Kong Financial Reporting Standards, the Convertible Bonds will be accounted for in two separate components, i.e. a liability component and an equity component, in the Group's statement of financial position at initial recognition. Since it is expected that the increase in the cash and cash equivalents of the Group will be greater than the increase in the liability recognised, the net asset value of the Group is expected to increase immediately following the issuance of the Convertible Bonds. Also, the gearing of the Group, as defined by the sum of bank loans and corporate bonds over total equity, will also decrease as the Group's net asset value and hence equity increase and as the Group settles the Repayment Amount. Meanwhile, in the event the Convertible Bonds are converted into Conversion Shares, the Group's liabilities will decrease while its equity will increase. As a result, the net asset value of the Group will also increase.

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On the other hand, the proceeds from the issuance of the Warrants of over HK\$10.8 million, as well as the proceeds of approximately HK\$42.3 million to be generated upon the full exercising of the subscription rights attaching to the Warrants, will increase the Group's cash and cash equivalents and hence net asset value by the same amount. Since the issuance and exercise of the Warrants would not lead to any change in the indebtedness of the Group, the gearing of the Group will be improved as a result of the Group's increased net asset value and equity.

Given the above analysis, upon the Subscription Completion and the Warrant Completion, the earnings, cash position, net current assets and gearing of the Company are expected to increase.

### RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the terms of the Subscription Agreement and the Warrant Subscription Agreement, and the transactions contemplated thereunder are fair and reasonable, and the Proposed Fund Raising is on normal commercial terms and is in the interests of the Company and the Independent Shareholders as a whole, despite the entering into of the Subscription Agreement and the Warrant Subscription Agreement not being in the ordinary and usual course of business of the Company. 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 EGM to approve the Subscription Agreement, the Warrant Subscription Agreement and the transactions contemplated thereunder, including but not limited to the granting of the Specific Mandates for the issuance and allotment of the Conversion Shares and the Warrant Shares.

Yours faithfully,  
For and on behalf of  
**Pelican Financial Limited**  
**Charles Li\***  
*Director*

\* *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

*The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Royson Valuation Advisory Limited, the Independent Valuer, in connection with its valuation as at 31 July 2019 of the 269,500,000 1-year warrants to be issued by the Company.*



Royson Valuation Advisory Limited  
Unit 1806, 18/F, The L. Plaza  
367–375 Queen’s Road Central  
Hong Kong

10 December 2019

**Summi (Group) Holdings Limited**

Room 1012, Block A, Hung Hom Commercial Centre  
37 Ma Tau Wai Road  
Hung Hom, Hong Kong

Dear Sirs or Madams,

**RE: VALUATION OF WARRANTS**

We have been instructed by Summi (Group) Holdings Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) to perform an appraisal of the 269,500,000 1-year warrants (the “**Warrants**”) to be issued by the Company. The appraisal date is 31 July 2019 (the “**Appraisal Date**”).

The Warrants have a unit exercise price of HK\$0.157 and their exercise period shall start from the grant date till the first-anniversary of the grant date. The Company shall conditionally grant Rui Er Holdings Company Limited (“**Rui Er**”), which is its controlling shareholder, and Ms. Hu Ming Yue (the “**Individual**”), who is the deputy chief executive officer of the Company, the 148,715,040 and 120,784,960 Warrants respectively, at a subscription price of HK\$0.04 per Warrant.

The objective of this valuation is to provide an independent opinion on the fair value of the Warrants for management’s internal reference purpose and our valuation may be used in connection with a public document of the Company.

The appraisal is conducted in conformity with Hong Kong Generally Accepted Accounting Principles and the International Valuation Standards. These standards contain guideline on the basis and valuation approaches used.

**BASIS OF VALUE**

The valuation has been performed based on fair value. As defined in Hong Kong Financial Reporting Standard 13 — Fair Value Measurement (HKFRS 13), fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## SCOPE OF WORK

This appraisal reflects facts and conditions existing at the Appraisal Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

Our appraisal opinion is based on the assumptions stated herein and on information provided by the management of the Group (the “**Management**”). In the course of our valuation, we have conducted the following processes and procedures:

1. Collected and analysed the relevant historical financial statements and other financial and operational information of the Group;
2. Reviewed the terms of the Warrants;
3. Conducted interviews with the Management in relation to the Group’s history, operations and prospects of its business;
4. Researched the general economic outlook and the outlook for the specific industry affecting the business of the Group, its industry and its markets;
5. Examined the reasonableness of the information as well as other records and documents provided by the Management, in light of our research and analysis on the industry and economic data;
6. Determined the most appropriate valuation methods for the valuation;
7. Compiled the relevant market data and inputs for the valuation model of the Warrants; and
8. Evaluated the value of the Warrants based on the assumptions and valuation method stated in this report.

## INFORMATION SOURCES

To aid us in our analysis, we have consulted, reviewed and relied on the following key information which is publicly available or provided by the Management:

1. Financial database empowered by Bloomberg;
2. The subscription agreement dated 31 July 2019 entered into between the Company and Rui Er in relation to the issuance of certain bonds and certain convertible bonds as well as the Warrants (the “**Subscription Agreement**”);
3. The subscription agreement dated 31 July 2019 entered into between the Company and the Individual in relation to the issuance of the Warrants (the “**Warrants Subscription Agreement**”);

4. Announcements and financial statements of the Group available on the internet and the website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at [www.hkexnews.hk](http://www.hkexnews.hk); and
5. Discussions with the Management.

### LIMITING CONDITIONS

This appraisal relies upon the following contingent and limiting conditions:

1. Public, industry, statistical, and other information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
2. The Company and its representatives warranted to us that the information they supplied is complete and accurate to the best of their knowledge and that the financial statement information reflects the Group’s results of operations and financial and business condition in accordance with generally accepted accounting principles, unless otherwise noted. The financial statements and other related information supplied by management has been accepted as correct without further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information. We also have no reason to believe that any material facts have been withheld from us.
3. This report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document to be prepared or distributed to third parties may be made without our written consent and approval.
4. The opinion of value is valid only for the stated purpose as of the valuation date indicated. We take no responsibility for changes in market conditions and assume no obligation to revise our conclusion of value to reflect events or conditions which occur subsequent to the valuation date.
5. For the prospective financial information approved by management that is used in our engagement, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.
6. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information. Any variation to the assumptions in the valuation could seriously affect our opinion of value.

**INFORMATION ABOUT THE COMPANY**

The Company is a Hong Kong listed company (stock code: 756) and through its subsidiaries, the Company is principally engaged in manufacturing and selling of Summi Products, frozen concentrate orange juice and its related products and fresh oranges.

During the financial year ended 30 June 2019, there was a change of management and major shareholder. The new management team decided to reorganise the business. The operation of each major segment has experienced challenges as the Group was undergoing business reorganisation during the year. The business reorganisation was completed in February 2019. The Group's operations during the year significantly declined.

As at the Appraisal Date, the total number of issued shares was approximately 1,347,861,000. Based on the closing price of HK\$0.160 per share as at the Appraisal Date, the Company's market capitalisation as at the Appraisal Date was approximately HK\$215,658,000.

The following chart presents the historical stock price of the Company from 1 January 2018 to the Appraisal Date:



**INFORMATION ABOUT THE WARRANTS**

The principal terms of the Warrants are summarized in the following table:

Issuer	:	The Company
Number of options	:	148,715,040 Warrants to be granted to Rui Er; and 120,784,960 Warrants to be granted to the Individual
Exercise price	:	HK\$0.157
Exercise period	:	One year commencing from the grant date of the Warrants
Subscription price	:	HK\$0.04 per Warrant

**VALUATION METHODOLOGY**

The approach adopted here is the binomial option pricing model developed by Cox, Ross, and Rubinstein in 1979. The model is one of a set of numerical procedures used in derivatives pricing, which is more versatile and especially applicable for pricing American options, exotic derivatives securities and real option. The model is based on a discrete-time framework to trace the evolution of the option's key underlying variable via a binomial lattice (tree), for a given number of time steps between the appraisal date and the maturity date. Each node of the lattice represents a possible price of the underlying asset and its derivatives at a particular point of time.

Option valuation using this method is, as described, a three-step process: i) price tree generation, ii) calculation of option value at each final node, and iii) sequential calculation of the option value at each preceding node.

For the valuation as at the grant date, in order to incorporate the Company's stock price with the price dilution impact arising from the issuance of the conversion shares, if any, simulated stock price of the issuer is adjusted by the following formula:

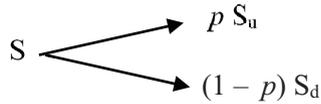
$$\frac{V_T + MKX}{N + MK}$$

where  $V_T$  is the value of the Company's equity of node  $n$  at time  $t$  in the stock price tree, which is reflected by its stock price,  $M$  is the number of conversion shares,  $K$  is the conversion ratio,  $X$  is the prevailing exercise price of the options and  $N$  is the issuer's number of outstanding stocks as at the grant date.

The binomial model assumes that the stock prices can move to only two values over any short time period. By adopting the price dilution adjusted closing stock price of the Company as at the Appraisal Date, we firstly model the movement of stock price  $S$  by a geometric random walk. At each interval  $S$  can increase to  $S_u$  with a probability  $p$ , or fall to

$S_d$  with a probability  $1-p$ . The parameters  $u$  and  $d$  are chosen so that the geometric random walk is consistent with the geometric Brownian motion. In this valuation, the probability  $p$  is set as 0.5.

Formula to compute the stock price  $S$ :



where:

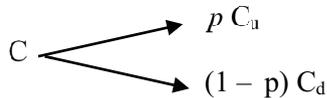
$$u = e^{\left(r_f - q - \frac{\sigma^2}{2}\right)dt + \sigma\sqrt{dt}}$$

$$d = e^{\left(r_f - q - \frac{\sigma^2}{2}\right)dt - \sigma\sqrt{dt}}$$

- $S$  : Simulated stock price after dilution, if applicable
- $p$  : Probability of an up move
- $(1 - p)$  : Probability of a down move
- $r_f$  : Risk-free rate
- $q$  : Dividend yield
- $\sigma$  : Volatility
- $dt$  : Time interval between tree levels or time to maturity divided by the number of tree levels

The expected value of the call option can be estimated as  $C = pC_u + (1 - p)C_d$ . In the case  $p = 0.5$ , the expected option value is a simple average of  $C_u$  and  $C_d$ . The binomial option pricing model can take on as many tree levels as required with each node being able to build in different exercise prices or assumptions.

Formula to calculate the payoff of a call option  $C$ :



where:

$$C_u = \max [0, S_u - X]$$

$$C_d = \max [0, S_d - X]$$

- $C$  : Theoretical call option price
- $X$  : Exercise price
- $p$  : Probability of an up move
- $(1 - p)$  : Probability of a down move

Once we have obtained the stock price at the final nodes, we can examine option holder’s action (the “**Decision**”) to be taken at maturity. The value of call option at the maturity date will either be  $\max [0, S_u - X]$  (with  $X$  being the exercise price of the option) with a probability 0.5 or  $\max [0, S_d - X]$  with a probability 0.5.

The value of option at each node is solely based on maximizing the value between: (1) the benefit arising from holding the option until the next node (the “**Hold Benefit**”); and (2) the intrinsic value coming from exercising the option (the “**Exercise Benefit**”). In other words, the Decision at each node of the lattice shall be expressed as: (1) when the payoff from the Hold Benefit is greater than the Exercise Benefit, option holder should hold the option until the next time interval; or (2) when the payoff from the Exercise Benefit is greater than the payoff from the Hold Benefit, the option will be exercised to obtain its intrinsic value.

The value of the option is arrived at through the Decision at each node. If the Decision chosen is conversion, the value of the option at any node will be the positive price difference between the stock price and the exercise price. By applying the roll-back procedure at nodes where the Decision is considered to be held by the option holder, the calculated value of the option is equal to  $E_N = e^{-rdt}[pE_u + (1 - p)E_d]$ , where  $E_u$  and  $E_d$  representing the call option after an up and down move respectively.

The underlying assumptions of the binomial option pricing model are as follows:

1. The short-term interest rate (both risk-free and credit risk-adjusted) are known and are constant through time;
2. There is no arbitrage opportunity;
3. The stock price follows a random walk in continuous time with a rate of variance in proportion to the square of the stock price;
4. The distribution of possible stock prices at the end of any finite interval is log-normal;
5. The variance of the rate of return on the stock is constant;
6. There are no commissions or other transaction costs in buying or selling the stock or option;
7. The early exercise value of the option is examined at every node of the lattice; and
8. The tax rate, if any, is identical for all transactions and all market participants.

## VALUATION ASSUMPTIONS

In the fair value calculation of the Warrants, we have made the following assumptions:

1. The closing unit price of the Company’s shares is assumed to be its fair value as at the Appraisal Date;
2. The potential dilution impact arising from the grant of the Warrants is deemed to be not yet reflected in the closing unit price of the Company’s shares as at the Appraisal Date;

3. Historical annualised price volatility of the Company's stock as at the Appraisal Date is deemed to be appropriate to serve as the expected volatility of its stock price and is assumed to be constant and prevailing;
4. The trailing 12-month dividend yield of the Company as at the Appraisal Date is deemed to be appropriate to serve as its expected dividend yield and is assumed to be constant and prevailing;
5. Yield-to-maturity in continuous compounding of Hong Kong government bonds with the time-to-maturity similar to that of the Warrants as at the Appraisal Date is adopted as the risk-free rate in our valuation model;
6. Based on the time-to-maturity of the Warrants, a 500-step lattice model is adopted in this valuation, so that the time interval between consecutive nodes is about 1 day;
7. All participants in the market are considered to be willing buyers or sellers; and
8. Numbers of trading days and weeks per year are 260 and 52 respectively.

The following table summarises the major parameters adopted in the valuation:

Risk-free Rate	1.79%*
Applicable Stock Price	HK\$0.16*
Tenor	1 year
Volatility	63.86%*
Dividend Yield	0%*

\* Data extracted from Bloomberg

## OPINION OF VALUE

Based upon the investigation and analysis outlined above and the appraisal method employed, it is our opinion that the fair value of the Warrants as at 31 July 2019 is reasonably stated as follows:

	<b>HKD</b>
<b>Fair Value per Warrant</b>	0.0353
<b>Total Fair Value</b>	9,501,000

The appraisal has been performed in conformity with Hong Kong Generally Accepted Accounting Principles and the International Valuation Standards. The valuation is based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Any variation to the assumptions and limiting conditions presented in the following report could seriously affect our opinion of value.

Although our valuation is intended to estimate fair value, we assume no responsibility for the inability of a seller or buyer to obtain a sale or purchase contract at that price.

We have no obligation to update this report or our opinion of value for information that comes to our attention after the date of this report.

We hereby certify that we have neither present nor prospective interests in the Group, Rui Er, the Individual, the Warrants or the values reported.

Respectfully submitted,  
For and on behalf of  
**Royson Valuation Advisory Limited**

**Amy W.S. Chan**  
*Director*

*Ms. Chan is a member of the Hong Kong Institute of Certified Public Accountants. She has been working in the valuation field since 2010 and has participated in over 700 assignments regarding business valuation, derivatives valuation, intangible assets valuation and purchase price allocation for numerous listed companies and private entities in different industries.*

## 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 Group. 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

The authorised and issued Shares as at the Latest Practicable Date were, and immediately upon conversion of the Convertible Bonds and exercising of the subscription rights attaching to the Warrants in full (assuming there being no other changes in the issued share capital of the Company) will be, as follows:

<i>Authorised share capital</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Shares as at the Latest Practicable Date	<u>30,000,000</u>
<i>Issued and fully paid share capital</i>		<i>HK\$</i>
<u>1,347,860,727</u>	Shares in issue as at the Latest Practicable Date	<u>13,478,607</u>
395,721,925	Conversion Shares to be issued and allotted	3,957,219
<u>269,500,000</u>	Warrant Shares to be issued and allotted	<u>2,695,000</u>
<u>2,013,082,652</u>	Shares in issue immediately following the issue of the Conversion Shares and the Warrant Shares	<u>20,130,826</u>

All Shares in issue rank *pari passu* with each other in all respects including the rights as to voting and dividends.

As at the Latest Practicable Date, the number of share options outstanding under the Company's share option scheme, which was adopted by the Company on 7 June 2008 and refreshed on 5 November 2012, was 9,850,000 and the exercise price was HK\$1.112.

Save as disclosed above, no share, options, warrants, conversion rights or any equity or debt securities of the Company were outstanding or were proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

### 3. DISCLOSURE OF INTERESTS

#### A. Directors' interests in Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives 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 Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules (“**Model Code**”) were as follows:

Name of Director	Number of Shares (Note 1)	Nature of interest	Approximate percentage of issued Shares (Note 3)
Mr. Wu Shaohao	765,444,145 (L)	Interest of a controlled corporation (Note2)	56.79%

*Notes:*

- The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
- The Shares are held by the Controlling Shareholder, a company wholly-owned by Mr. Wu. Mr. Wu is therefore deemed to be interested in 765,444,145 Shares held by the Controlling Shareholder under the SFO.
- Based on 1,347,860,727 shares of HK\$0.01 each in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required 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 Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**B. Substantial shareholders' interests in Shares**

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares (Notes 1 & 2)	Nature of interest	Approximate percentage of issued Shares (Note 6)
Rui Er Holdings Company Limited (Note 3)	765,444,145 (L)	Beneficial owner	56.79%
Ms. Yang Xijuan (Note 4)	765,444,145 (L)	Interest of spouse	56.79%
CITIC Securities Company Limited (Note 5)	68,915,200 (L) 111,987,200 (S)	Interest of a controlled corporation Interest of a controlled corporation	5.11% 8.31%

*Notes:*

- The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
- The letter "S" denotes a person's "short position" (as defined under Part XV of the SFO) in such Shares.
- Rui Er Holdings Company Limited is wholly-owned by Mr. Wu. Mr. Wu is therefore deemed to be interested in 765,444,145 Shares held by Rui Er Holdings Company Limited under the SFO.
- Ms. Yang Xijuan is the spouse of Mr. Wu. Ms. Yang Xijuan is therefore deemed to be interested in 765,444,145 Shares held by Mr. Wu under the SFO.
- CITIC Securities Company Limited is deemed (by virtue of the SFO) to be interested in 68,915,200 Shares held by CSI Capital Management Limited, being its wholly-owned subsidiary.
- Based on 1,347,860,727 Shares of HK\$0.01 each in issue as at the Latest Practicable Date.

Other than as disclosed above, as at the Latest Practicable Date, no person (other than Directors and chief executive of the Company) or company had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

#### **4. FURTHER INFORMATION CONCERNING DIRECTORS**

##### **A. Competing interests**

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) had any business or interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

##### **B. Directors' service contracts**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

##### **C. Directors' interest in assets**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased, or which were proposed to be acquired, disposed of by or leased to any member of the Group since 30 June 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

##### **D. Directors' interest in contracts**

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

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 30 June 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **6. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## 7. ACQUISITIONS, DISPOSALS OR OTHER MATTERS

As at the Latest Practicable Date, the Directors are not aware of any contemplated acquisitions, disposals or other matters during the Warrant Exercise Period that may have a material impact on the Company.

## 8. ARRANGEMENTS, AGREEMENTS OR UNDERSTANDING

Save as the Subscription Agreement, the Warrant Subscription Agreement and the employment contracts between the Company and Mr. Wu and the Individual, as at the Latest Practicable Date, the Company has not entered or contemplated to enter into any other arrangements, agreements or understanding (whether formal or informal and whether express or implied) with the Controlling Shareholder and the Individual.

## 9. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions, letters or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Pelican Financial Limited	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activities
Royson Valuation Advisory Limited	Independent Valuer

Each of Pelican Financial and Royson Valuation Advisory Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report, as the case may be dated 10 December 2019, and reference to its name, and/or its advice in the form and context in which it appears.

As at the Latest Practicable Date, Pelican Financial and Royson Valuation Advisory Limited did not:

- (i) have any shareholding, directly or indirectly, in any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (ii) have any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 30 June 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at Room 1012, Block A, Hung Hom Commercial Centre, 37 Ma Tau Wai Road, Hung Hom, Hong Kong, from the date of this circular up to and including the date of EGM:

- (i) the Subscription Agreement;
- (ii) the Warrant Subscription Agreement;
- (iii) the letter from the Independent Board Committee, the text of which is set out on pages 42 to 43 to this circular;
- (iv) the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 44 to 80 to this circular;
- (v) the written consent referred to in the paragraph headed “Expert and consent” in this appendix; and
- (vi) this circular.

**11. MISCELLANEOUS**

In the event of inconsistency, the English version of this circular shall prevail over the Chinese text.



森美（集團）控股有限公司  
**Summi (Group) Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 00756)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Summi (Group) Holdings Limited (the “Company”) will be held at 3:30 p.m., on Friday, 27 December 2019 at Room 3E, No. 355, Zhangye Road, Jiading District, Shanghai, China for the purpose of considering and, if thought fit, passing, without modifications, the following ordinary resolution of the Company. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 10 December 2019 of which the notice convening the EGM forms part.

**ORDINARY RESOLUTION**

1. “**THAT**

- (a) (i) the conditional Subscription Agreement dated 31 July 2019 (a copy of which is tabled at the EGM and marked “A” and signed by the chairman of the EGM for identification purpose) entered into between the Company and the Controlling Shareholder and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Bonds; (ii) the issuance of the Convertible Bonds; (iii) the issuance of the Rui Er Warrants; and (iv) the issuance and allotment of the Conversion Shares and the Rui Er Warrant Shares under the CB Specific Mandates, be and are hereby approved, confirmed and ratified;
- (ii) any one Director be and is hereby authorised to, on behalf of the Company, do all such acts and things, to sign and execute such documents or agreements or deeds and take all such actions as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Subscription Agreement and the transactions contemplated thereunder and agree to such variation, amendment or waiver as are, in the opinion of such Director, in the interest of the Company and the Shareholders as a whole; and
- (iii) subject to and conditional upon the Listing Committee of Stock Exchange having granted the listing of, and permission to deal in the Conversion Shares and the Rui Er Warrant Shares, the Directors be and

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## NOTICE OF EGM

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are hereby granted the CB Specific Mandates which shall entitle the Directors to exercise all the powers of the Company to issue, allot and credit as fully paid, the Conversion Shares and the Rui Er Warrant Shares, on and subject to the terms and conditions of the Subscription Agreement, providing that the CB Specific Mandates shall be in addition to, and shall not prejudice nor revoke any general or specific mandates(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution.

- (b) (i) the conditional Warrant Subscription Agreement dated 31 July 2019 (a copy of which is tabled at the EGM and marked “B” and signed by the chairman of the EGM for identification purpose) entered into between the Company and the Individual and the transactions contemplated thereunder, including but not limited to, (i) the issuance of the Individual Warrants; and (ii) the issuance and allotment of the Individual Warrant Shares under the Warrant Specific Mandates, be and are hereby approved, confirmed and ratified;
- (ii) any one Director be and is hereby authorised to, on behalf of the Company, do all such acts and things, to sign and execute such documents or agreements or deeds and take all such actions as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Warrant Subscription Agreement and the transactions contemplated thereunder and agree to such variation, amendment or waiver as are, in the opinion of such Director, in the interest of the Company and the Shareholders as a whole; and
- (iii) subject to and conditional upon the Listing Committee of Stock Exchange having granted the listing of, and permission to deal in the Individual Warrant Shares, the Directors be and are hereby granted the Warrant Specific Mandates which shall entitle the Directors to exercise all the powers of the Company to issue, allot and credit as fully paid, the Individual Warrant Shares, on and subject to the terms and conditions of the Warrant Subscription Agreement, providing that the Warrant Specific Mandates shall be in addition to, and shall not prejudice nor revoke any general or specific mandates(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution.”

By Order of the Board  
**Summi (Group) Holdings Limited**  
**Lee Kwok Lun**  
*Company Secretary*

Hong Kong, 10 December 2019

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## NOTICE OF EGM

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*Notes:*

- (a) The register of members of the Company will be closed from Wednesday, 18 December 2019 to Tuesday, 24 December 2019, both days inclusive. No transfer of shares of the Company will be registered during that period. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 17 December 2019.
- (b) A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person to represent the member.
- (c) If the appointer is a corporation, the form of proxy must be under its common seal, or under the hand of an officer or attorney duly authorised on its behalf.
- (d) In order to be valid, a form of proxy must be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. The completion and delivery of the form of proxy will not preclude a member from attending and voting at the meeting if he so wishes. In the event that he attends the meeting after having lodged the form of proxy, the form of proxy will be deemed to have been revoked.
- (e) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote and will be accepted to the exclusion of other joint registered holders in respect hereof.