

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

22 August 2017

*To the Shareholders*

Dear Sir or Madam

**UNCONDITIONAL MANDATORY CASH OFFER BY  
KINGSTON SECURITIES LIMITED FOR AND ON BEHALF OF  
ROSY LANE INTERNATIONAL LIMITED TO ACQUIRE ALL  
THE ISSUED SHARES IN HIGHLIGHT CHINA IOT  
INTERNATIONAL LIMITED (OTHER THAN THOSE SHARES  
ALREADY OWNED OR TO BE ACQUIRED BY THE OFFEROR  
AND PARTIES ACTING IN CONCERT WITH IT)**

## **INTRODUCTION**

On 12 July 2017, the Offeror entered into the Sale and Purchase Agreement with the Vendor relating to the sale and purchase of approximately 62.01% interest in the Company.

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

## 高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

The principal terms of the Sale and Purchase Agreement are summarised as below:

- Date : 12 July 2017
- Parties : (i) Unitech Enterprises Group Limited (卓科企業集團有限公司), as vendor of the Sale Shares
- (ii) Rosy Lane International Limited (盛途國際有限公司), as purchaser of the Sale Shares

Immediately before the execution of the Sale and Purchase Agreement, the Offeror was (i) independent of and not connected with the Company or its subsidiaries, any of their respective directors, chief executive or substantial shareholders or associates of any of them; and (ii) not acting in concert with the Vendor or parties acting in concert with the Vendor.

- Subject matter : The Vendor had agreed to sell and the Offeror had agreed to purchase, at Completion, the Sale Shares, free from all Encumbrances and together with all rights attaching to them on and after the date of Completion.

The Sale Shares being 322,326,500 Shares, represent approximately 62.01% of the entire issued share capital of the Company as at the Latest Practicable Date.

- Consideration : The Consideration under the Sale and Purchase Agreement amounted to HK\$300,000,000 (equivalent to approximately HK\$0.931 per Sale Share).

The Consideration was determined after arm's length negotiations between the Vendor and the Offeror taking into account factors including but not limited to the financial position of the Group and the listing status of the Company.

The Offeror had entered into the Deed of Set Off with the Vendor and Bloom Dragon, pursuant to which the Offeror, the Vendor and Bloom Dragon have agreed that the Consideration shall be set off against the subscription amount payable by Bloom Dragon to the Offeror for the Series A Note under the Notes Subscription Agreement and the principal amount of the loan owed by the Vendor to Bloom Dragon under the Loan Agreement in accordance with the terms of the Deed of Set Off.

- Completion : Completion took place on the date of the Sale and Purchase Agreement.

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

## 高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

Pursuant to Rule 2.1 of the Takeovers Code, the Company has established the Independent Board Committee comprising the non-executive Director and all the independent non-executive Directors, who have no direct or indirect interest in the Offer, to advise the Shareholders in respect of the Offer and make a recommendation as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

Pursuant to Rule 2.1 of the Takeovers Code, Ample Capital has been appointed as the Independent Financial Adviser by the Company after approval by the Independent Board Committee to advise the Independent Board Committee and the Shareholders in respect of the Offer and in particular as to whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned and as to the acceptance thereof.

The purpose of this Composite Document is to provide you with, among other things, information relating to the Group, the Offeror and the Offer as well as setting out the letter from the Independent Board Committee containing its recommendation to the Shareholders in respect of the terms of the Offer and as to the acceptance thereof and the letter from the Independent Financial Adviser containing their advice to the Independent Board Committee in respect of the terms of the Offer and as to the acceptance thereof.

### THE OFFER

Immediately before the execution of the Sale and Purchase Agreement, the Offeror and parties acting in concert with it did not own any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following Completion and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it own 322,326,500 Shares, representing approximately 62.01% of the entire issued share capital of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, immediately following Completion, the Offeror and parties acting in concert with it are required to make an unconditional mandatory cash offer for all the issued Shares (other than those Shares already owned or to be acquired by the Offeror and parties acting in concert with it).

As at the Latest Practicable Date, there were 519,777,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company prior to the close of the Offer, 197,450,500 Shares will be subject to the Offer.

The Company has no outstanding options, warrants, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert to exchange into Shares and has not entered into any agreement for the issue of such warrants, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

## 高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

### Principal terms of the Offer

As mentioned in the “LETTER FROM KINGSTON SECURITIES” on page 8 to 17 of this Composite Document, Kingston Securities is making the Offer in accordance with the Takeovers Code on the following basis:

#### *The Offer*

**For each Offer Share . . . . . HK\$0.931 in cash**

The Offer Price of HK\$0.931 for each Share under the Offer is approximately equal but not lower than the price per Share of HK\$0.931 at which the Sale Shares have been acquired by the Offeror pursuant to the Sale and Purchase Agreement. The Offer is extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code.

Further details of the Offer, including terms and procedures for acceptance of the Offer, are contained in the “LETTER FROM KINGSTON SECURITIES” as set out on pages 8 to 17 and Appendix I to this Composite Document and the accompanying Form of Acceptance.

### SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company (based on information received by the Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) (i) immediately before Completion; and (ii) immediately following Completion and as at the Latest Practicable Date:

Shareholders	Immediately before Completion		Immediately following Completion and as at the Latest Practicable Date	
	No. of Shares	Approximate %	No. of Shares	Approximate %
The Offeror and parties acting in concert with it	–	–	322,326,500	62.01
Vendor and parties acting in concert with it ( <i>Note</i> )	322,326,500	62.01	–	–
Other Shareholders	197,450,500	37.99	197,450,500	37.99
<b>Total:</b>	<b>519,777,000</b>	<b>100</b>	<b>519,777,000</b>	<b>100</b>

*Note:* For the six months immediately prior to 19 July 2017, being the date of the Joint Announcement, save for entering into of the Sale and Purchase Agreement, the Vendor and parties acting in concert with it have not dealt in nor do they have any Shares, options, derivatives, warrants or other securities convertible into Shares.

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

## 高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

### INFORMATION ON THE GROUP

The Group is principally engaged in the garment sourcing business and its Shares have been listed on the Stock Exchange since 5 October 2010.

The audited consolidated loss and total comprehensive expenses attributable to the Shareholders were approximately HK\$11.4 million and HK\$24.8 million respectively for the financial years ended 31 March 2017 and 31 March 2016. The audited consolidated equity attributable to Shareholders were approximately HK\$5.9 million and HK\$17.3 million respectively as at 31 March 2017 and 31 March 2016.

The major types of customers of garment sourcing companies are brand owners/carriers, megastores, department stores and supermarket chains. Based on the Group's knowledge and experience in the garment sourcing industry, the customer industry in the major markets of the Group is not dominated by a few players.

However, it is not uncommon for companies engaging in the garment manufacturing and/or sourcing business to have high percentage of revenue generated from sales to single customer given that the customers would generally place orders with the garment sourcing companies with the support of suppliers or own factories where the customers' demand on the type of garment products matches with the types of garment products manufactured by the garment suppliers. For the year ended 31 March 2017, sales to the five largest customers accounted for 100% of the total revenue of the Group and the sales to the largest customer accounted for approximately 80.3% of the total revenue of the Group. While no long term contracts have been entered into between the Company and the five largest customers for the year ended 31 March 2017, the Company has established a long-term working relationship with four of its five largest customers for the year ended 31 March 2017 for at least eight years and the remaining five largest customer for four years. The Group becomes one of the long term business partners with these customers due to continuous fulfilment of the customers' demands in terms of the product type.

Since the Group mainly sources garment products which include cut-and-sew knitwear, knit-to-shape sweater and woven products for its customers mainly located in the United States and Canada, the decline in the retail demand in the United States and Canada for cut-and-sew knitwear, knit-to-shape sweater and woven products and its major customers' re-direction of their sourcing for cut-and-sew knitwear, knit-to-shape sweater and woven products to areas outside the PRC would lead to a decrease in the revenue of the Group.

In view of the above, the Group has adopted the following measures to broaden the customers and products bases aside from the key customers in the United States and Canada:

1. The Group has adopted strategy to extend its business reach to more geographical locations, including but not limited to Hong Kong and the PRC. The Group has contacted a new customer which is a garment trading and manufacturing group with establishments in Hong Kong and the PRC. It is submitted that the Group would

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

## 高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

lower the percentage of the business contribution from the markets in Canada and the USA which have been the Group's major export destinations by diversifying business to more geographical locations.

2. The Group has been expanding the network of suppliers of a more diversified garment products to broaden the products bases. Other than the existing suppliers which mainly manufacture cut-and-sew knitwear, knit-to-shape sweater and woven products, the Group has contacted four suppliers which mainly manufacture/supply cotton wears, down jackets and jackets and has entered into framework agreements with three of the suppliers. The specific details of the cooperation with these suppliers shall be subject to definitive agreements which are subject to negotiation and have not yet been entered into with these suppliers as at the Latest Practicable Date.

Based on the above, the Board is of the view that the Group will have a more diversified product offerings and be able to attract new customers with demands on products other than cut-and-sew knitwear, knit-to-shape sweater and woven products with the support of these new suppliers.

Further details of the information of the Group are set out in Appendices II and III to this Composite Document.

### **INFORMATION ON THE OFFEROR**

Your attention is drawn to the section headed "INFORMATION ON THE OFFEROR" in the "LETTER FROM KINGSTON SECURITIES" as set out on page 14 of this Composite Document.

### **THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP**

Your attention is drawn to the sections headed "INFORMATION ON THE OFFEROR" and "THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP" in the "LETTER FROM KINGSTON SECURITIES" as set out on pages 14 and 15 of this Composite Document. The Board is aware of the intention of the Offeror in respect of the Company and is willing to render reasonable co-operation with the Offeror which is in the interests of the Company and the Shareholders as a whole. The Board is pleased to learn that the Offeror intends to continue the existing principal businesses of the Group and that the Offeror has no intention to discontinue the employment of any employees of the Group (save for the change of Board composition as disclosed in the paragraph headed "PROPOSED CHANGE OF BOARD COMPOSITION" in the section headed "LETTER FROM KINGSTON SECURITIES" of this Composite Document) or redeploy the fixed assets of the Group other than those in the ordinary and usual course of business.

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

## 高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

In May 2017, the Company entered into two separate agreements in relation to (i) the cooperation with Jiangxi Broadcasting to develop and operate an integrated information service platform on the network of Jiangxi Broadcasting as set out in the Company's announcement dated 18 May 2017 and (ii) the cooperation with Pingyang Wasu to develop and operate a platform for the provision of comprehensive town management, market supervision, comprehensive law enforcements, public convenience and other services in Pingyang County as set out in the Company's announcement dated 22 May 2017. The cooperation agreements with Jiangxi Broadcasting and Pingyang Wasu are framework agreements for the strategic cooperation of the parties. The specific details of the cooperation shall be subject to definitive agreements which are subject to negotiation and have not yet been entered into with Jiangxi Broadcasting and Pingyang Wasu respectively as at the Latest Practicable Date. The Board noted that, as at the Latest Practicable Date, while the Offeror intends that the Group will continue to negotiate with Jiangxi Broadcasting and Pingyang Wasu in relation to the abovementioned cooperation, no definitive agreement or contract has been entered into or contemplated by the Group with Jiangxi Broadcasting or Pingyang Wasu. The Board further noted that, as at the Latest Practicable Date, while the Offeror intends that the Group will continue to explore new business and investment opportunities, the Offeror does not have any arrangement, agreement, understanding or negotiation in relation to any new business (other than the existing garment sourcing business and the cooperation agreements with Jiangxi Broadcasting and Pingyang Wasu as mentioned above).

### MAINTAINING THE LISTING STATUS OF THE COMPANY

It is stated in the "LETTER FROM KINGSTON SECURITIES" on page 16 of this Composite Document that the Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offer.

In the event that the public float of the Company falls below 25% following the close of the Offer, the Board noted that the sole director of the Offeror has undertaken and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange that they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offer to ensure that sufficient public float exists for the Shares.

The Stock Exchange has stated that if, at the closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

### RECOMMENDATION

Your attention is drawn to the "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" on pages 26 to 27 of this Composite Document, which sets out its advice and recommendations to the Shareholders as to whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned, and as to acceptance thereof; and the "LETTER FROM THE INDEPENDENT FINANCIAL ADVISER" on pages 28 to 46 of this Composite Document, which sets out its advice and recommendation to the Independent Board Committee as to whether the Offer is fair and reasonable so far as the Shareholders are concerned, and as to acceptance thereof, and the principal factors considered by it before arriving at its advice and recommendation.

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

高銳中國物聯網國際有限公司

Rooms 4114-4119, 41<sup>st</sup> Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong

Tel : (852) 3950 6800 Fax : (852) 3429 0037

## ADDITIONAL INFORMATION

You are advised to read this Composite Document together with the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offer. Your attention is drawn to the additional information contained in the appendices to this Composite Document.

In considering what action to take in connection with the Offer, you should also consider your own tax positions, if any, and in case of doubt, consult your professional advisers.

Yours faithfully,

By order of the Board  
**HIGHLIGHT CHINA IOT INTERNATIONAL  
LIMITED**

高銳中國物聯網國際有限公司



**Gao Zhiyin**  
Chairman