



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.

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.

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, the Company does not have any outstanding warrants, options, derivatives or securities convertible into Shares and the Company has not entered into any agreement for the issue of such securities, options, derivatives or warrants of the Company.

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.

This letter sets out, among other things, the principal terms of the Offer, together with the information on the Offeror and the Offeror's intention regarding the Group. Further details of the terms of the Offer and procedures of acceptance are also set out in Appendix I to this Composite Document and the accompanying Form of Acceptance. Your attention is also drawn to the "LETTER FROM THE BOARD" as well as the "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" and the "LETTER FROM THE INDEPENDENT FINANCIAL ADVISER" in respect of the Offer, as contained in this Composite Document.

Principal terms of the Offer

Kingston Securities is, on behalf of the Offeror, making 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) in accordance with the Takeovers Code on the following basis:

The Offer

For each Offer Share HK\$0.931

The Offer Price of HK\$0.931 per Offer Share 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.

Comparison of value

The Offer Price of HK\$0.931 for each Offer Share represents:

- (1) a discount of approximately 16.875% to the closing price of HK\$1.12 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a discount of approximately 12.17% to the average closing price of HK\$1.06 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;

- (3) a premium of approximately 9,210% over the audited consolidated net asset value attributable to Shareholders of approximately HK\$0.01 per Share (based on the number of issued Shares as at the Latest Practicable Date) as at 31 March 2017, the date to which the latest audited financial results of the Group were made up; and
- (4) a discount of 6.9% to the closing price of HK\$1.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Highest and lowest Share prices

Details of the highest and lowest price of the Shares during the Relevant Period are set out in the paragraph headed “2. MARKET PRICES” in Appendix IV of this Composite Document.

Total value of the Offer

As at the Latest Practicable Date, there are 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, there would be 519,777,000 Shares in issue. On the basis of the Offer Price at HK\$0.931 per Share, the entire issued share capital of the Company is valued at approximately HK\$483.9 million.

Based on the Offer Price, on the assumption that the Offer will be accepted in full by the holders of the Offer Shares and there will be 197,450,500 Offer Shares, the maximum cash consideration payable by the Offeror under the Offer would be approximately HK\$183.8 million.

Financial resources available for the Offer

The Offeror would finance the cash consideration for the Offer by Series B Note issued by the Offeror to Bloom Dragon and the loan facility in the amount of HK\$100,100,000 granted by Kingston Securities pursuant to the Kingston Facility Agreement. Under the Kingston Facility Agreement and the Notes Subscription Agreement, the Offeror is required to deposit Pledged Shares as collaterals. The payment of interest on, repayment of or security for any liability (contingent or otherwise) for the Series A Note and the above debt instrument and loan will not depend to any significant extent on the business of the Group.

Kingston Corporate Finance, the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer.

As at the Latest Practicable Date, save for the Pledged Shares, Kingston Securities and its associates do not have any interest in Shares and other related securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

Given that Kingston Corporate Finance is a financial adviser to the Offeror in respect of the Offer, Kingston Corporate Finance is presumed to be acting in concert with the Offeror under the presumption in class 5 of the definition of “acting in concert” under the Takeovers Code.

Given that (i) Kingston Securities is under the same control of Kingston Financial Group Limited as Kingston Corporate Finance, which is the financial adviser to the Offeror in respect of the Offer; and (ii) it is a person, other than an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) lending money in the ordinary course of business, providing finance or financial assistance of the Offeror in connection with the acquisition of the Offer Shares to be acquired by the Offeror under the Offer pursuant to the Kingston Facility Agreement, Kingston Securities is presumed to be acting in concert with the Offeror under the presumption in classes 5 and 9 of the definition of “acting in concert” under the Takeovers Code.

As at the Latest Practicable Date, save for the Pledged Shares, Bloom Dragon and its associates do not have any interest in Shares and other related securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

Given that Bloom Dragon is a person, other than an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) providing finance or financial assistance to the Offeror in connection with the acquisition of the Sale Shares and the Offer Shares to be acquired by the Offeror under the Offer by way of subscription of the Notes issued by the Offeror, Bloom Dragon is presumed to be a party acting in concert with the Offeror under the presumption in class 9 of the definition of “acting in concert” under the Takeovers Code.

Condition of the Offer

The Offer is unconditional in all respects.

Effect of accepting the Offer

By validly accepting the Offer, the Shareholders would sell their tendered Offer Shares to the Offeror free from all Encumbrances and together with all rights attaching to them, including the rights to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Offer is made, that is, the date of posting of this Composite Document.

The Offer is unconditional in all respects and will open for acceptance from the date of this Composite Document until 4:00 p.m. on the Closing Date. Acceptance of the Offer shall be irrevocable and shall not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Payment

Payment in cash in respect of acceptance of the Offer (after deducting the seller's ad valorem stamp duty) will be made as soon as possible but in any event within seven (7) Business Days of the date on which the duly completed acceptance of the Offer and the relevant documents of title of the Shares in respect of such acceptance are received by or for the Offeror to render each such acceptance of the Offer complete and valid. Payment in respect of acceptance of the Offer will be despatched to the accepting Shareholders by ordinary post at their own risk.

No fractions of a cent will be payable and the amount of the consideration payable to the Shareholders who accept the Offer will be rounded up to the nearest cent.

Stamp Duty

Seller's ad valorem stamp duty payable by the Shareholders who accept the Offer and calculated at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the amount payable by the Offeror to the relevant Shareholder on acceptance of the Offer. The Offeror will arrange for payment of the sellers' ad valorem stamp duty on behalf of the accepting Shareholders and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares.

Overseas Shareholders

As the Offer to persons not residing in Hong Kong might be affected by the laws of the relevant jurisdiction in which they are resident, overseas Shareholders whose addresses as shown in the registers of members of the Company are outside Hong Kong and beneficial owners of the Shares who are citizens, residents or nationals of a jurisdiction outside Hong Kong should obtain information about and observe any applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offer. It is the responsibility of the overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

Any acceptance by any overseas Shareholder will be deemed to constitute a representation and warranty from such overseas Shareholder to the Offeror that the local laws and requirements have been complied with. The overseas Shareholders should consult their professional advisers if in doubt.

Taxation advice

Shareholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offer. The Offeror accepts no responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Acceptance and settlement

Your attention is drawn to the further details regarding the procedures for acceptance and settlement of the Offer as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

INFORMATION ON THE GROUP

Your attention is drawn to the details of the information of the Group as set out under the section headed “INFORMATION ON THE GROUP” in the “LETTER FROM THE BOARD” and in Appendices II and III to this Composite Document.

INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the BVI on 9 May 2017. The Offeror has been wholly, ultimately and beneficially owned by Mr. Zhi Hua (支華先生) since 7 July 2017.

Mr. Zhi Hua has been conducting business or holding interest directly or indirectly in certain companies, including Hangzhou Zhihua Municipal Construction Company Limited* (杭州支華市政工程有限公司), which is principally engaged in municipal and infrastructure construction, Hangzhou Huazhiying Investment Management Company Limited* (杭州華之贏投資管理有限公司), which is principally engaged in provision of investment management and advisory services and Hangzhou Huayingbao Technology Company Limited* (杭州華贏寶網絡科技有限公司) and Hangzhou Zhishi Technology Company Limited* (杭州支氏科技有限公司) which are principally engaged in technology development, advisory and transfer on computer hardware, software and electronic products, in the PRC.

INFORMATION OF BLOOM DRAGON

Bloom Dragon is a money lender licensed in Hong Kong under the provisions of the MLO and is principally engaged in provision of money lender services and debt investment. Bloom Dragon provides financing to the Offeror in connection with the acquisition of Sales Shares and the Offer Shares to be acquired by the Offeror under the Offer by way of subscription of the Series A Note and the Series B Note issued by the Offeror respectively.

During the Relevant Period, save for the entering into of the Sale and Purchase Agreement, the Loan Agreement and the Notes Subscription Agreement and save for the Pledged Shares, Bloom Dragon and the 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.

As at the Latest Practicable Date, Bloom Dragon is ultimately and beneficially owned as to 50% by Mr. Ng Chi Lung and 50% by Good Fellow Group Limited. Good Fellow Group Limited is owned as to 99.9% by Hillbrow Securities Limited and 0.1% by Mr. Ng Leung Ho, who is the father of Mr. Ng Chi Lung. Hillbrow Securities Limited is wholly owned by Mr. Ng Leung Ho. Each of Bloom Dragon and its beneficial owners is presumed to be acting in concert with the Offeror.

THE OFFEROR'S INTENTIONS IN RELATION TO THE GROUP

Following the close of the Offer, the Offeror intends to continue the existing principal businesses of the Group, including the existing garment sourcing business. The Offeror would conduct a review on the financial position and the operations of the Group and would formulate long-term business plans and strategy of the Group, explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification would be appropriate to enhance the long-term growth potential of the Group. The Offeror has no intention to (i) 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 this letter of this Composite Document); or (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business. 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. 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. 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).

PROPOSED CHANGE OF BOARD COMPOSITION

As at the Latest Practicable Date, the executive Directors are Mr. Gao Zhiyin, Mr. Gao Zhiping, Mr. Feng Chen and Mr. Lam Kai Yeung, the non-executive Director is Mr. Chan Kin and the independent non-executive Directors are Mr. Lau Chi Kit, Mr. Ma Ming and Mr. Li Hui.

Following the Completion, the Offeror became the controlling shareholder of the Company, being interested in approximately 62.01% of the entire issued share capital of the Company. It is intended that Mr. Gao Zhiyin and Mr. Gao Zhiping, will resign with effect upon the later of (i) the date immediately after the Closing Date; and (ii) the earliest time permitted for resignation and appointment of directors under the Takeovers Code. The Offeror proposes to nominate new Directors to the Board subject to compliance with all the applicable regulatory requirements, including the Takeovers Code and the Listing Rules. As at the Latest Practicable

Date, the Offeror has not reached any final decision as to who will be nominated. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and a separate announcement will be made in this regard as and when appropriate.

MAINTAINING THE LISTING STATUS OF THE COMPANY

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.

The Offeror intends the Company to remain listed on the Stock Exchange. 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 to take appropriate steps to ensure that sufficient public float exists in the Shares.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it to acquire compulsorily any outstanding Shares not acquired under the Offer after the close of the Offer.

GENERAL


The attention of the Overseas Shareholders is drawn to paragraph 8 in Appendix I to this Composite Document.

All communications, notices, Form of Acceptance, Share certificate(s), transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and payment to settle the consideration payable under the Offer to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, Kingston Corporate Finance, Kingston Securities, the Independent Financial Adviser, the Registrar and any of their ultimate beneficial owners, respective directors, officers, agents or associates or other parties involved in the Offer will not be responsible for any loss in postage or any other liabilities that may arise as a result thereof. Further details have been set out in Appendix I to this Composite Document and in the Form of Acceptance.

ADDITIONAL INFORMATION

Your attention is drawn to the "LETTER FROM THE BOARD", the "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" and the "LETTER FROM THE INDEPENDENT FINANCIAL ADVISER" as set out in this Composite Document, the accompanying Form of Acceptance and the additional information set out in the appendices to, which form part of, this Composite Document and to consult your professional advisers as you see fit.

Yours faithfully
For and on behalf of
KINGSTON SECURITIES LIMITED



Chu, Nicholas Yuk-yui
Director