



Shenyin Wanguo Capital (H.K.) Limited

25 July 2014

*To The Independent Board Committee of
Ford Glory Group Holdings Limited*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
KINGSTON SECURITIES LIMITED
ON BEHALF OF
UNITECH ENTERPRISES
TO ACQUIRE ALL THE ISSUED SHARES IN
FORD GLORY GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE
ACQUIRED BY UNITECH ENTERPRISES AND PARTIES
ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the composite offer and response document dated 25 July 2014 jointly issued by the Offeror and the Company (the “**Composite Document**”), of which this letter forms part, in connection with the Share Offer. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Composite Document.

We, Shenyin Wanguo Capital (H.K.) Limited, have been appointed as the independent financial adviser after your approval to advise you in connection with the Share Offer and in particular as to whether the Share Offer is, or is not, fair and reasonable and as to acceptance.

The Independent Board Committee, comprising all the four independent non-executive Directors, namely Mr. LAU Chi Kit, Mr. MAK Chi Yan, Mr. WONG Wai Kit, Louis and Mr. YUEN Kin Kei, has been established to make a recommendation as to whether the Share Offer is, or is not, fair and reasonable and as to acceptance. The recommendation of the Independent Board Committee as regards the Share Offer is contained in its letter included in the Composite Document.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and statements supplied, opinions and representations expressed by the Company and the Directors and have assumed that all such information and statements supplied, opinions and representations expressed to us were true, accurate and complete in all material aspects at the time they were provided and continue to be true up to the end of the Offer Period. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information and statements supplied as well as opinions and representations expressed to us.

We consider that we have been provided with sufficient information to enable us to reach our advice and recommendations as set out in this letter and to justify our reliance on the accuracy of such information. We have no reason to suspect that any material facts or information (which are known to the Company) have been omitted or withheld from the information or statements supplied, or opinions or representations expressed to us nor to doubt the truth and accuracy of the information and statements supplied, or the reasonableness of the opinions and representations expressed to us. We have not, however, carried out any independent verification on the information provided to us by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business or affairs or future prospects of the Group.

In formulating our opinion, we have taken no account of tax implications, if any, on the Independent Shareholders in connection with the Share Offer. They are advised to consult their own professional advisers in this regard if they are in doubt. We do not accept the responsibility for any tax effects on or liabilities of any persons as a result of their acceptance of the Share Offer.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into account the following principal factors and reasons in arriving at our recommendations with regard to the Share Offer:

Background leading to the Share Offer

The Offer Period commenced on 24 July 2013 when the Preliminary Announcement was jointly issued by the Company and VC, whereby Sure Strategy (the then controlling Shareholder) was in preliminary discussion with an independent third party regarding a possible disposal of all or part of its Shares. On 19 November 2013, it was announced that such discussion ceased as well as Sure Strategy was in preliminary discussion with other independent third parties in the same regard (referred to as the **“19-Nov-2013 Announcement”** hereinafter). On 18 December 2013, the MOU was entered into between Sure Strategy and the Offeror regarding, *inter alia*, the acquisition by the Offeror of over 60% of the total issued share capital of the Company as at the Share Sale Completion Date.



On 14 March 2014, the Vendors (including Sure Strategy) and the Offeror entered into the Share Sale Agreement regarding the acquisition by the Offeror of 320,000,000 Shares held by the Vendors, representing approximately 61.56% of the entire issued share capital of the Company as at the Latest Practicable Date, for a cash consideration of HK\$258,560,000 i.e. HK\$0.808 per Sale Share. The Share Sale Completion took place on 22 July 2014.

Upon Share Sale Completion, the Offeror and parties acting in concert with it owned more than 30% of the entire issued share capital of the Company and the Offeror is therefore obliged to make the Share Offer pursuant to Rule 26.1 of the Takeovers Code.

The Share Offer

Set out in the Composite Document are the details of the Share Offer (including the procedures for acceptance of the Share Offer set out in Appendix I thereto). Kingston Securities, on behalf of the Offeror and in compliance with the Takeovers Code, makes the following Share Offer:

For each Offer Share HK\$0.808 in cash

As at the Latest Practicable Date, there were 519,777,000 Shares in issue. The Share Offer Price is the same as the purchase price per Sale Share under the Share Sale Agreement, which was arrived at after arm's length negotiations between the Offeror and the Vendors. The Share Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number or any other conditions.

Information on the Group

The Shares have been listed on the Stock Exchange since 5 October 2010. Prior to completion of the Disposal, the Former Group was a garment manufacturer with the capability of running the Garment Sourcing Business. Whilst its core products included cut and sewn knits, the Former Group also produced sweaters and woven garments in its four factories in China, Cambodia, Indonesia and Jordan. The Former Group's products were sold to major brand name customers in the U.S., Canada, Europe and China.

(i) **Financial information on the Former Group**

Set out below is the audited financial information of the Former Group extracted from Appendix II to the Composite Document:

	31 March		
	2014	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	937,075	1,071,162	909,908
Gross profit	166,849	172,144	142,674
Gross profit margin (%)	<i>17.8%</i>	<i>16.1%</i>	<i>15.7%</i>
Profit before tax	16,436	17,776	11,097
Profit for the year	11,578	7,269	7,720

According to the 2013/14 annual results announcement of the Company dated 27 June 2014, the Former Group's revenue for the year ended 31 March 2014 decreased primarily due to (a) the downsizing of its factory in China as a result of the slowdown of the China's domestic market and the high operating costs; and (b) the slowdown of the business of a joint venture with a denim casual wear brand in the U.S. According to the 2012/13 annual report of the Company, the increase in the Former Group's revenue was primarily due to the diversification of its production bases into Jordan and Cambodia and the inclusion of the business of the aforesaid joint venture. Gross profit margin increased over the years primarily due to the Former Group's successful cost control and its corporate strategy to expand its production bases to relatively low-cost countries.



(ii) **Unaudited pro forma financial information of the Group**

Completion of the Disposal took place simultaneously with the Share Sale Completion on 22 July 2014. Following the Disposal, the Group is left with the Garment Sourcing Business only. On 22 July 2014, the Special Cash Dividend of HK\$0.72 per Share totalling approximately HK\$374.2 million was distributed to the Qualifying Shareholders. Set out below is the unaudited pro forma financial information of the Group extracted from Appendix III to the Composite Document:

	Year ended 31 March 2013 HK\$'000
Revenue	315,306
Gross profit	26,817
Gross profit margin (%)	8.5%
Loss before tax	1,649
Loss for the year	8,928

Gross profit margin of approximately 8.5% is lower than that of the Former Group of over 16% for the same year. The Directors have advised that such difference is due to a higher margin charged to customers for products manufactured instead of sourced only by the Former Group. The loss for the year was primarily due to (a) the professional fees and expenses of approximately HK\$5.7 million and the capital gain taxes of approximately HK\$4.6 million incurred by the Company in connection with the Disposal as if the Disposal had been completed on 1 April 2012; and (b) the share-based payment expenses of approximately HK\$12.1 million which are expected to disappear as all Share Options had been exercised in full as at the Latest Practicable Date.



	30 September 2013 <i>HK\$'000</i>
Property, plant and equipment	316
Inventories	3,101
Trade and bill receivables	42,237
Deposits, prepayments and other receivables	73
Bank balances and cash	41,962
Trade and bill payables	(15,725)
Other payables and accruals	(776)
Amount due to the Disposal Group Entities	(11,342)
Tax payable	(4,684)
Bank borrowings	<u>(18,398)</u>
	<u><u>36,764</u></u>

After completion of the Disposal, the Group operates the Garment Sourcing Business headquartered in Hong Kong with no factories in China, Cambodia, Indonesia and Jordan anymore. The balance sheet of the Group primarily comprises of current assets and liabilities with no property or significant non-current asset such as a mining right.

(iii) The Proposed Change of Name

Following the passing of the special resolution by the Shareholders at the SGM to approve the change of the name of the Company, it is expected that the Company's English name will change to "Highlight China IoT International Limited" and "高銳中國物聯網國際有限公司" will be adopted as its new secondary name in early August 2014.

(iv) Future prospects of the Group

According to the U.S. International Trade Administration, the import value of apparel products to the U.S. for the year ended 31 March 2014 increased to approximately US\$80,409 million, representing a growth of approximately 3.9% on a year-on-year basis. In addition, the key data issued by The European Apparel and Textile Confederation also estimated that the clothing import of the Eurozone reached approximately euro 67.0 billion in 2013 (2012: euro 65.9 billion), showing a modest uptrend. Domestically, the retail sales growth in China has been decelerating gradually in recent years. In 2013, notwithstanding that the growth rate of the total retail sales of consumer goods was 13.1% on a year-on-year basis, it was the lowest since 2007 according to the National Bureau of Statistics of China. This moderation in retail sales growth has seen buyers and merchandisers slowing their order placing in the year. In spite of the uncertainties associated with the world economy, the Group has already secured sales orders worth over HK\$200 million for the year ending 31 March 2015 according to the letter from the Board included in the Circular.



As discussed in the sub-section headed “Information on the Offeror, its intention in relation to the Group and the proposed change of the Board” in this letter, we consider that there are uncertainties associated with the business development and direction of the Group after the close of the Share Offer given that (a) the new Directors to be appointed to the Board do not have the relevant experience in the Garment Sourcing Business; (b) the operations of the Group will be subject to the Offeror’s review; (c) there is no concrete timetable available in relation to the business opportunities as referred to in the letter from Kingston Securities included in the Composite Document; and (d) all current Directors will resign from their office.

Information on the Offeror, its intention in relation to the Group and the proposed change of the Board

Set out in the letter from Kingston Securities included in the Composite Document is the information on, *inter alia*, the Offeror, its intention in relation to the Group and the proposed change of the Board.

(i) The Offeror

The Offeror is the ultimate holding company of Highlight Vision PRC, which is an integrated service provider for the IoT, Tri-Network Integration, smart city and new media industries in China. The two shareholders of the Offeror have years of experience in the industry of broadcasting and television communication and have an in-depth understanding of the Internet and IoT industries.

(ii) Intention of the Offeror in relation to the Group

The Offeror intends to continue the business of the Group and has no intention to (i) dispose of, terminate or downsize the existing business of the Group; (ii) redeploy its fixed assets; and (iii) terminate any employees of the Group or make significant changes to any employment (except for the proposed change of the Board).

The Offeror will, following completion of the Share Offer, conduct a detailed review of the operations of the Group and formulate feasible business strategies with a view to developing a sustainable corporate strategy to broaden its income stream, which may include rebalancing the resources of the Group should appropriate opportunities arise.

For the future development of the Group with the aim of protecting the Shareholders in a responsible manner, subject to a detailed review to be performed by the Offeror on the availability of sufficient resources to finance new business opportunities by the Group, the Offeror intends to explore new business opportunities relating to the Internet, IoT, Tri-Network Integration and new media industries by utilising its experience and resources including, but not limited to, acquisition or investment through joint ventures to be established by the Offeror with third parties in China and/or overseas in compliance with applicable laws and regulations. As at the Latest Practicable Date, there was no concrete timetable for executing the aforesaid business opportunities.

(iii) Proposed change of the Board

The Offeror has nominated and the Board has appointed three executive Directors and one independent non-executive Director with effect from the date immediately after the despatch of the Composite Document. The Offeror also intends to nominate additional independent non-executive Directors to the Board and such appointments will not take effect earlier than the date of posting of the Composite Document (or such other date as permitted under the Takeovers Code). Immediately after the first closing date of the Share Offer (or such other time as permitted under the Takeovers Code), all current Directors will resign from their office.

Evaluation of the Share Offer Price

The Share Offer Price is the same as the purchase price per Sale Share under the Share Sale Agreement, which was arrived at after arm's length negotiations between the Offeror and the Vendors.

(i) Comparable analysis

The 2013/14 annual results announcement of the Company dated 27 June 2014 does not provide the unaudited pro forma financial information of the Group for the year ended 31 March 2014 as if the Disposal had been completed on 1 April 2013. Set out in Appendix III to the Composite Document is, *inter alia*, the unaudited pro forma financial information of the Group for the year ended 31 March 2013 as if the Disposal had been completed on 1 April 2012 and the Group was loss making and had net cash outflows for the same year. As such, we consider that an analysis based on price-to-earnings multiples or a discounted cash flow model is not appropriate.

The Share Offer Price of HK\$0.808 per Share implies a price-to-book ratio of approximately 11.43 times of the unaudited pro forma net asset value of the Group of approximately HK\$0.0707 per Share based on the unaudited pro forma net asset value of the Group of approximately HK\$36.8 million as at 30 September 2013 as disclosed in Appendix III to the Composite Document and 519,777,000 issued Shares as at the Latest Practicable Date. As discussed in the sub-section headed "Information on the Group – Unaudited pro forma financial information of the Group" in this letter, the Group does not own any property or any significant non-current asset such as a mining right. On this basis, we were unable to identify any company listed on the Main Board of the Stock Exchange as at the Latest Practicable Date which operates a business similar to the Garment Sourcing Business as well as owns no property or significant non-current asset such as a mining right. As such, we consider that an analysis based on price-to-book ratios is not appropriate either.

(ii) Share price performance

The Directors have advised that the Special Cash Dividend of HK\$0.72 per Share totalling approximately HK\$374.2 million was partly financed by the proceeds from the Disposal. Set out below is the performance of the closing prices of the Shares adjusted downward by HK\$0.72 per Share (the “**Adjusted Closing Prices**”) during the period from the date of listing of the Shares on 5 October 2010 to the Latest Practicable Date (inclusive of both dates) (the “**Review Period**”):



During the period between the listing of the Shares (i.e. 5 October 2010) and the beginning of the Offer Period (i.e. 24 July 2013) (inclusive of both dates), the Adjusted Closing Prices ranged from negative HK\$0.07 per Share on 15 February 2011 (negative as a result of the deduction of the Special Cash Dividend of HK\$0.72 per Share from the closing price of HK\$0.65 per Share) to HK\$0.57 per Share on 20 June 2011. The Share Offer Price represents a price above all Adjusted Closing Prices prior to the Offer Period. It is believed that due to the market reaction to the Preliminary Announcement followed by the 19-Nov-2013 Announcement and the MOU signed on 18 December 2013, the Adjusted Closing Prices surged from HK\$0.40 per Share on 24 July 2013 i.e. the beginning of the Offer Period to the all-time high of HK\$2.6 per Share on 10 February 2014 (the Special Cash Dividend of HK\$0.72 deducted from the closing Share prices quoted on the Stock Exchange). Notwithstanding the discussion between Sure Strategy and the first potential buyer of Sure Strategy’s stake in the Company ceased as announced on 19 November 2013, we consider that the Adjusted Closing Prices prior to the Offer Period are relevant to our analysis of the Share Offer Price since the Share prices afterwards are believed to have been



affected by the impact of the news relating to the Share Offer. Taking into account that the Share Offer Price represents a price above all Adjusted Closing Prices prior to the Offer Period, we consider that the Share Offer Price is fair and reasonable.

(iii) Liquidity analysis

	Daily average number of Shares traded	% to the total issued Shares (%)	% to the issued Shares in public hands (%)
2013			
January	38,721	0.01	0.03
February	15,979	0.00	0.01
March	88,143	0.02	0.07
April	17,200	0.00	0.01
May	9,334	0.00	0.01
June	1,474	0.00	0.00
July	947,426	0.18	0.72
August	435,905	0.08	0.33
September	250,550	0.05	0.19
October	135,143	0.03	0.10
November	1,457,078	0.28	1.11
December (<i>Note</i>)	1,033,951	0.20	0.79
2014			
January	392,668	0.08	0.30
February	1,104,324	0.21	0.84
March (<i>Note</i>)	711,602	0.14	0.54
April (<i>Note</i>)	N/A	N/A	N/A
May (<i>Note</i>)	1,413,891	0.27	1.08
June	119,400	0.02	0.09
2 July up to the Latest Practicable Date	1,208,913	0.23	0.92

Note: Trading in the Shares was suspended on 19 December 2013 and during the period from 17 March 2014 to 7 May 2014 (inclusive of both dates).

Except for November 2013 and May 2014 which percentages were slightly over 1%, all percentages of daily average number of Shares traded were less than 1% of the issued Shares in public hands. We consider that such level of liquidity of the Shares would not be sufficient for the Independent Shareholders to sell a significant number of their Shares on the open market without exerting a downward pressure on the market price of the Shares. We therefore consider that the Share Offer provides an opportunity to the Independent Shareholders to realise their investment in the Company if they so wish.



OPINION

Having taken into account the principal factors and reasons set out above, in particular:

- (i) the substantial change of the business of the Group as a result of the Disposal whereby the Group is now left with the Garment Sourcing Business only which is on a lower gross profit margin than the Former Group;
- (ii) the uncertainties associated with the business development and direction of the Group after the close of the Share Offer given that (a) the new Directors to be appointed to the Board do not have the relevant experience in the Garment Sourcing Business; (b) the operations of the Group will be subject to the Offeror's review; (c) there is no concrete timetable available in relation to the business opportunities as referred to in the letter from Kingston Securities included in the Composite Document; and (d) all current Directors will resign from their office;
- (iii) the Share Offer Price represents a price above all Adjusted Closing Prices prior to the Offer Period;
- (iv) the surge in the Share prices after the Preliminary Announcement is believed to be due to the market reaction to the news relating to the Share Offer, which may not be sustainable after the Latest Practicable Date; and
- (v) the Share Offer provides an opportunity to the Independent Shareholders to realise their investment in the Company as the low liquidity of the Shares would not be sufficient for them to sell a significant number of their Shares on the open market,

we consider that the Share Offer is fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

For those Independent Shareholders who are considering to realise all or part of their investment in the Company, they should monitor the Share price performance until the end of the Offer Period. If the market price of the Shares exceeds the Share Offer Price and the sale proceeds net of transaction costs exceed the net proceeds receivable under the Share Offer, the Independent Shareholders should consider to sell their Shares on the open market instead of accepting the Share Offer.

The Offeror does not intend to avail itself of any powers of compulsory acquisition of the Shares after the close of the Share Offer. Accordingly, for those Independent Shareholders who, after considering the information contained in the Composite Document, are attracted by the future prospects of the Group following the Share Offer, they should consider retaining all or part of their Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror 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. If, at the close of the Share Offer, less than 25% of the Shares are held by the public, the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares. There is a possibility that the listing of the Shares may suffer from a prolonged suspension in the event that the public float cannot be restored. In such case, the Shareholders will not be able to sell their Shares on the Stock Exchange until trading in the Shares resumes.

The Independent Shareholders should read carefully the procedures for acceptance of the Share Offer set out in Appendix I to the Composite Document.

Yours faithfully,
for and on behalf of
Shenyin Wanguo Capital (H.K.) Limited

A handwritten signature in blue ink that reads "Felix Chan".

Felix Chan
Managing Director