
THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Form of Acceptance or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Highlight China IoT International Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms and conditions of the Offer contained in this Composite Document.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.

**ROSY LANE
INTERNATIONAL LIMITED**

盛途國際有限公司

*(incorporated in the British Virgin Islands with
limited liability)*

**HIGHLIGHT CHINA IOT
INTERNATIONAL LIMITED**

高銳中國物聯網國際有限公司

(incorporated in Bermuda with limited liability)
(Stock Code: 1682)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
RELATING TO THE UNCONDITIONAL MANDATORY CASH OFFER BY**

 **KINGSTON SECURITIES**

**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)**

Financial Adviser to the Offeror

 **KINGSTON CORPORATE FINANCE**

Independent Financial Adviser to the Independent Board Committee

AmCap

Ample Capital Limited

豐盛融資有限公司

Ample Capital Limited

A letter from Kingston Securities containing, amongst other things, details of the terms and conditions of the Offer is set out on pages 8 to 17 of this Composite Document. A letter from the Board is set out on pages 18 to 25 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Shareholders in respect of the Offer is set out on pages 26 to 27 of this Composite Document. A letter from the Independent Financial Adviser containing its advice and recommendation in respect of the Offer is set out on pages 28 to 46 of this Composite Document.

The procedures for acceptance and settlement of the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance.

Acceptances of the Offer should be received by the Registrar by no later than 4:00 p.m. on Tuesday, 12 September 2017 or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "DEFINITIONS" in this Composite Document.

22 August 2017

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EXPECTED TIMETABLE

The timetable set out below is indicative and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company. All the time and date references contained in this Composite Document refer to Hong Kong time and dates.

Despatch date of this Composite Document and
the accompanying Form of Acceptance and
commencement of the Offer (*Note 1*) Tuesday, 22 August 2017

Latest time and date for acceptance of
the Offer (*Note 2 and Note 4*) 4:00 p.m. on Tuesday,
12 September 2017

Closing Date (*Note 2*) Tuesday, 12 September 2017

Announcement of the results of the Offer on
the website of the Stock Exchange (*Note 2*) by 7:00 p.m. on Tuesday,
12 September 2017

Latest date of posting of remittances in respect of
valid acceptances received under the Offer (*Note 3*) Thursday, 21 September 2017

Notes:

- (1) The Offer, which is unconditional in all respects, is made on 22 August 2017, the date of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.
- (2) In accordance with the Takeovers Code, the Offer must remain open for acceptance for at least 21 days following the date on which this Composite Document is posted. The Offer will be closed at 4:00 p.m. on the Closing Date unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement will be jointly issued by the Company and the Offeror through the website of the Stock Exchange by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer has been revised or extended or have expired. In the event that the Offeror decides that the Offer will remain open, the announcement will state the next closing date of the Offer or that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given, before the Offer is closed, to those Shareholders who have not accepted the Offer. If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force on the Closing Date and (i) not cancelled in time for trading on the Stock Exchange to resume in the afternoon, the time and date of the close of the Offer will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong or such other day as the Executive may approve; or (ii) cancelled in time for trading on the Stock Exchange to resume in the afternoon, the time and date of the close of the Offer will be the same day, i.e. 4:00 p.m. on the Closing Date.
- (3) Remittances 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 following 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. Remittances 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.
- (4) Acceptance of the Offer shall be irrevocable and not capable of being withdrawn except in the circumstances set out in the section headed "6. RIGHT OF WITHDRAWAL" in Appendix I to this Composite Document.
- (5) Save as mentioned above, if the latest time for acceptance of the Offer and the posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders any change to the expected timetable as soon as practicable by way of announcement(s).

DEFINITIONS

In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate”	has the meaning ascribed to it under the Takeovers Code
“Bloom Dragon”	Bloom Dragon Finance Limited (興龍財務有限公司), a company incorporated in Hong Kong with limited liability. 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 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
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for transaction of business
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Closing Date”	12 September 2017, being the closing date of the Offer which is 21 days following the date on which this Composite Document was posted (or such other date as revised or extended in accordance with the Takeovers Code)
“Company”	Highlight China IoT International Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1682)

DEFINITIONS

“Completion”	the completion of the sale and the purchase of the Sales Shares pursuant to the Sale and Purchase Agreement
“Composite Document”	this composite offer and response document dated 22 August 2017 jointly issued by the Offeror and the Company to all Shareholders in accordance with the Takeovers Code containing, among other things, the terms and conditions of the Offer, the form of acceptance and transfer of Shares in respect of the Offer, the letter of advice of the Independent Financial Adviser to the Independent Board Committee in respect of the Offer, and the letter of advice of the Independent Board Committee to the Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance to the Offer
“Consideration”	the consideration for the Sale Shares
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Deed of Set Off”	the deed of set off dated 12 July 2017 entered into among the Offeror, the Vendor and Bloom Dragon in relation to the set off of the Consideration against part of 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
“Director(s)”	the director(s) of the Company
“Encumbrances”	any mortgage, charge, pledge, lien, hypothecation, priority of security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-lease back arrangement or similar encumbrance(s) over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

DEFINITIONS

“Facilities”	a loan facility of HK\$300,000,000 granted by Bloom Dragon to the Vendor for a term of 1 year from 8 June 2017, which was secured by, amongst other things, (i) the Shares held by the Vendor at that time and (ii) a charge over the securities account opened by the Vendor in the name of the Vendor
“Form of Acceptance”	the form of acceptance and transfer of Shares in respect of the Offer which accompanies this Composite Document
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising the non-executive Director and all the independent non-executive Directors which has been established in accordance with the Takeovers Code for the purpose of advising the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer
“Independent Financial Adviser” or “Ample Capital”	Ample Capital Limited, a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Offer and in particular as to whether the Offer is fair and reasonable and as to the acceptance of the Offer
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and parties acting in concert with it
“Jiangxi Broadcasting”	Shangrao branch of Jiangxi Province Broadcasting and Television Network Communication Co., Ltd.* (江西省廣播電視網絡傳輸有限公司), a company established under the laws of the PRC with limited liability

DEFINITIONS

“Joint Announcement”	the announcement dated 19 July 2017 jointly issued by the Company and the Offeror, in relation to, among other things, the Sale and Purchase Agreement and the Offer
“Kingston Corporate Finance”	Kingston Corporate Finance Limited, a corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in respect of the Offer
“Kingston Facility Agreement”	the loan facility agreement entered into between Kingston Securities as lender and the Offeror as borrower dated 12 July 2017 in relation to the loan facility granted by Kingston Securities for financing the Offer and unconditionally and irrevocably guaranteed by Mr. Zhi Hua by way of personal guarantee, and secured by the Kingston Share Charge
“Kingston Securities”	Kingston Securities Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities) regulated activity under the SFO, being the agent making the Offer on behalf of the Offeror
“Kingston Share Charge”	the share charge entered into between the Offeror as chargor and Kingston Securities as chargee dated 12 July 2017 in relation to a charge over the Shares as may be purchased by the Offeror pursuant to the Offer
“Last Trading Day”	12 July 2017, being the last trading day prior to the publication of the Joint Announcement
“Latest Practicable Date”	21 August 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 7 June 2017 entered into between the Vendor and Bloom Dragon in relation to the Facilities
“MLO”	the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong)

DEFINITIONS

“Notes”	Series A Note and Series B Note
“Notes Subscription Agreement”	the notes subscription agreement dated 12 July 2017 entered into among the Offeror, Bloom Dragon and Mr. Zhi Hua in relation to the issuance of the Notes
“Offer”	the unconditional mandatory cash offer made by Kingston Securities for and on behalf of the Offeror for all the Offer Shares in accordance with the Takeovers Code
“Offer Period”	has the meaning ascribed to it under the Takeovers Code and commenced from the date of the Joint Announcement until the Closing Date
“Offer Price”	HK\$0.931 per Offer Share payable in cash by the Offeror to the Shareholders under the Offer
“Offer Share(s)”	the Shares in issue, other than those already owned or to be acquired by the Offeror and parties acting in concert with it
“Offeror”	Rosy Lane International Limited (盛途國際有限公司), a company incorporated in the BVI with limited liability, being the purchaser of the Sale Shares under the Sale and Purchase Agreement and the Offeror for the Offer. The Offeror has been wholly, ultimately and beneficially owned by Mr. Zhi Hua (支華先生) since 7 July 2017 and up to the Latest Practicable Date
“Parties”	the parties to the Sale and Purchase Agreement, being the Vendor and the Offeror
“Pingyang Wasu”	Pingyang Wasu Broadcasting and Television Network Co., Ltd.* (平陽華數廣電網絡有限公司), a company established under the laws of the PRC with limited liability

DEFINITIONS

“Pledged Shares”	(i) 322,326,500 shares, being the Sale Shares, previously mortgaged to Bloom Dragon under the Loan Agreement prior to Completion; and (ii) the Sale Shares mortgaged to Bloom Dragon and the Offer Shares to be acquired by the Offeror under the Offer, mortgaged to Bloom Dragon and Kingston Securities under the Notes Subscription Agreement and the Kingston Share Charge respectively following the Completion
“PRC”	the People’s Republic of China (for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Registrar”	Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of the Company, situated at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Period”	the period from 19 January 2017, being the date falling six months preceding the commencement of the Offer Period, up to and including the Latest Practicable Date
“Sale and Purchase Agreement”	the sale and purchase agreement dated 12 July 2017 entered into between the Vendor and the Offeror in relation to the sale and the purchase of the Sale Shares
“Sale Shares”	322,326,500 Shares (representing approximately 62.01% of the issued share capital of the Company as at the Latest Practicable Date), legally and beneficially owned by the Vendor before the Completion and deposited in Securities Account A and mortgaged to Bloom Dragon pursuant to a charge over the Securities Accounts
“Securities Account A”	the securities account opened by the Offeror in the name of the Offeror with Kingston Securities in which the Offeror deposited the Sale Shares
“Securities Account B”	the securities account opened by the Offeror in the name of the Offeror with Kingston Securities in which the Offeror shall deposit the Offer Shares to be acquired by the Offeror under the Offer

DEFINITIONS

“Securities Accounts”	Securities Account A and Securities Account B. The Offeror is the ultimate beneficial owner of the Shares held in the Securities Accounts and the Offeror has sole control over these Shares
“Series A Note”	the senior guaranteed secured 18% per annum note due 11 July 2018 of a principal amount of HK\$300,000,000 issued by the Offeror and unconditionally and irrevocably guaranteed by Mr. Zhi Hua by way of personal guarantee, and secured by (i) the Sale Shares acquired by the Offeror pursuant to the Sale and Purchase Agreement and all other Shares as may be purchased by the Offeror pursuant to the Offer; and (ii) a charge over the Securities Accounts
“Series B Note”	the senior guaranteed secured 1.3% per month note due 11 October 2017 of a principal amount of HK\$84,000,000 issued by the Offeror and unconditionally and irrevocably guaranteed by Mr. Zhi Hua by way of personal guarantee, and secured by (i) the Sale Shares acquired by the Offeror pursuant to the Sale and Purchase Agreement and all other Shares as may be purchased by the Offeror pursuant to the Offer; and (ii) a charge over the Securities Accounts
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendors”	Unitech Enterprises Group Limited (卓科企業集團有限公司), a company incorporated in the BVI with limited liability, which is owned as to 40% by Mr. Gao Zhiping and 60% by Mr. Gao Zhiyin, who are the executive Directors. It was the legal and beneficial owner of the Sale Shares before the Completion
“%”	per cent.

LETTER FROM KINGSTON SECURITIES



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.

LETTER FROM KINGSTON SECURITIES

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).

LETTER FROM KINGSTON SECURITIES

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;

LETTER FROM KINGSTON SECURITIES

- (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.

LETTER FROM KINGSTON SECURITIES

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.

LETTER FROM KINGSTON SECURITIES

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.

LETTER FROM KINGSTON SECURITIES

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.

LETTER FROM KINGSTON SECURITIES

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

LETTER FROM KINGSTON SECURITIES

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.

LETTER FROM KINGSTON SECURITIES

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

LETTER FROM THE BOARD

HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

高銳中國物聯網國際有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1682)

Executive Directors:

Mr. Gao Zhiyin (*Chairman*)
Mr. Gao Zhiping (*Chief Executive Officer*)
Mr. Feng Chen (*Chief Operating Officer*)
Mr. Lam Kai Yeung (*Chief Financial Officer*)

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Director:

Mr. Chan Kin

Principal Place of Business

in Hong Kong:

Rooms 4114 – 4119, 41st Floor
Sun Hung Kai Centre
No. 30 Harbour Road
Wanchai, Hong Kong

Independent non-executive Directors:

Mr. Lau Chi Kit
Mr. Ma Ming
Mr. Li Hui

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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
Total:	<u>519,777,000</u>	<u>100</u>	<u>519,777,000</u>	<u>100</u>

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

高銳中國物聯網國際有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1682)

22 August 2017

To the Independent Shareholders

**COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO
THE 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

We refer to the composite offer and response document dated 22 August 2017 jointly issued by the Offeror and the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in this Composite Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the Offer is fair and reasonable so far as the Independent Shareholders are concerned, and as to acceptances thereof.

Ample Capital has been appointed as the independent financial adviser to advise us in respect of the terms of the Offer and as to acceptance thereof. Details of its advice and the principal factors and reasons taken into account by it in arriving at its advice and recommendation are set out in the “LETTER FROM THE INDEPENDENT FINANCIAL ADVISER” on pages 28 to 46 of this Composite Document.

We also wish to draw your attention to the “LETTER FROM THE BOARD”, the “LETTER FROM KINGSTON SECURITIES” and the additional information set out in the appendices to this Composite Document.

RECOMMENDATION

Having considered the terms of the Offer and the letter of advice and recommendations from Ample Capital, we consider that the Offer is fair and reasonable so far as the Independent Shareholders are concerned, and therefore we recommend the Independent Shareholders to accept the Offer. The Independent Shareholders are recommended to read the full text of the “LETTER FROM THE INDEPENDENT FINANCIAL ADVISER” set out in this Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

However, if the net proceeds from the sale of the Shares in the open market after deducting all transaction cost would exceed the net amount receivable under the Offer, the Shareholders should consider selling their Shares in the market, rather than accepting the Offer.

Notwithstanding our recommendation, the Shareholders should consider carefully the terms and conditions of the Offer.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Lau Chi Kit
Independent non-executive Director

Mr. Ma Ming
Independent non-executive Director

Mr. Li Hui
Independent non-executive Director

Mr. Chan Kin
Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Ample Capital, the Independent Financial Adviser in respect of the Offer, and is prepared for the purpose of incorporation into this Composite Document.

AmCap
Ample Capital Limited
豐盛融資有限公司

Ample Capital Limited
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

22 August 2017

*To the Independent Board Committee of
Highlight China IoT International Limited*

Dear Sirs,

**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

We refer to our engagement by the Company to advise the Independent Board Committee in respect of the Offer, the particulars of which have been set out in the Composite Document to the Shareholders dated 22 August 2017 and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them in the Composite Document.

Pursuant to Rules 2.1 and 2.8 of the Takeovers Code, the Independent Board Committee, comprising Mr. Chan Kin, being a non-executive Director, Mr. Lau Chi Kit, Mr. Ma Ming and Mr. Li Hui, all being independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, Ample Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer. The appointment of Ample Capital has been approved by the Independent Board Committee.

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 date of 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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).

BASIS OF ADVICE

In formulating our opinions and recommendations, we have relied on the information in relation to the Offer and operation of the Group supplied to us by the Company and the Offeror (where applicable), the opinions expressed by, and the representations of, the Directors and the management of the Company, including those set out in the Composite Document. We have no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. The Independent Shareholders will be notified of any material changes to such information provided in the Composite Document and our opinion as soon as possible as required under the Takeovers Code. We have also assumed that all statements of opinion made by the Directors and the management of the Company in the Composite Document were reasonably made after due enquiries and careful consideration. The Directors have confirmed that, to the best of their information and knowledge, they believe that no material fact or information has been omitted from the information supplied and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Composite Document, including this letter, misleading.

While we have taken reasonable steps to satisfy the requirements under the Takeovers Code and the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company or the Offeror as set out in the Composite Document, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the Offer.

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We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions, and if in any doubt, should consult their own professional adviser.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Offer, we have taken into consideration the following factors:

1. Information on the Group

As stated in the “Letter from the Board” (the “**Board Letter**”) in the Composite Document, the Company is principally engaged in the garment sourcing business and its Shares have been listed on the Stock Exchange since 5 October 2010. Set out below is certain summary financial information as extracted from the Company’s annual report for the year ended 31 March 2017 (the “**Annual Report**”):

	Year ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	80,992	164,589
(Loss) attributable to owners of the Company	(11,443)	(24,757)

	As at 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(audited)	(audited)
Total assets	40,230	66,022
Total liabilities	(34,350)	(48,699)
Net assets	5,880	17,323

We noted that the Company recorded audited consolidated revenue of approximately HK\$80,992,000 for the year ended 31 March 2017, representing an approximately 50.79% decrease when compared with the audited consolidated revenue of approximately HK\$164,589,000 recorded during the year ended 31 March 2016. Based on note 6 to the financial statements in the Annual Report titled “Segment information”, the Group’s revenue of HK\$80,992,000 during the year ended 31 March 2017 was derived as to (i) approximately HK\$65,343,000 from the United States of America (the “USA”), representing approximately 80.68% of total revenue and a decrease of approximately 33.87% as compared with the previous year’s revenue of approximately HK\$98,817,000; (ii) approximately HK\$15,649,000

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from Canada, representing approximately 19.32% of the total revenue and a decrease of approximately 67.71% as compared with the previous year's revenue of approximately HK\$48,464,000; and (iii) no more orders from Mexico which generated approximately HK\$17,308,000 to the revenue of the Group for the year ended 31 March 2016. As further mentioned in the Annual Report, the decrease was mainly attributable to the sluggish retail demand in the USA, Canada and Europe that still has weighed on buyers' confidence and made retailers particularly cautious in placing orders.

The Company recorded a decrease in loss attributable to owners of the Company from approximately HK\$24,757,000 for the year ended 31 March 2016 to approximately HK\$11,443,000 for the year ended 31 March 2017, representing an improvement of approximately 53.78%. As stated in the Annual Report, despite the gross profit margin decreased from approximately 7.8% to approximately 6.2% due to slow demand and keen competition, the decrease in selling and distribution costs and administrative expenses resulted from the reduction in headcounts and sample making had compensated the decrease in gross profit.

As shown in the Annual Report, the revenue of the Company has been in the decreasing trend since the year ended 31 March 2013 from approximately HK\$1,071,162,000 to HK\$282,089,000 (restated) in 2014, HK\$365,690,000 in 2015, HK\$164,589,000 in 2016 and HK\$80,992,000 in 2017 with loss attributable to owners of the Company commencing in the year ended 31 March 2015. The Company mentioned in the prospects and development plan of the Annual Report that the development of the Group's current business as a garment sourcing management supplier in providing value-added services such as material sourcing, product design and development, sample making and logistics arrangement, has fallen short of expectations and failed to bring forth significant breakthroughs. Affected by unfavorable factors including the slowdown in global investment, weak growth in trade, subdued production growth, intense competition within the industry, increased operational costs and decreased product demand, the Group's revenue and profit generated from its businesses have been unsatisfactory. With further reference to the Peer Comparables (as defined in section 3.3 of this letter) which are also engaged in the garment business as shown in "Peer Comparables" under the below section headed "3.3 Comparable analysis", we note that 6 out of 10 Peer Comparables were also loss making in their respective latest financial year. In view of the tightening trade policies proposed by Mr. Donald Trump, the president of the USA and the slow recovery of economy in Europe, we consider the development of garment business under this political and economic condition is expected to be full of uncertainties and challenges.

As at 31 March 2017, the Company had audited consolidated total assets, total liabilities and net assets of approximately HK\$40,230,000, HK\$34,350,000 and HK\$5,880,000 respectively, whereas despite the reduced total liabilities of approximately 29.46% from approximately HK\$48,699,000 as at 31 March 2016, the total assets and net asset value of the Company recorded a decrease of approximately 39.07% and approximately 66.06% from approximately HK\$66,022,000 and approximately HK\$17,323,000 respectively as at 31 March 2016.

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The Company further mentioned in the Annual Report that, in order to maximize the interests of the Shareholders and with the experience and connections of the management of the Company in relevant fields, the Group is planning to shift its business direction and establish subsidiaries in the PRC for the purposes of developing and operating the integrated information service platform on broadcasting networks, including, but not limited to, provision of comprehensive town management, market supervision, comprehensive law enforcement, public convenience and other services. Referring to the Company's announcements dated 18 May 2017 and 22 May 2017, the Company has proposed cooperation with Independent Third Parties in the development of the abovementioned businesses (the "**Cooperation Opportunities**"). The agreements with Jiangxi Broadcasting and Pingyang Wasu in relation to the Cooperation Opportunities 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, definitive agreements in relation to the Cooperation Opportunities have not yet been entered into between the parties. Since the Company is still in the stage of exploring and assessing the Cooperation Opportunities, it is first of all, uncertain whether the Cooperation Opportunities would indeed be materialized. Nonetheless, the Cooperation Opportunities may be subject to possible financial investment whereas it is unsure when the return of investment would be realized. Taking into account of the uncertainties and given that the Cooperation Opportunities are not expected to be materialized before the close of the Offer, we are of the view that the value of the Cooperation Opportunities, if materialized, is unlikely to be realized by the Shareholders in the near future.

Despite that the Offer Price is currently at a discount to the closing price of the Shares as at the Latest Practicable Date, the stock market is unpredictable and Share price may fluctuate and having considered the Group's unsatisfactory financial performance as discussed above, the unmaterialized business diversification plans and unforeseeable prospects of the Group, we consider that the Offer provide viable exits for the Shareholders should they wish to realize their investments in the Company.

2. Information on the Offeror and its intention on the Group

As stated in the "Letter from Kingston Securities" (the "**Kingston Letter**") set out in the Composite Document, the Offeror is an investment holding company incorporated in the BVI with limited liability on 9 May 2017. The Offeror has been wholly, ultimately and beneficially owned by Mr. Zhi Hua since 7 July 2017.

Mr. Zhi Hua has been conducting business or holding interest directly or indirectly in certain companies which are principally engaged in municipal and infrastructure construction, provision of investment management and advisory services, technology development, advisory and transfer on computer hardware, software and electronic products in the PRC.

The Kingston Letter further states that the Offeror intends to continue the existing principal businesses of the Group and intends the Company to remain listed on the Stock Exchange.

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The Kingston Letter further discloses that following the close of the Offer, 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 the Kingston Letter); or (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business.

In this connection, the Offeror does not have any concrete plan on the future development of the business of the Group as at the Latest Practicable Date, considering the unsatisfactory financial performance of the Group and its principal business in recent years under most of the existing management and unmaterialized business plans as discussed in section 1 of this letter, while whether the credentials of Mr. Zhi Hua may provide alternative business opportunities and/or direction to enhance the Group’s future prospects is unknown. Nonetheless, we would like to remind the Shareholders that it is uncertain whether and when business opportunities may be presented to the Group by the Offeror. Furthermore, since the Offeror is a newly established company and based on the information available to us, we are not aware of any potential synergies that may be generated between the Offeror and the Group’s existing business.

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.

As stated in the Kingston Letter, 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.

In addition, 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.

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3. Principal terms of the Offer

As stated in the Kingston Letter, 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

As disclosed in the Kingston Letter, 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.

It is stated in the Kingston Letter that 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 the Composite Document. The Offer is unconditional in all respects and will open for acceptance from the date of the 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.

3.1 *Comparison of value*

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

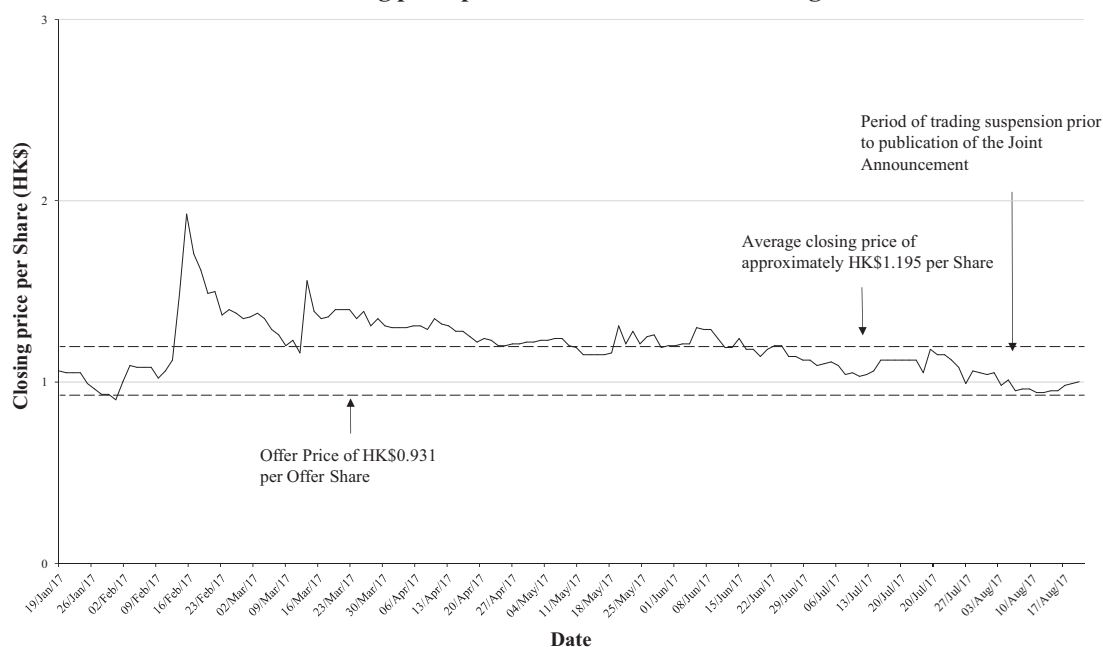
- (a) a discount of approximately 16.875% to the closing price of HK\$1.12 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 12.17% to the average closing price of HK\$1.06 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 9,210% over the audited consolidated net asset value attributable to owners of the Company of approximately HK\$0.01 per Share as at 31 March 2017, the date to which the latest audited financial results of the Group were made up; and
- (d) a discount of 6.9% to the closing price of HK\$1 per Share as quoted by the Stock Exchange on the Latest Practicable Date.

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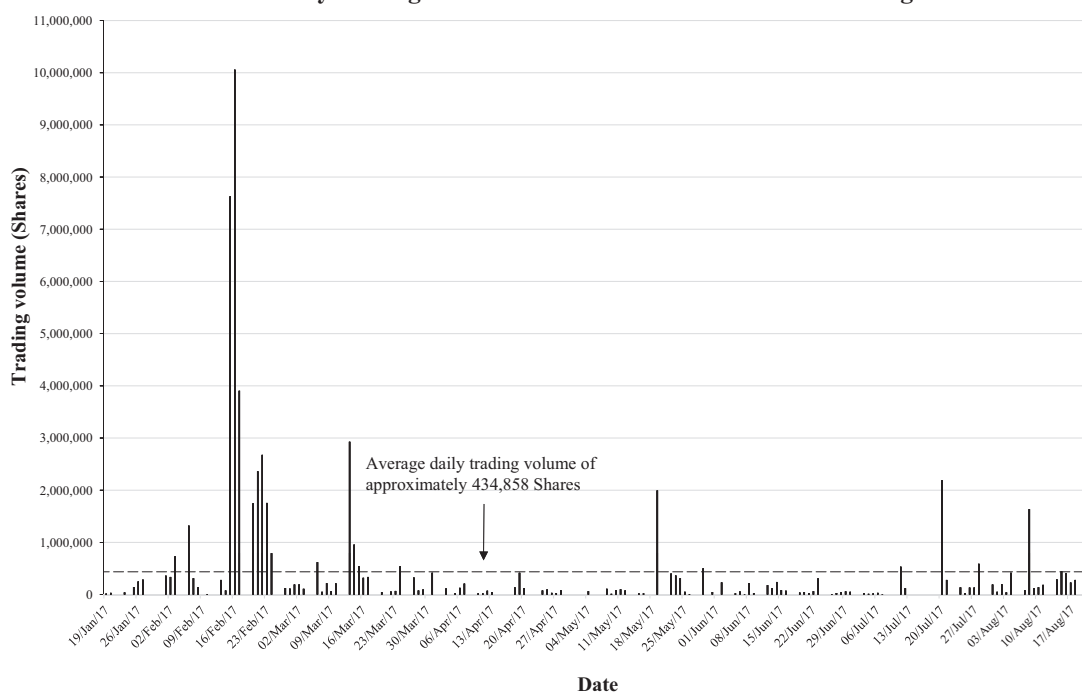
3.2 Historical closing price and trading volume of the Shares on the Stock Exchange

Set out below is the daily closing price and daily trading volume of the Shares as quoted on the Stock Exchange from 19 January 2017 (being six months prior to the commencement of the Offer Period, being the date of the Joint Announcement on 19 July 2017) up to and including the Latest Practicable Date (the “**Review Period**”). This 6-month period is adopted taking into account of the determination of the consideration of an offer being the highest price paid by the offeror within 6 months prior to the commencement of the respective offer period under Rule 26 of the Takeovers Code which we consider fluctuations of Share prices were free from any possible effects due to dealings made by the Offeror.

Closing price per Share on the Stock Exchange



Daily trading volume of the Shares on the Stock Exchange



Source: <http://www.hkex.com.hk/> and <http://www.hkexnews.hk/>

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We noted from the above charts that, during the Review Period, the Shares closed on the Stock Exchange within the range of the lowest of HK\$0.90 per Share on 2 February 2017 to the highest of HK\$1.93 per Share on 16 February 2017. The Offer Price falls close to the lowest closing price of HK\$0.90 per Share during the Review Period and represents a discount of approximately 22.07% to the average closing price of approximately HK\$1.195 per Share during the Review Period.

On the other hand, the daily trading volume of the Shares on the Stock Exchange has been extremely thin during the Review Period. The issued shares of the Company of 519,777,000 Shares as at the Latest Practicable Date remained unchanged during the Review Period. Excluding the 322,326,500 Shares which represent approximately 62.01% of the issued share capital of the Company held by the Vendor during the Review Period, the Company has public float of 197,450,500 Shares. The average daily trading volume of the Shares on the Stock Exchange amounted to approximately 434,858 Shares during the Review Period, representing approximately 0.08% of the Company's issued share capital and approximately 0.22% of the public float as at the Latest Practicable Date. Despite the rise of closing prices of the Shares during the Review Period possibly owing to positive media commentary by one news article on 15 February 2017 in relation to an expectation of positive prospects and return of the Shares (which we consider may have possibly triggered a short-term stimulation of Share transactions after having noted the Company has not published any announcement of significance on or around 16 February 2017 and obtained a confirmation by the management of the Company on the aforementioned understanding), the highest daily trading volume of the Shares only amounted to 10,056,000 Shares on 16 February 2017, representing approximately 1.93% of the Company's issued share capital and approximately 5.09% of the public float as at the Latest Practicable Date, showing that the liquidity of the Shares had been inactive during the Review Period not to mention that there has been one or two days in every month during the Review Period which recorded zero trading volume.

Given the extremely thin historical daily trading volume of the Shares during the Review Period, it is uncertain as to whether there is sufficient liquidity for the Independent Shareholders to dispose of a significant number of Shares on the Stock Exchange without creating downward pressure on the Share price on the market. As such, we are of the view that the prevailing market price of the Shares may not necessarily reflect the actual proceeds that the Independent Shareholders (especially those with more sizeable holdings) may receive if they elect to dispose of their Shares on the open market. Accordingly, we believe that the Offer represents an opportunity and a viable alternative exit (instead of attempting to dispose the Shares on the Stock Exchange when the prevailing market price of the Shares is at a premium to the Offer Price as at the Latest Practicable Date) for the Independent Shareholders, particularly for those with a significant shareholding in the Company, to realize their investment at the Offer Price if they so wish.

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3.3 Comparative analysis

For the purpose of comparison, we have identified (i) 10 listed companies on the Stock Exchange which are engaged in a principal business in the garment industry with over 50% of its revenue contributed by garment business and over 50% of its revenue in Europe, the USA and/or Canada which is similar to that of the Company (the “**Peer Comparable(s)**”) and with a market capitalization between HK\$400 million and HK\$600 million as the Company has a market capitalization of approximately HK\$483.9 million as at the Last Trading Day. Considering that the garment sourcing business of the Company is affected directly by the garment industry as a whole, we are of the view that the business performance of the peer listed companies engaged in the same industry is comparable with that of the Company; and (ii) 12 listed companies on the Stock Exchange which have recently undergone mandatory general offer exercise by an offeror as announced during the past three months from 19 April 2017 up to the date of the Joint Announcement (the “**Offer Comparable(s)**”). The Offer Comparables reflect the pricing trend of the most recent mandatory general offer transactions which are of the same nature as the Offer, being a takeover of a listed company triggered by gaining control of over 30% of voting rights regardless of its original principal business. However, considering that the Offer Comparables are engaged in different principal businesses as the Company’s, we are of the view that the Offer Comparables are meaningful for illustration purpose in comparing the offer prices in the market of other similar transactions to the Offer to enable the Independent Shareholders to make a balanced and informed decision.

The Peer Comparables and Offer Comparables represent exhaustive lists of all comparable companies meeting the aforementioned criteria as identified by us based on our best information, knowledge and belief through our research on the Stock Exchange. We have also inquired the Company’s management, based on their best knowledge, in relation to relevancy of the principal businesses of the Peer Comparables as compared with the Company. It is noted from the Board Letter that garment sourcing is the principal business of the Company. But due to the niche nature of this particular segment, we have only identified 1 company (namely State Energy Group International Assets Holdings Ltd (stock code: 918) (the “**Garment Sourcing Comparable**”) which is also principally engaged in the sourcing of garment in the garment industry. However, the Garment Sourcing Comparable is nonetheless engaged in other principal business like property investment. For Independent Shareholders’ information purposes, we have included the most comparable companies engaged in the same garment industry as the Peer Comparables which, in our opinion, collectively constitute the closest proxies to the Company and are therefore fair and representative samples to serve as a general reference to the valuation of the Group’s business.

Since the Company has recorded consistent net losses for each of the three years ended 31 March 2015, 2016 and 2107 as per the Annual Report, an analysis on the price-to-earnings ratio is not feasible. For comparison purposes, we have conducted an analysis on the price-to-book ratio (“**P/B**”) on the Peer Comparables. We consider that P/B which compares the market capitalization of a company against its net asset value (“**NAV**”) is a commonly used benchmark in comparing the valuations of different companies engaged in the same industry, and it is also appropriate for assessing a company engaged in the garment industry since the business mainly involves the apparel products as the inventory, trade receivables and payables where NAV would reflect the underlying value of the company. Our analysis on the comparables is set out below.

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The Peer Comparables

Company name (stock code)	Principal business	Market capitalization as at the Last Trading Day/valuation ^(note 1) (HK\$)	Latest audited/ unaudited NAV ^(note 2) (HK\$)	P/B ratio ^(note 4)
Tungtex (Holdings) Co. Limited (518)	Manufacture & sale of garments.	408,388,250	473,111,000	0.863
State Energy Group International Assets Holdings Ltd. (918)	Sourcing, subcontracting, marketing and selling of garments and sportswear products, and property investment.	426,473,300	27,563,000	15.473
Carry Wealth Holdings Limited (643)	Garment manufacturing and trading, securities investment.	482,644,434	228,193,000	2.115
Tristate Holdings Limited (458)	Garment manufacturing; branded product distribution, retail and trading.	453,584,113	1,238,121,000	0.366
Season Pacific Holdings Limited (8127)	Sells apparel products with the provision of supply chain management total solutions to customers.	490,000,000	61,372,000	7.984
China Hanya Group Holdings Limited (8312)	Garment distributions.	555,000,000	22,002,000	25.225
China Partytime Culture Holdings Limited (1532)	Design, development, production, sales and marketing of cosplay products (including cosplay costumes and cosplay wigs) and sexy lingerie.	468,865,080	477,125,600 ^(note 3)	0.983
Pak Tak International Limited (2668)	Manufacture of and trading in knit-to-shape garments.	509,400,000	107,098,000	4.756
High Fashion International Limited (608)	Manufacture, trading and retailing of garments.	595,950,069	2,188,462,000	0.272

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Company name (stock code)	Principal business	Market capitalization as at the Last Trading Day/valuation ^(note 1) (HK\$)	Latest audited/ unaudited NAV ^(note 2) (HK\$)	P/B ratio ^(note 4)
YangtzeKiang Garment Limited (294)	Manufacture and sale of garments and textiles, the provision of processing services and the rental of properties.	599,568,295	1,169,580,000	0.513
			Minimum	0.272
			Maximum	25.225
			Average	5.855
The Company	Garment sourcing.	483,912,387 <i>(note 5)</i>	5,880,000	82.298

Source: <http://www.hkex.com.hk/> and <http://www.hkexnews.hk/>

Notes:

- For the Peer Comparables, their respective market capitalization is based on that as at the Last Trading Day.
- The latest audited or unaudited NAV attributable to shareholders of the respective Peer Comparables based on the latest published financial results of the listed company.
- Calculated based on the exchange rate at Reminbi1 = HK\$1.12, which are for illustrative purpose only in this letter.
- The P/B ratio is calculated based on the market capitalisation of the respective Peer Comparables as at 12 July 2017, being the Last Trading Day (or, if suspended, the respective share closing price on the last trading day before the 12 July 2017) and the issued shares on the 12 July 2017 of the Peer Comparables divided by the latest published NAV attributable to shareholders of the respective Peer Comparables as extracted from their respective latest published financial results.
- To reflect the valuation of the Company under the Offer, the valuation of the Company is calculated by the total issued share of 519,777,000 Shares multiplied by the Offer Price of HK\$0.931.

As illustrated in the analysis above, the P/B of the Peer Comparables range from the lowest of approximately 0.272 times to the highest of approximately 25.225 times (which has the lowest NAV among the Peer Comparables) with the average of approximately 5.855 times. In addition, the P/B of the Garment Sourcing Comparable is approximately 15.473 times. Comparatively, the implied P/B of the Company (calculated with reference to the Offer Price) of approximately 82.298 times is significantly higher than the Peer Comparables and the Garment Sourcing Comparable, indicating that comparing with the listed companies which are of similar business nature and market capitalization, the valuation of the Company based on the Offer Price offered by the Offeror to the Independent Shareholders is outstandingly larger than the actual NAV of the Company. Therefore, based on the above analysis, it is considered that the Offer Price is attractive in comparison with the NAV of the Company.

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The Offer Comparables

Company name (stock code)	Announcement date	Principal business	Offer price (HK\$)	Closing price as at the last trading day (HK\$)	(Discount)/ premium (%)
Feishang Non-metal Materials Technology Limited (8331)	19 April 2017	Development of Huanghu Bentonite Mine in Anhui province, the PRC, and the production and sale of bentonite products in the PRC.	0.70	1.26	(44.444)
Jimei International Entertainment Group Limited (1159)	19 April 2017	Entertainment and gaming business, and trading of chemical products, and energy conservation and environmental protection products.	1.20	6.60	(81.818)
Lifestyle Properties Development Limited (2183)	19 April 2017	Property development and property investment.	5.18	4.95	4.646
Millennium Pacific Group Holdings Limited (8147)	26 April 2017	Research and development, manufacture and sale of consumer electronic products, such as GPS personal navigation devices, mobile internet devices and digital video recorders.	0.07	0.11	(36.190)
China Display Optoelectronics Technology Holdings Limited (334)	1 May 2017	Manufacturing and sale of LCD modules for mobile phones and smart pads.	0.90	1.34	(32.836)

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Company name (stock code)	Announcement date	Principal business	Offer price (HK\$)	Closing price as at the last trading day (HK\$)	(Discount)/ premium (%)
China Kangda Food Company Limited (834)	2 May 2017	Processing, sales and distribution of chilled and frozen meat products, processed food products and other related products in the PRC.	1.34	2.42	(44.628)
On Time Logistics Holdings Limited (6123)	8 May 2017	Providing export freight forwarding services through obtaining cargo space from major airline and other carriers for delivering shipments to the required destinations.	4.07	3.87	5.163
Fraser Holdings Limited (8366)	11 May 2017	Undertaking slope works, foundation works and other general building works in Hong Kong.	0.25	0.27	(7.407)
MelcoLot Limited (8198)	29 May 2017	Provision of lottery-related technologies, systems and solutions in the PRC.	0.252	0.44	(42.727)
Rui Kang Pharmaceutical Group Investments Limited (8037)	15 June 2017	Manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong; provision of medical laboratory testing services and health check services in Hong Kong; and trading of securities in Hong Kong.	0.51	0.49	4.082

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Company name (stock code)	Announcement date	Principal business	Offer price (HK\$)	Closing price as at the last trading day (HK\$)	(Discount)/ premium (%)
Landing International Development Limited (582)	15 June 2017	Development and operation of the integrated leisure and entertainment resort; gaming and entertainment facilities; property development; and design, manufacturing and sales of the LED and semiconductor lighting related products.	0.075	0.08	(6.250)
Kenford Group Holdings Limited (464)	18 July 2017	Design, manufacture and sale of electrical haircare products, electrical healthcare products and other small household electrical appliances.	1.60	1.46	9.589
				Minimum	(81.818)
				Maximum	9.589
				Average	(37.038)
The Company	19 July 2017	Garment sourcing	0.931	1.12	(22.735)

Source: <http://www.hkex.com.hk/> and <http://www.hkexnews.hk/>

For illustration purpose and the Shareholders' reference only due to the inclusion of Offer Comparables that are engaged in various principal businesses that are not the same as that of the Company, the Offer Comparables based on the analysis above have offer prices representing a premium of approximately 9.589% over and a discount of approximately 81.818% to the relevant closing prices on their last trading days on the high end and low end respectively, with an average variance being a discount of approximately 22.735%. Based on the Offer Comparables, the discount of the Offer Price to the closing price per Share on the Last Trading Day of approximately 16.875% is less than the average variance of the Offer Comparables which illustrates that the Offer Price is more favourable to the Independent Shareholders than the market practice under the recent financial market condition.

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CONCLUSION

Having considered the aforementioned principal factors, in particular:

- (i) the Company has recorded consistent net losses for each of the three years ended 31 March 2015, 2016 and 2017 and the business performance of the Group has been experiencing a downward trend as discussed in section 1 of this letter;
- (ii) the business plans of the Group remained unmaterialized as at the Latest Practicable Date and the future prospects of the Group is uncertain as discussed in sections 1 and 2 of this letter;
- (iii) the Offeror does not appear to have any concrete plan to return the Group's existing business back to profitability as at the Latest Practicable Date and it remains unknown whether the proposed executive Directors as key decision makers of the Group possess relevant experience, whereas whether the credentials of Mr. Zhi Hua may bring new business opportunities to the Group is uncertain;
- (iv) the Offer Price of HK\$0.931 per Offer Share represents a substantial premium of approximately 9,210% over the audited consolidated NAV attributable to owners of the Company per Share of approximately HK\$0.01 as at 31 March 2017;
- (v) the historical trading volume of the Shares on the Stock Exchange was extremely thin during the Review Period, the average daily trading volume of the Shares on the Stock Exchange amounted to approximately 434,858 Shares during the Review Period, representing approximately 0.08% of the Company's issued share capital and approximately 0.22% of the public float as at the Latest Practicable Date and the highest number of Shares traded per day amounted to only 10,056,000 Shares, representing approximately 1.93% of the Company's issued share capital and approximately 5.09% of the public float as at the Latest Practicable Date as discussed in section 3.2 of this letter; and
- (vi) the Company has extremely low NAV and the Company's implied P/B (calculated with reference to the Offer Price) of approximately 82.298 times is significantly higher than the highest P/B of the Peer Comparables of approximately 25.225 times (which has the lowest NAV among the Peer Comparables) and the P/B of the Garment Sourcing Comparable of approximately 15.473 times (which is principally engaged in garment sourcing as well as property investment), indicating that the Offer Price is attractive when comparing with the NAV of the Company (which is engaged in garment sourcing business alone) as discussed in section 3.3 of this letter,

we consider that the terms of the Offer (including the Offer Price being set at a discount of approximately 16.875% to the closing price per Share on the Last Trading Day) are, on balance, fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

In view of the above, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

However, given the Offer Price is currently at a discount to the closing price of the Shares as at the Latest Practicable Date, the Independent Shareholders who wish to realize part or all of their investments in the Company should closely monitor the market price of the Shares during the Offer Period and instead of accepting the Offer for the Independent Shareholders, consider selling their Shares in the open market should the sales proceeds, net of all transaction costs, exceed the amount receivable under acceptance of the Offer.

In addition, the Independent Shareholders who wish to realize their investments in the Company in the open market should also consider and monitor the trading volume of the Shares during the Offer Period as, having taken into account of the extremely thin historical trading volume of the Shares on the Stock Exchange as discussed in section 3.2 of this letter, they may experience difficulty in disposing the Shares in the open market without creating downward pressure on the price of the Shares.

For the Independent Shareholders who wish to retain all or part of their investments in the Company should carefully monitor the future plans in relation to the Company that may be implemented by the Offeror and note that, considering the extremely thin historical trading volume of the Shares, they may not be able to dispose of their investments in the Company after the close of the Offer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As each individual Independent Shareholder would have different investment objectives and/or circumstances, we would recommend the Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. Furthermore, they should carefully read the procedures for accepting the Offer as set out in the Composite Document, its appendices and the accompanying Form of Acceptance.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H. W. Tang
President

Yours faithfully,
For and on behalf of
Ample Capital Limited
Kevin So
Senior Vice President

Note:

Mr. H.W. Tang is a licensed person under the SFO to undertake types 1 and 6 regulated activities (dealing in securities and advising on corporate finance respectively) and is a responsible officer in respect of Ample Capital's type 6 regulated activity (advising on corporate finance). Mr. Tang has over 13 years of experience in the corporate finance industry in Hong Kong.

Mr. Kevin So is a licensed person under the SFO to undertake types 6 and 9 regulated activities (advising on corporate finance and asset management respectively) and is a responsible officer in respect of Ample Capital's type 6 regulated activity (advising on corporate finance). Mr. So has over 13 years of experience in the corporate finance industry in Hong Kong.

1. PROCEDURES FOR ACCEPTANCE OF THE OFFER

- (a) To accept the Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer, you must send the duly completed and signed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, being Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by post or by hand, marked "**Highlight China IoT International Limited General Offer**" on the envelope, as soon as possible and in any event not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

- (c) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer whether in full or in part of your Shares, you must either:
 - (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver in an envelope marked "**Highlight China IoT International Limited General Offer**" the duly completed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver in an envelope marked "**Highlight China IoT International Limited General Offer**" the duly completed and signed Form of Acceptance together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorize HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.
- (d) If the Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, the Form of Acceptance should nevertheless be completed and delivered in an envelope marked **"Highlight China IoT International Limited General Offer"** to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, you should also write to the Registrar a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it in an envelope marked **"Highlight China IoT International Limited General Offer"** to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to the Offeror and/or Kingston Securities and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s) to the Registrar on your behalf and to authorize and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

APPENDIX I FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE

- (f) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code) and the Registrar has recorded the Form of Acceptance and any relevant documents required by the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (f)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (g) No acknowledgement of receipt of any Form of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT OF THE OFFER

Provided that a valid Form of Acceptance and the relevant certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects in accordance with the Takeovers Code and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount representing the cash consideration due to each of the Shareholders who accepts the Offer less seller's ad valorem stamp duty in respect of the Shares tendered by it/him/her under the Offer will be despatched to such Shareholder by ordinary post at its/his/her own risk as soon as possible but in any event within seven (7) Business Days after the date on which all the relevant documents which render such acceptance complete and valid are received by the Registrar in accordance with the Takeovers Code.

APPENDIX I FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE

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.

Settlement of the consideration to which any accepting Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect to the payment of seller's ad valerom stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) In order to be valid for the Offer, the Form of Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date, unless the Offer are extended or revised in accordance with the Takeovers Code. The Offer is unconditional.
- (b) The Offeror reserves the right to revise the terms of the Offer in accordance with the Takeovers Code. If the Offeror revises the terms of the Offer, all the Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms.
- (c) If the Offer is extended or revised, the announcement of such extension or revision will state the next closing date or the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offer is closed to the Shareholders who have not accepted the Offer, and an announcement will be released. The revised Offer will be kept open for at least 14 days thereafter.
- (d) If the Closing Date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so extended.
- (e) Any acceptance of the relevant revised Offer shall be irrevocable unless and until the Shareholders who accept the Offer become entitled to withdraw their acceptance under the paragraph headed "6. RIGHT OF WITHDRAWAL" below and duly do so.

4. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those registered Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

5. ANNOUNCEMENTS

- (i) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must post an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer has been revised, extended, or has expired (and, in each case, whether as to acceptances or in all respects).

The announcement will state the total number of Shares and rights over Shares:

- (a) for which acceptances of the Offer have been received;
- (b) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and
- (c) acquired or agreed to be acquired during the Offer Period by the Offeror and persons acting in concert with it.

The announcement must include details of any relevant securities (as defined in the Takeovers Code) in the Company which the Offeror and parties acting in concert with it have borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

The announcement must also specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

In computing the total number or principal amount of Shares represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in paragraph headed "1. PROCEDURES FOR ACCEPTANCE OF THE OFFER" above, and which have been received by the Registrar respectively no later than 4:00 p.m. on the Closing Date, unless the Offer is extended or revised in accordance with the Takeovers Code, shall be included.

- (ii) As required under the Takeovers Code, all announcements in relation to the Offer which the Executive and the Stock Exchange have confirmed that they have no further comments thereon must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

6. RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offer tendered by the Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed “5. ANNOUNCEMENTS” above, the Executive may require that the Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

In such case, when the Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form of Acceptance to the relevant Shareholder(s).

If the Offer is withdrawn, the Offeror must, as soon as possible but in any event within 10 days thereof, post the Share certificates(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance to, or make such share certificate(s) and/or document(s) available for collection by, the relevant Shareholders who have accepted the Offer.

7. STAMP DUTY

The seller’s Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.1% of the amount payable in respect of the relevant acceptances by the Shareholders, or (if higher), the market value of the Shares, will be deducted from the amount payable to Shareholders who accept the Offer. The Offeror will bear its own portion of buyer’s Hong Kong ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptances, or (if higher), the market value of the Shares, and will be responsible to account to the Stamp Office of Hong Kong for stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptance under the Offer.

8. OVERSEAS SHAREHOLDERS

As the Offer to persons not residing in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are residents, Overseas Shareholders whose addresses as shown in the register of members of the Company are outside Hong Kong or 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 and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (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 of any Overseas Shareholders will be deemed to constitute a representation and warranty from such Shareholders to the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt.

9. 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.

10. GENERAL

- (a) 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 remittances 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 the Offeror, its beneficial owners, the Company, Kingston Corporate Finance, Kingston Securities, the Independent Financial Adviser, the Registrar, any of their respective directors and professional advisers and any other parties involved in the Offer and any of their respective agents do not accept any liability for any loss or delay in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form of Acceptance form part of the terms and conditions of the Offer.
- (c) The accidental omission to despatch this Composite Document and/or Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (d) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form of Acceptance will constitute an authority to the Offeror, Kingston Securities or such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as they may direct, the Shares in respect of which such person or persons has/have accepted the Offer.

APPENDIX I FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE

- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and the Company that the Shares acquired under the Offer are sold by such person or persons free from all Encumbrances whatsoever and together with all rights accruing or attaching thereto including the rights to receive in full all dividends and distributions recommended, declared, made or paid on or after the date on which the Offer is made.
- (g) References to the Offer in this Composite Document and the Form of Acceptance shall include any revision and/or extension thereof.
- (h) The making of the Offer to the Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions. The Overseas Shareholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of each Overseas Shareholder who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of all relevant jurisdictions in connection therewith, including, but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required and the compliance with all necessary formalities, regulatory and/or legal requirements. Such Overseas Shareholders shall be fully responsible for the payment of any transfer or other taxes and duties due by such Overseas Shareholders in respect of the relevant jurisdictions. The Overseas Shareholders are recommended to seek professional advice on deciding whether or not to accept the Offer.
- (i) Acceptances of the Offer by any persons will be deemed to constitute a warranty by such persons that such persons are permitted under all applicable laws and regulations to receive and accept the Offer, and any revision thereof, and such acceptances shall be valid and binding in accordance with all applicable laws and regulations. Any such persons will be responsible for any such issue, transfer and other applicable taxes or other governmental payments payable by such persons.
- (j) Subject to the Takeovers Code, the Offeror reserves the right to notify any matter (including the making of the Offer) to all or any Shareholders with registered address(es) outside Hong Kong or whom the Offeror or Kingston Securities knows to be nominees, trustees or custodians for such persons by announcement in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such Shareholders to receive or see such notice, and all references in this Composite Document to notice in writing shall be construed accordingly.

APPENDIX I FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE

- (k) In making their decision, the Shareholders must rely on their own examination of the Offeror, the Group and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance shall not be construed as any legal or business advice on the part of the Offeror, its beneficial owners, the Company, Kingston Corporate Finance, Kingston Securities or the Independent Financial Adviser or their respective professional advisers. The Shareholders should consult their own professional advisers for professional advice.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the financial information of the Group for each of the three financial years ended 31 March 2015, 2016 and 2017, as extracted from the relevant published annual reports of the Company for the three years ended 31 March 2017. A special cash dividend of HK\$0.72 per Share was declared by the Board and was approved by the Shareholders at the special general meeting of the Company held on 10 July 2014. The aggregate amount of the special dividend declared and paid amounted to approximately HK\$374.2 million and was paid on 22 July 2014. Save for disclosed, no dividend was declared or paid for each of the three years ended 31 March 2017.

(a) Operating results

	For the year ended 31 March		
	2017	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operation			
Revenue	80,992	164,589	365,690
Cost of Sales	<u>(75,968)</u>	<u>(151,689)</u>	<u>(338,448)</u>
Gross Profit	5,024	12,900	27,242
Other income	606	158	9
Net foreign exchange (losses) gain	(45)	103	(121)
Impairment loss recognised in respect of property, plant and equipment	–	(1,081)	–
Selling and distribution costs	(1,164)	(14,161)	(9,889)
Administrative expenses	(15,864)	(18,252)	(17,695)
Other expense	<u>–</u>	<u>(4,444)</u>	<u>–</u>
Loss before taxation	(11,443)	(24,777)	(454)
Income tax credit (expense)	<u>–</u>	<u>20</u>	<u>(902)</u>
Loss for the year from continuing operation	<u>(11,443)</u>	<u>(24,757)</u>	<u>(1,356)</u>
Discontinued operations			
Loss for the year from discontinued operations	<u>–</u>	<u>–</u>	<u>(5,074)</u>
Loss for the year	(11,443)	(24,757)	(6,430)
Other comprehensive income			
<i>Item that will not be reclassified to profit and loss:</i>			
Remeasurement of defined benefit obligations	<u>–</u>	<u>–</u>	<u>175</u>
Other comprehensive income for the year	–	–	175

	For the year ended 31 March		
	2017	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Reclassification adjustment:</i>			
Reclassification of exchange differences on disposal of subsidiaries	—	—	(7,852)
	<u>—</u>	<u>—</u>	<u>(7,852)</u>
Total comprehensive expenses for the year	(11,443)	(24,757)	(14,107)
Loss for the year attributable to owners of the Company:			
– from continuing operation	(11,443)	(24,757)	(1,356)
– from discontinued operations	—	—	(5,477)
	<u>(11,443)</u>	<u>(24,757)</u>	<u>(6,833)</u>
Profit for the year attributable to non-controlling interests:			
– from continuing operation	—	—	—
– from discontinued operations	—	—	403
	<u>—</u>	<u>—</u>	<u>403</u>
	<u>(11,443)</u>	<u>(24,757)</u>	<u>(6,430)</u>
Total comprehensive (expense) income attributable to:			
Owners of the Company	(11,443)	(24,757)	(14,510)
Non-controlling interests	—	—	403
	<u>(11,443)</u>	<u>(24,757)</u>	<u>(14,107)</u>
Loss per share			
From continuing and discontinued operations			
Basic (HK cents)	(2.20)	(4.76)	(1.34)
Diluted (HK cents)	N/A	N/A	(1.34)
From continuing operation			
Basic (HK cents)	(2.20)	(4.76)	(0.27)
Diluted (HK cents)	N/A	N/A	(0.27)

(b) Assets and liabilities

	As at 31 March		
	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	–	–	1,253
	–	–	1,253
Current assets			
Inventories	–	4,140	3,809
Trade receivables	3,037	19,840	83,311
Deposits, prepayments and other receivables	30,699	30,244	36,723
Amount due from a former subsidiary	3,105	–	–
Tax recoverable	880	–	–
Bank balances and cash	2,509	11,798	8,913
	40,230	66,022	132,756
Current liabilities			
Trade payables	2,801	24,302	47,201
Accruals	1,230	2,185	9,183
Amount due to immediate holding company	20,462	10,000	6,000
Amount due to directors	8,657	5,553	–
Amount due to a former subsidiary	–	4,869	28,046
Tax payable	1,200	1,790	1,499
	34,350	48,699	91,929
Net current assets	5,880	17,323	40,827
Total assets less current liabilities	<u>5,880</u>	<u>17,323</u>	<u>42,080</u>
Capital and reserves			
Share Capital	5,198	5,198	5,198
Reserves	682	12,125	36,882
Total equity	<u>5,880</u>	<u>17,323</u>	<u>42,080</u>

Messrs. Deloitte Touche Tohmatsu acted as auditor of the Company until its retirement on 28 August 2014 (the date of annual general meeting of the Company in 2014). Messrs. Grant Thornton Hong Kong Limited was appointed as auditor of the Company on the same day (i.e. 28 August 2014) and resigned on 18 May 2015. Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company on 5 June 2015. Save for disclosed, Company for the

three years ended 31 March 2017 were Messrs. Deloitte Touche Tohmatsu. Their opinions on the consolidated financial statements of the Group for each of the three years ended 31 March 2017 were unqualified. There were no extraordinary items or exceptional items because of size, nature or incidence in respect of the consolidated financial results of the Group for each of the aforesaid period.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is the audited consolidated financial statements of the Group extracted from the annual report of the Company for the year ended 31 March 2017.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	5	80,992	164,589
Cost of sales		<u>(75,968)</u>	<u>(151,689)</u>
Gross profit		5,024	12,900
Other income		606	158
Net foreign exchange (losses) gain		(45)	103
Impairment loss recognised in respect of plant and equipment		–	(1,081)
Selling and distribution costs		(1,164)	(14,161)
Administrative expenses		(15,864)	(18,252)
Other expense		<u>–</u>	<u>(4,444)</u>
Loss before taxation		(11,443)	(24,777)
Income tax credit	7	<u>–</u>	<u>20</u>
Loss and total comprehensive expense for the year attributable to owners of the Company	8	<u>(11,443)</u>	<u>(24,757)</u>
Loss per share	10		
Basic (HK cents)		<u>(2.20)</u>	<u>(4.76)</u>

Consolidated Statement of Financial Position

At 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current asset			
Plant and equipment	<i>11</i>	—	—
Current assets			
Inventories	<i>12</i>	—	4,140
Trade receivables	<i>13</i>	3,037	19,840
Deposits, prepayments and other receivables	<i>14</i>	30,699	30,244
Amount due from a former subsidiary	<i>15</i>	3,105	—
Tax recoverable		880	—
Bank balances and cash	<i>16</i>	2,509	11,798
		<u>40,230</u>	<u>66,022</u>
Current liabilities			
Trade payables	<i>17</i>	2,801	24,302
Accruals		1,230	2,185
Amount due to immediate holding company	<i>15</i>	20,462	10,000
Amounts due to directors	<i>15</i>	8,657	5,553
Amount due to a former subsidiary	<i>15</i>	—	4,869
Tax payable		1,200	1,790
		<u>34,350</u>	<u>48,699</u>
Net current assets		<u>5,880</u>	<u>17,323</u>
Total assets less current liabilities		<u><u>5,880</u></u>	<u><u>17,323</u></u>
Capital and reserves			
Share capital	<i>18</i>	5,198	5,198
Reserves		682	12,125
Total equity		<u><u>5,880</u></u>	<u><u>17,323</u></u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Attributable to owners of the Company				
	Share	Special	Foreign	Accumulated	
	capital	reserve	translation	profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Note 18)	(note i)		(losses)	
At 1 April 2015	5,198	18,787	(3)	18,098	42,080
Loss and total comprehensive expense for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(24,757)</u>	<u>(24,757)</u>
At 31 March 2016	5,198	18,787	(3)	(6,659)	17,323
Loss and total comprehensive expense for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,443)</u>	<u>(11,443)</u>
At 31 March 2017	<u>5,198</u>	<u>18,787</u>	<u>(3)</u>	<u>(18,102)</u>	<u>5,880</u>

note (i): The special reserve represents (a) the reserve arising from a previous group reorganisation; and (b) cancellation of share premium, less special dividend of HK\$374,239,000, in prior year.

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	2017 HK\$'000	2016 HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(11,443)	(24,777)
Adjustments for:		
Depreciation of plant and equipment	–	230
Impairment loss recognised in respect of plant and equipment	–	1,081
Interest income	(114)	(158)
Operating cash flows before movements in working capital	(11,557)	(23,624)
Decrease (increase) in inventories	4,140	(331)
Decrease in trade receivables	16,803	63,471
(Increase) decrease in deposits, prepayments and other receivables	(455)	6,479
Increase in amount due from a former subsidiary	(3,105)	–
Decrease in trade payables	(21,501)	(22,899)
Decrease in accruals	(955)	(4,529)
Increase in amounts due to directors	3,104	3,084
Cash (used in) from operations	(13,526)	21,651
Income tax (paid) refunded	(1,470)	311
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(14,996)</u>	<u>21,962</u>
INVESTING ACTIVITIES		
Interest received	114	158
Purchase of plant and equipment	–	(58)
NET CASH FROM INVESTING ACTIVITIES	<u>114</u>	<u>100</u>
FINANCING ACTIVITIES		
Advance from immediate holding company	10,462	4,000
Repayment to a former subsidiary	(4,869)	(23,177)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>5,593</u>	<u>(19,177)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,289)	2,885
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>11,798</u>	<u>8,913</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing by bank balances and cash	<u>2,509</u>	<u>11,798</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s immediate and ultimate holding company is Unitech Enterprises Group Limited (“Unitech”), a company incorporated in the British Virgin Islands (the “BVI”) with limited liability, which is 60% and 40% owned by Mr. Gao Zhiyin and Mr. Gao Zhiping, directors of the Company, respectively. The Company’s registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is located at Rooms 4114 – 4119, 41st Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 26 to the consolidated financial statements.

The functional currency of the Company is United States dollars (“US\$”). The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) because the Company’s shares are listed on the Stock Exchange and most of its potential investors are located in Hong Kong.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 “Disclosure Initiative”

The Group has applied the amendments to HKAS 1 “Disclosure Initiative” for the first time in the current year. The amendments to HKAS 1 clarify that an entity needs not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity’s financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group’s activities that management considers to be the most relevant to an understanding of the Group’s financial performance and financial position. Specifically, information relating to capital risk management and financial instruments was reordered. The application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2017.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported in respect of the Group's garment sourcing activities that are currently recognised on a gross basis as the Group is acting as a principal. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors completed a detailed review.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, operating lease payments are presented as operating cash flows. Upon the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2017, the Group has non-cancellable operating lease commitments of HK\$1,845,000 as disclosed in Note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to HKAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively to the Group for annual period beginning on 1 April, 2017. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Retirement benefit costs

Payments to the Mandatory Provident Fund ("MPF") Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Inventories

Inventories representing finished goods for resale are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a former subsidiary and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount is reduced by the impairment loss directly for all with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade payables, amount due to immediate holding company, amounts due to directors and amount due to a former subsidiary, are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment assessment on deposits paid for purchases of garment products

Management assesses whether there is any impairment of deposits paid for purchases of garment products on an ongoing basis. The impairment assessment is based on evaluation of the recoverability of the deposits by considering market demand, expected volume of transactions with the supplier and ability of the supplier to settle the deposits. If market demand, expected volume of transactions with the supplier or ability of the supplier to settle the deposits were to deteriorate, the actual recoverability of the deposits may be lower than expected, an impairment may need to be recognised. As at 31 March 2017, the carrying amount of deposits paid for purchases of garment products is HK\$28,526,000 (2016: HK\$29,345,000), without any impairment recognised (2016: Nil).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise. As at 31 March 2017, the carrying amount of trade receivables is HK\$3,037,000 (2016: HK\$19,840,000). No impairment has been recognised during the year (2016: Nil).

Income taxes

Deferred tax asset in relation to unused tax losses of HK\$34,650,000 (2016: HK\$25,491,000) has not been recognised in the consolidated statement of financial position due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. REVENUE

The Group's revenue represents the amounts received and receivable for sourcing of garment products, less sales returns and allowances.

6. SEGMENT INFORMATION

The Group's chief operating decision maker ("CODM"), being the executive directors of the Company, monitors the revenue, result, assets and liabilities of the Group based on the monthly management accounts which are substantially in conformity with HKFRSs. Other than revenue analysis by customers, the CODM assesses the operating performance of the Group as a whole as the Group is primarily engaged in garment sourcing. No other discrete information is provided to the CODM. Accordingly, no further segment information is presented.

Geographical information

The Group's operation is mainly located in Hong Kong and the United States of America (the "USA").

The Group's revenue from external customers by location of customers is detailed below:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
USA	65,343	98,817
Canada	15,649	48,464
Mexico	–	17,308
	<u>80,992</u>	<u>164,589</u>

Information about major customers

Revenue from customers contributing to over 10% of the Group's total annual revenue are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	65,066	92,293
Customer B	12,819	33,504
Customer C (note)	N/A	17,308
	<u> </u>	<u> </u>

note: This customer contributed less than 10% of the Group's total annual revenue for the year ended 31 March 2017.

7. INCOME TAX CREDIT

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong Profits Tax		
– current year	–	–
– overprovision in prior years	–	(20)
	<u> </u>	<u> </u>
	–	(20)

No provision for Hong Kong Profits Tax has been made in the financial statements as the assessable profit for the current year has been wholly absorbed by tax losses brought forward. There was no assessable profit for the Group in the prior year. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for the US income taxes has been made in the financial statements as the assessable profits for both years are insignificant and have been wholly absorbed by tax losses brought forward.

The income tax credit for the year can be reconciled to loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK\$'000	2016 HK\$'000
Loss before taxation	(11,443)	(24,777)
Tax credit at Hong Kong Profits Tax rate of 16.5%	(1,888)	(4,088)
Tax effect of expenses not deductible for tax purpose	423	931
Tax effect of income not taxable for tax purpose	(46)	(18)
Tax effect of tax losses not recognised	1,783	3,175
Utilisation of tax losses previously not recognised	(272)	–
Overprovision in respect of prior years	–	(20)
Income tax credit for the year	<u>–</u>	<u>(20)</u>

At the end of the reporting period, the Group had unused tax losses of HK\$34,650,000 (2016: HK\$25,491,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

8. LOSS FOR THE YEAR

	2017 HK\$'000	2016 HK\$'000
Loss for the year has been arrived at after charging:		
Auditor's remuneration		
– current year	1,168	1,240
– underprovision in prior year	–	30
Directors' remuneration (note (i))	3,880	3,688
Other staff costs		
– salaries and wages	3,038	5,217
– retirement benefit scheme contributions	110	197
Total staff costs	<u>7,028</u>	<u>9,102</u>
Depreciation of plant and equipment	–	230
Sampling expenses (included in selling and distribution costs)	1,089	13,947
Legal and professional expenses (included in other expense) (note (ii))	–	4,444
and after crediting:		
Interest income (included in other income)	<u>114</u>	<u>158</u>

The cost of inventories recognised as an expense approximates the cost of sales as disclosed in the consolidated statement of profit or loss and other comprehensive income for both years.

notes:

(i) Directors' remuneration

(a) Directors

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Directors' fees	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>
EXECUTIVE DIRECTORS		
Gao Zhiyin (Chairman)	1,200	1,200
Gao Zhiping (Chief Executive Officer)	1,200	1,200
Shi Jiguo (note i)	600	600
	<u> </u>	<u> </u>
Sub-total	3,000	3,000
	<u> </u>	<u> </u>
NON-EXECUTIVE DIRECTOR		
Shum Ngok Wa (note ii)	130	130
	<u> </u>	<u> </u>
INDEPENDENT NON-EXECUTIVE DIRECTORS		
Lau Chi Kit	250	250
Lam Kai Yeung (note iii)	250	250
Ma Ming	250	250
	<u> </u>	<u> </u>
Sub-total	750	750
	<u> </u>	<u> </u>
Total		3,880
		<u> </u>
Directors' fees		
	<i>HK\$'000</i>	<i>HK\$'000</i>
EXECUTIVE DIRECTORS		
Gao Zhiyin (Chairman)	1,200	1,200
Gao Zhiping (Chief Executive Officer)	1,200	1,200
Shi Jiguo	600	600
	<u> </u>	<u> </u>
Sub-total	3,000	3,000
	<u> </u>	<u> </u>

	Directors' fees HK\$'000	Total 2016 HK\$'000
INDEPENDENT NON-EXECUTIVE DIRECTORS		
Lau Chi Kit	250	250
Lam Kai Yeung	250	250
Chen Yifan (note iv)	5	5
Ma Ming (note v)	183	183
	<u>688</u>	<u>688</u>
Sub-total	<u>688</u>	<u>688</u>
Total		<u>3,688</u>

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above were mainly for his services as a director of the Company.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

notes:

- (i) Mr. Shi Jiguo subsequently resigned as an executive director with effect from 31 May 2017.
 - (ii) Mr. Shum Ngok Wa was appointed as a non-executive director with effect from 12 July 2016 and subsequently resigned with effect from 14 June 2017.
 - (iii) Mr. Lam Kai Yeung subsequently resigned as an independent non-executive director with effect from 1 May 2017.
 - (iv) Dr. Chen Yifan resigned as an independent non-executive director with effect from 9 April 2015.
 - (v) Mr. Ma Ming was appointed as an independent non-executive director with effect from 8 July 2015.
- (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group for the year ended 31 March 2017, three (2016: three) of them are directors of the Company whose emoluments are included in note 8(a).

The remuneration of the remaining two (2016: two) individuals for the year ended 31 March 2017 and 2016 are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and allowances	1,047	928
Retirement benefit schemes contributions	36	29
	<u>1,083</u>	<u>957</u>

During each of the two years ended 31 March 2017, the emoluments of each of these two individuals did not exceed HK\$1,000,000.

During each of the two years ended 31 March 2017, (i) no emoluments were paid by the Group to the directors of the Company or to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and (ii) none of the directors of the Company waived or agreed to waive any emoluments.

- (ii) The legal and professional expenses were incurred in relation to the proposed acquisition of Highlight Holding Limited, which subsequently did not proceed, details of which were disclosed in the announcements of the Company dated 25 March 2015 and 1 January 2016.

9. DIVIDEND

No final/interim dividend was paid or proposed for the year ended 31 March 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

10. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2017 HK\$'000	2016 HK\$'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(11,443)	(24,757)
Number of shares		
Number of ordinary shares for the purpose of basic loss per share	519,777,000	519,777,000

No presentation of diluted loss per share for the year ended 31 March 2017 and 2016 as there were no potential dilutive ordinary shares outstanding during both years.

11. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
COST				
At 1 April 2015	2,371	1,202	234	3,807
Additions	5	–	53	58
Disposals	–	–	(29)	(29)
At 31 March 2016 and 31 March 2017	2,376	1,202	258	3,836
DEPRECIATION AND IMPAIRMENT				
At 1 April 2015	2,060	382	112	2,554
Provided for the year	33	158	39	230
Eliminated on disposals	–	–	(29)	(29)
Impairment loss recognised in profit or loss	283	662	136	1,081
At 31 March 2016 and 31 March 2017	2,376	1,202	258	3,836
CARRYING VALUES				
At 31 March 2016 and 31 March 2017	–	–	–	–

The above items of plant and equipment were depreciated on a straight-line basis at the following rates per annum:

Furniture, fixtures and equipment	15% – 25%
Leasehold improvements	Over 5 to 10 years or the term of the relevant leases, if shorter
Plant and machinery	6 ² / ₃ % – 25%

During the year ended 31 March 2016, the Group recognised an impairment loss of HK\$1,081,000 in respect of plant and equipment due to the continuous losses incurred by the Group. Management determined that there was no resale value for the assets (mainly comprise leasehold improvements and computer equipment). Accordingly, the entire outstanding amounts of plant and equipment was impaired.

12. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Finished goods	–	4,140

13. TRADE RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade receivables	3,037	19,840
Less: allowance for doubtful debts	–	–
	<u>3,037</u>	<u>19,840</u>

The Group allows its trade customers a credit period of 30 to 150 days. The following is an aged analysis of trade receivables presented based on the invoice dates at the end of each reporting period:

	2017 HK\$'000	2016 HK\$'000
0 – 30 days	144	7,591
31 – 60 days	2,783	5,793
61 – 90 days	110	5,518
91 – 120 days	–	393
Over 120 days	–	545
	<u>3,037</u>	<u>19,840</u>

Before accepting any new customer, the Group assesses and understands the potential customer's credit quality. Management reviews each customers credit quality regularly. All trade receivables that are neither past due nor impaired have good credit quality after taking into account the repayment history of the trade customers. The Group has not identified any credit risk on these trade receivables.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$2,783,000 (2016: HK\$8,037,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. There has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2017 HK\$'000	2016 HK\$'000
31 – 60 days	2,783	3,288
61 – 90 days	–	3,811
91 – 120 days	–	393
Over 120 days	–	545
	<u>2,783</u>	<u>8,037</u>

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Deposits paid for purchases of garment products	28,526	29,345
Other receivables	1,368	89
Other deposits and prepayments	796	800
Others	9	10
	<u>30,699</u>	<u>30,244</u>

15. AMOUNTS DUE FROM/TO IMMEDIATE HOLDING COMPANY/DIRECTORS/A FORMER SUBSIDIARY

The amounts due to directors represent directors' fees payable at the end of the reporting period.

All amounts are unsecured, interest-free and have been fully settled subsequent to 31 March 2017.

16. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 1% (2016: 0.001% to 1%) per annum.

17. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 – 60 days	120	13,005
61 – 90 days	621	6,077
Over 90 days	2,060	5,220
	<u>2,801</u>	<u>24,302</u>

The average credit period on purchases of goods is 30 days (2016: 30 days).

The Group's trade payables that are not denominated in the functional currencies of the relevant group entities are set out below:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Renminbi ("RMB")	<u>–</u>	<u>4,482</u>

18. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 1 April 2015, 31 March 2016 and 31 March 2017	<u>900,000,000</u>	<u>9,000</u>
Issued and fully paid:		
As at 1 April 2015, 31 March 2016 and 31 March 2017	<u>519,777,000</u>	<u>5,198</u>

All shares rank pari passu in all respects.

19. RETIREMENT BENEFIT SCHEMES

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong since 1 April 1995. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefits scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. According to the MPF legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is also required to participate in a MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$30,000 for each eligible employee) as calculated under the MPF legislation.

Both the defined contribution retirement benefits scheme and the MPF scheme co-existed within the Group in both years.

As at 31 March 2017 and 2016, there were no forfeited contributions available to offset future employers' contributions to the scheme.

In addition, the overseas subsidiary of the Company is required to contribute amount based on employees' salaries to the retirement benefit scheme as stipulated by the relevant local authority. The employees are entitled to this subsidiary's contributions subject to the regulations of the relevant local authority.

The total expenses recognised in profit or loss of HK\$110,000 (2016: HK\$197,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

20. SHARE-BASED PAYMENT TRANSACTIONS**Share Option Scheme of the Company**

Pursuant to a written resolution passed on 2 June 2010, the Company adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentives to eligible participants including eligible directors and eligible employees. The Share Option Scheme will remain in force for a period of ten years from the date of its adoption (i.e. 2 June 2010).

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the date of adoption of the Share Option Scheme. Such 10% limit may be refreshed, subject to specific approval by the shareholders of the Company, from time to time with reference to the issued share capital of the Company for the time being. Subject to specific approval by the shareholders of the Company, the total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1 per grant of option(s). Options may, subject to the black-out periods under the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at its discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of shares on the Stock Exchange on the date of the offer of grant; (ii) the average closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

During each of the two years ended 31 March 2017, no share options have been granted by the Company.

21. OPERATING LEASE COMMITMENTS**The Group as lessee**

	2017 HK\$'000	2016 HK\$'000
Minimum lease payments paid by the Group under operating leases during the year	3,236	3,225

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented office premises which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	1,705	2,220
In the second to fifth year inclusive	140	1,221
	<u>1,845</u>	<u>3,441</u>

Leases are negotiated for terms ranging from one to three years and rental is fixed throughout the lease period.

22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The following is the statement of financial position of the Company as at 31 March 2017 and 31 March 2016:

	2017 HK\$'000	2016 HK\$'000
Non-current asset		
Investment in a subsidiary, unlisted	1	1
Current assets		
Deposits	583	583
Amounts due from subsidiaries	74,324	71,527
Bank balances and cash	443	804
	<u>75,350</u>	<u>72,914</u>
Current liabilities		
Accruals	1,169	1,282
Amount due to immediate holding company	20,462	10,000
Amounts due to subsidiaries	37,337	36,794
Amounts due to directors	8,657	5,553
Tax payable	1,200	1,200
	<u>68,825</u>	<u>54,829</u>
Net current assets	6,525	18,085
Total assets less current liabilities	<u>6,526</u>	<u>18,086</u>
Capital and reserves		
Share capital	5,198	5,198
Reserves (note (a))	1,328	12,888
	<u>6,526</u>	<u>18,086</u>

notes:

(a) Reserves

	Contributed surplus HK\$'000 (note i)	Accumulated losses HK\$'000	Total HK\$'000
At 31 March 2015	125,518	(94,842)	30,676
Loss for the year	–	(17,788)	(17,788)
At 31 March 2016	125,518	(112,630)	12,888
Loss for the year	–	(11,560)	(11,560)
At 31 March 2017	<u>125,518</u>	<u>(124,190)</u>	<u>1,328</u>

(i) The contributed surplus represents the reserve arising from a previous group reorganisation.

23. RELATED PARTY DISCLOSURES**(i) Balances**

Details of the amounts due to the immediate holding company and directors are set out in the consolidated statement of financial position on page 43 and in Note 15.

(ii) Compensation of key management personnel

The emoluments of the directors of the Company and the employees included in the five highest paid individuals who are identified as members of key management of the Group during both years are set out in Note 8.

24. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes amount due to immediate holding company, amounts due to directors and amount due to a former subsidiary, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves, net of accumulated losses.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

25. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

	2017 HK\$'000	2016 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	10,789	32,459
Financial liabilities		
Amortised cost	31,920	44,724

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from a former subsidiary, bank balances and cash, trade payables, amount due to immediate holding company, amounts due to directors and amount due to a former subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk**(i) Currency risk**

The Group's operations are mainly located in Hong Kong and the USA and the exposure in exchange rate risks mainly arises from fluctuations in RMB exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. As RMB is under a managed floating system, after reviewing the Group's exposure for the time being, the Group did not enter into any derivative contracts aimed at minimising exchange rate risks during the year. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amount of the Group's monetary liabilities denominated in currencies other than the respective functional currencies of the relevant group entities are as follows:

	Liabilities	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	–	4,482

Sensitivity analysis

As at 31 March 2016, the Group mainly exposed to foreign currency risk of RMB. No exposure to foreign currency risk of RMB was noted as at 31 March 2017.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss for the year where the functional currency of the group entities strengthen 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of the functional currency of the group entities against the relevant currency, there would be an equal and opposite impact on the loss for the year.

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year	–	224

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on its bank balances which carry interest at prevailing market interest rates. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. No sensitivity analysis is presented as the risk is limited as assessed by management of the Group.

Credit risk

As at 31 March 2017, the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position best represent the Group's maximum exposure to credit risk which will cause a financial loss to the Group.

In order to minimise its credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 March 2017, the Group had a concentration of credit risk as the largest and the top five trade debtors accounted for 80.3% (2016: 56.1%) and 100% (2016: 97%) of its total trade debt balance, respectively. In view of this, senior management members regularly visit these customers to understand their business operations and cash flows position. In this regard, management considers that this credit concentration risk has been significantly mitigated.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates.

Liquidity tables

	On demand or less than 1 month HK\$'000	1 to 3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2017					
Trade payables	2,681	120	–	2,801	2,801
Amount due to immediate holding company	20,462	–	–	20,462	20,462
Amounts due to directors	–	–	8,657	8,657	8,657
	<u>23,143</u>	<u>120</u>	<u>8,657</u>	<u>31,920</u>	<u>31,920</u>
2016					
Trade payables	15,425	8,877	–	24,302	24,302
Amount due to immediate holding company	10,000	–	–	10,000	10,000
Amounts due to directors	–	–	5,553	5,553	5,553
Amount due to a former subsidiary	4,869	–	–	4,869	4,869
	<u>30,294</u>	<u>8,877</u>	<u>5,553</u>	<u>44,724</u>	<u>44,724</u>

(c) Fair value measurement of financial instruments

The fair values of the financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The management considers that the carrying amounts of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group				Principal activities
			Directly 2017 %	2016 %	Indirectly 2017 %	2016 %	
Best Keen International Limited	The BVI	Ordinary US\$50,000	100	100	–	–	Investment holding
Gold Chapter Limited	Hong Kong	Ordinary HK\$1	–	–	100	–	Investment holding
High Gold International Limited	Cayman Island	Ordinary US\$0.01	100	–	–	–	Investment holding
Top Value Inc.	The USA	Common stock US\$1,000	–	–	100	100	Trading of garment products
United Gainer Investment Limited	Hong Kong	Ordinary HK\$1	–	–	100	100	Trading of garment products
杭州浩毓云勢網 絡科技有限公司 (“杭州浩 毓”)	People's Republic of China (The “PRC”)	Ordinary US\$15,000,000 (note)	–	–	100	–	Provision of Internet of Things technology service

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

note: The Group is required to pay up the registered capital for 杭州浩毓 of US\$15 million in accordance with the relevant laws, rules and regulations of the PRC before December 2021. During the year ended 31 March 2017 and up to the date of this report, this registered capital has not yet been paid.

27. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the following events took place:

- (i) In May 2017, the Company through its indirect wholly owned subsidiary, 杭州浩毓, entered into the cooperation agreement with 江西省廣播電視網絡傳輸有限公司 (“江西廣電”), pursuant to which the parties agreed to cooperate to develop and operate the integrated information service platform on the network of 江西廣電. Further details of this transaction are set out in the Company’s announcement dated 18 May 2017.
- (ii) In May 2017, the Company through its indirect wholly owned subsidiary, 杭州浩毓, entered into the cooperation agreement with 平陽華數廣電網絡有限公司 (“平陽華數”), pursuant to which the parties agreed to cooperate to develop and operate the platform for the provision of comprehensive town management, market supervision, comprehensive law enforcement, public convenience and other services in Pingyang County. Further details of this transaction are set out in the Company’s announcement dated 22 May 2017.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 30 June 2017, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this Composite Document, the Group did not have any borrowings.

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30 June 2017, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank borrowings and overdrafts, other borrowings or indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there had not been any material change in the indebtedness or contingent liabilities of the Group since 30 June 2017 and up to the Latest Practicable Date.

4. MATERIAL CHANGE

The Directors confirmed that there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 March 2017 (being the date to which the latest published audited financial statements of the Company were made up) up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror, the director of the Offeror, their associates and parties acting in concert with any of them, the terms and conditions of the Offer and the intention of the Offeror regarding the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Offeror, its associates and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised</i>		<i>HK\$</i>
900,000,000	Shares of HK\$0.01 each	9,000,000
<i>Issued and fully paid</i>		
519,777,000	Shares of HK\$0.01 each	5,197,770

All of the existing issued Shares in issue rank *pari passu* in all respects with each other, including, in particular, as to rights in respect of capital, dividends and voting.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants or other conversion rights affecting the Shares.

No Shares have been issued since 31 March 2017, being the date to which the latest audited financial statements of the Company were made up.

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Shares or securities of the Company

As at the Latest Practicable Date, none of the Directors and their respective associates had any interests in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code), interests or short positions in the Shares, underlying Shares and debentures of the Company and shares, underlying shares and debentures of its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and other persons' interests and short positions in Shares and underlying Shares

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors) held interests in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code), or interests and short positions in the Shares and/or underlying Shares which are required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company:

Name of Shareholder	Nature of interest	Total number of Shares interested ^(Note 1)	Approximate percentage of shareholding ^(Note 2)
Rosy Lane International Limited	Beneficial owner	322,326,500 Shares (L) ^(Note 3)	62.01%
Mr. Zhi Hua	Interests in controlled corporation	322,326,500 Shares (L) ^(Note 4)	62.01%
Bloom Dragon Finance Limited	Person having a security interest in Shares	322,326,500 Shares (L) ^(Note 5)	62.01%
Hillbrow Securities Limited	Person having a security interest in Shares	322,326,500 Shares (L) ^(Note 5)	62.01%

Name of Shareholder	Nature of interest	Total number of Shares interested ^(Note 1)	Approximate percentage of shareholding ^(Note 2)
Good Fellow Group Limited	Person having a security interest in Shares	322,326,500 Shares (L) ^(Note 5)	62.01%
Mr. Ng Chi Lung	Person having a security interest in Shares	322,326,500 Shares (L) ^(Note 5)	62.01%
Mr. Ng Leung Ho	Person having a security interest in Shares	322,326,500 Shares (L) ^(Note 5)	62.01%
Mr. Ng Tsze Lun	Beneficial owner	50,173,000 Shares (L)	9.65%
Ms. Yau Yuk Chun Carole ^(Note 6)	Interest of spouse	50,173,000 Shares (L)	9.65%

Notes:

- (1) The letter “L” denotes the individual’s or corporation’s long position in Shares.
- (2) The percentages have been calculated based on 519,777,000 Shares in issue as at the Latest Practicable Date.
- (3) Rosy Lane International Limited was wholly owned by Mr. Zhi Hua.
- (4) These Shares were held by Rosy Lane International Limited which was wholly owned by Mr. Zhi Hua.
- (5) Pursuant to a charge over the Securities Accounts entered into between the Offeror and Bloom Dragon dated 12 July 2017, the Offeror agreed to charge the Securities Accounts in which, among others, the Sale Shares have been deposited, to Bloom Dragon. As at the Latest Practicable Date, (i) Bloom Dragon was ultimately and beneficially owned as to 50% by Mr. Ng Chi Lung and 50% by Good Fellow Group Limited; (ii) Good Fellow Group Limited was 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; and (iii) Hillbrow Securities Limited is wholly owned by Mr. Ng Leung Ho.
- (6) Ms. Yau Yuk Chun Carole is the wife of Mr. Ng Tsze Lun.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was aware of any person (other than a Director) who, as at the Latest Practicable Date, had any interests in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code), or interests and short positions in the Shares and/or underlying Shares which are required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company.

(c) Other interests

As at the Latest Practicable Date,

- (i) none of the Company or any of the Directors was interested in any shares, convertible securities, warrants, options or derivatives in respect of the shares of the Offeror;
- (ii) none of the subsidiaries of the Company, pension funds of the Company or of any member of the Group, and any advisers to the Company as specified in class 2 of the definition of “associate” under the Takeovers Code, but excluding exempt principal traders (as defined under the Takeovers Code), owned or controlled any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company;
- (iii) no Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (iv) no person had irrevocably committed himself/herself to accept or reject the Offer;
- (v) none of the Company nor any Directors had borrowed or lent any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company.

4. DEALINGS IN SECURITIES

During the Relevant Period and up to the Latest Practicable Date,

- (i) save for the Sale and Purchase Agreement, none of the Directors have dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company;
- (ii) none of the subsidiaries of the Company, pension funds of the Company or of any member of the Group or any advisers to the Company as specified in class 2 of the definition of “associate” under the Takeovers Code but excluding exempt principal traders (as defined under the Takeovers Code) had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company;

- (iii) save for the Sale and Purchase Agreement, the Loan Agreement, the Notes Subscription Agreement, the Kingston Facility Agreement, the Pledged Shares and the Deed of Set Off, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code and had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company; and
- (iv) no Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and no such person had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company.

5. SHAREHOLDINGS AND DEALINGS IN SHARES OF THE OFFEROR

During the Relevant Period and up to the Latest Practicable Date, none of the Company nor any Director had any interest in the shares of the Offeror, and no such person (including the Company) had dealt in the shares of the Offeror.

6. ARRANGEMENTS AFFECTING AND RELATING TO DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;
- (b) there was no agreement or arrangement between any Director and any other person which was conditional or dependent upon the outcome of the Offer or otherwise connected with the Offer; and
- (c) save for the Sale and Purchase Agreement, the Loan Agreement, the Pledged Shares and the Deed of Set Off, there was no material contract entered into by the Offeror in which any Director had a material personal interest.

7. SERVICE CONTRACTS OF DIRECTORS

Mr. Lam Kai Yeung has been appointed as the executive Director with effect from 30 June 2017 and entered into a service contract with the Company with an annual director’s fee of HK\$1,300,000 for a term of three years commencing on 30 June 2017 subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. The service contract can be terminated by either party by giving three month’s notice in writing.

Mr. Chan Kin has been appointed as the non-executive Director with effect from 12 June 2017 and signed a letter of appointment with the Company with a director's fee of HK\$10,000 per month for a term of one year commencing on 12 June 2017 subject to re-election in accordance with the bye-laws of the Company. The letter of appointment can be terminated by either party by giving one month's notice in writing.

Mr. Feng Chen has been appointed as the executive Director and chief operating officer with effect from 31 May 2017 and entered into a service contract with the Company with an annual director's fee of HK\$1,300,000 for a term of three years commencing on 31 May 2017 subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. The service contract can be terminated by either party by giving three month's notice in writing.

Mr. Li Hui has been appointed as the independent non-executive Director with effect from 17 May 2017 and signed a letter of appointment with the Company with an annual director's fee of HK\$250,000 for a term of three years commencing on 17 May 2017 subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. The service contract can be terminated by either party by giving one month's notice in writing.

No variable remuneration are payable under the service contracts or the letters of appointment (as the case may be) of Mr. Lam Kai Yeung, Mr. Chan Kin, Mr. Feng Chen and Mr. Li Hui with the Company.

Save as the aforesaid, as at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which:

- (a) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the commencement of the Offer Period;
- (b) were continuous contracts with a notice period of 12 months or more; or
- (c) were fixed term contracts with more than 12 months to run irrespective of the notice period.

8. MATERIAL CONTRACTS

No contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by any member of the Group) have been entered into by the members of the Group after the date two years before the commencement of the Offer Period up to and including the Latest Practicable Date and which are or may be material.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors are aware, no litigation or claims of material importance is pending or threatened by or against the Company and any of its subsidiaries.

10. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which are contained in this Composite Document.

Name	Qualification
Ample Capital Limited	a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

Ample Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its letter, report and/or references to its name, in the form and context in which it is included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours (i.e. from 9:00 a.m. to 5:00 p.m.) on Monday to Friday, except for public holidays, at the principal place of business of the Company at Rooms 4114-4119, 41st Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.highlightiot.com) for so long as the Offer remain open for acceptance during the period from the date of this Composite Document up to and including the Closing Date:

- (a) the bye-laws of the Company;
- (b) the annual report of the Company for the financial year ended 31 March 2015;
- (c) the annual report of the Company for the financial year ended 31 March 2016;
- (d) the annual report of the Company for the financial year ended 31 March 2017;
- (e) the letter from the Board, the text of which is set out on pages 18 to 25 of this Composite Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 26 to 27 of this Composite Document;

- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 28 to 46 of this Composite Document;
- (h) the letter of consent from Ample Capital referred to in the paragraph headed “10. EXPERT AND CONSENT” in this Appendix III;
- (i) each service contract referred to in paragraph headed “7. SERVICE CONTRACTS OF DIRECTORS” in this Appendix III; and
- (j) each material contract referred to in paragraph headed “8. MATERIAL CONTRACTS” in this Appendix III.

1. RESPONSIBILITY STATEMENT

The information contained in this Composite Document relating to the Offeror and its intention has been supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information (other than that relating to the Group, the Vendor, their associates and parties acting in concert with any of them) contained in this Composite Document, and confirm, having made all reasonable enquires, that to the best of his knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Group, the Vendor, their associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price per Share HK\$
2017	
27 January	0.93
28 February	1.35
31 March	1.30
28 April	1.22
31 May	1.20
30 June	1.10
12 July (Last Trading Day)	1.12
31 July	1.06
Latest Practicable Date	1.00

During the Relevant Period:

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$1.93 per Share on 16 February 2017; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.90 per Share on 2 February 2017.

3. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

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 since 7 July 2017 and up to the Latest Practicable Date. Mr. Zhi Hua is also the sole director of the Offeror as at the Latest Practicable Date. As at the Latest Practicable Date, the Offeror is interested in 322,326,500 Shares, representing approximately 62.01% of the entire share capital of the Company. Save as disclosed above, the Offeror confirms that, as at the Latest Practicable Date:

- (a) save for the Offeror's interest in the Sale Shares pursuant to the Sale and Purchase Agreement, none of the Offeror, its ultimate beneficial owner and/or parties acting in concert with it (including Kingston Securities and Bloom Dragon and their respective associates) owned or controlled or direction over any voting rights or rights over the Shares, options, derivatives, warrants or other securities convertible into Shares;
- (b) save for the entering into of the Sale and Purchase Agreement, the Loan Agreement, the Notes Subscription Agreement, the Kingston Facility Agreement and the Pledged Shares, none of the Offeror and parties acting in concert with it had dealt in nor do they have any Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period;
- (c) save for the Sale and Purchase Agreement, the Loan Agreement, the Notes Subscription Agreement, the Kingston Facility Agreement, the Pledged Shares and the Deed of Set Off, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror or its associates or any parties acting in concert with it and any other person;
- (d) save for the Sale and Purchase Agreement, the Loan Agreement and the Pledged Shares, no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between the Offeror and its associates or any parties acting in concert with it and any other person;
- (e) no person had irrevocably committed himself to accept the Offer; and
- (f) none of the Offeror, its ultimate beneficial owner and/or parties acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

4. OTHER ARRANGEMENTS IN RELATION TO THE OFFER

As at the Latest Practicable Date:

- (a) none of the Offeror, its ultimate beneficial owner and/or parties acting in concert with it had received any irrevocable commitment to accept the Offer;

- (b) save for the Sale and Purchase Agreement, the Loan Agreement, the Notes Subscription Agreement, the Kingston Facility Agreement, the Pledged Shares and the Deed of Set Off, there was no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Company and which might be material to the Offer;
- (c) no benefit (other than statutory compensation) was or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;
- (d) there was no agreement or arrangement to which the Offeror, its ultimate beneficial owner and/or parties acting in concert with it was a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (e) save for the Sale and Purchase Agreement, the Loan Agreement, the Notes Subscription Agreement, the Kingston Facility Agreement, the Pledged Shares and the Deed of Set Off, there was no agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror or parties acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependent on the Offer;
- (f) save for the Notes Subscription Agreement, the Kingston Facility Agreement, the Pledged Shares and the Kingston Share Charge, there was no agreement, arrangement or understanding that the securities acquired in pursuance of the Offer would be transferred, charged or pledged to any other persons;
- (g) save for the Consideration under the Sale and Purchase Agreement, there was no other consideration in any form paid or payable by the Offeror or the parties acting in concert with it to the Vendor and its associates and the parties acting in concert with it; and
- (h) there was no special deal between the Vendor and the parties in concert with it on the one hand and the Offeror and the parties acting in concert with it on the other hand.

5. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualification of the experts whose letter/opinion is contained in this Composite Document:

Name	Qualification
Kingston Corporate Finance	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Kingston Securities	a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO

Each of the above experts has given and has not withdrawn its respective written consent to the issue of this Composite Document with the inclusion of its opinion, letter or report and/or the references to its name in the form and context in which it appears.

6. MATERIAL CONTRACTS IN RELATION TO THE OFFER

The following contract has been entered into by the Offeror and its parties acting in concert in relation to the Offer which is or may be material:

- (a) the Sale and Purchase Agreement.

7. MISCELLANEOUS

- (a) The principal members of the Offeror's concert group are the Offeror and Mr. Zhi Hua.
- (b) The registered office of the Offeror is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The correspondence address of the Offeror in Hong Kong is 25th Floor, 238 Des Voeux Road Central, Hong Kong.
- (c) Mr. Zhi Hua is the sole director of the Offeror. The address of Mr. Zhi is Room 802, Unit 2, Block 2, Dong Fang Run Yuan, Qian Tang Community, Si Ji Qing Street, Jiang Qian District, the PRC.
- (d) The financial adviser to the Offeror in respect of the Offer is Kingston Corporate Finance. Kingston Securities, which is under the same control of Kingston Financial Group Limited as Kingston Corporate Finance, is making the Offer on behalf of the Offeror. The registered address of both of Kingston Corporate Finance and Kingston Securities is Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at principal place of business of the Company in Hong Kong at Rooms 4114-4119, 41st Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) the Company's website (www.highlightiot.com) during the period from the date of this Composite Document onwards for as long as the Offer remain open for acceptance:

- (a) the memorandum and articles of association of the Offeror;
- (b) the material contracts referred to in paragraph headed "6. MATERIAL CONTRACTS IN RELATION TO THE OFFER" in this Appendix IV;
- (c) the letter from Kingston Securities, the text of which is set out in the section headed "LETTER FROM KINGSTON SECURITIES" in this Composite Document; and
- (d) the written consents from the experts as referred to in the paragraph headed "5. EXPERTS' QUALIFICATIONS AND CONSENTS" in this Appendix IV.