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APEX ACE

APEX ACE HOLDING LIMITED

光麗科技控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6036)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF DISTRIBUTORSHIP RIGHTS**

Reference is made to the announcements of the Company dated 28 November 2018, 2 July 2019, 1 August 2019 and 30 August 2019 in respect of the memorandum of understanding in relation to the establishment of a joint venture entity and the transfer of the Distributorship Rights from the joint venture partner, being the Vendor, to the said joint venture entity. After several months of discussion and negotiation between the parties, it is agreed that the Company, instead of establishing a joint venture entity with the Vendor to acquire the Distributorship Rights, will acquire the Distributorship Rights from the Vendor.

THE ACQUISITION AGREEMENT

On 30 September 2019, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor and the Guarantors, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Distributorship Rights at the Consideration of US\$5,000,000 which shall be settled entirely in cash.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Acquisition Agreement exceeds 5% but is less than 25%, the entering into of the Acquisition Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements under Rule 14.33 of the Listing Rules.

BACKGROUND

Reference is made to the announcements of the Company dated 28 November 2018, 2 July 2019, 1 August 2019 and 30 August 2019 in respect of the memorandum of understanding in relation to the establishment of a joint venture entity and the transfer of the Distributorship Rights from the joint venture partner, being the Vendor, to the said joint venture entity. After several months of discussion and negotiation between the parties, it is agreed that the Company, instead of establishing a joint venture entity with the Vendor to acquire the Distributorship Rights, will acquire the Distributorship Rights from the Vendor.

On 30 September 2019, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor and the Guarantors in relation to the Acquisition.

The principal terms of the Acquisition Agreement are set out below:

THE ACQUISITION AGREEMENT

Date

30 September 2019

Parties

- (a) Shenzhen Zhiyupeng Technology Company Limited*, being the Purchaser;
- (b) Shenzhen Zhiyupeng Electronic Company Limited*, being the Vendor;
- (c) Mr. Zhao, being one of the Guarantors; and
- (d) Ms. Ou, being one of the Guarantors.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendor and the Guarantors is not connected person of the Company and is third party independent of the Company and its connected persons in accordance with the Listing Rules.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Distributorship Rights at the Consideration of US\$5,000,000 (equivalent to approximately HK\$39,000,000).

The Distributorship Rights will be transferred in the following manner:

- (i) Within ten days after the execution of the Acquisition Agreement, the Vendor shall (a) unconditionally and irrevocably transfer to the Purchaser the Distributorship Right A and procure the issuance of the relevant distributor permit certificate for a term of not less than three years by Manufacturer A to the Purchaser which evidence the Purchaser's ownership of the Distributorship Right A, and (b) procure the entering into of sales agreements between the Purchaser and all customers to whom the Vendor sells the products of Manufacturer A under the Distributorship Right A.

- (ii) Within 90 days after the execution of the Acquisition Agreement, the Vendor shall (a) unconditionally and irrevocably transfer to the Purchaser the Distributorship Right B and procure the issuance of the relevant distributor permit certificate for a term of not less than three years by Manufacturer B to the Purchaser which evidence the Purchaser's ownership of the Distributorship Right B, and (b) procure the entering into of sales agreements between the Purchaser and all customers to whom the Vendor sells the products of Manufacturer B under the Distributorship Right B.
- (iii) Within 150 days after the execution of the Acquisition Agreement, the Vendor shall (a) unconditionally and irrevocably transfer to the Purchaser the Distributorship Right C and procure the issuance of the relevant distributor permit certificate for a term of not less than three years by Manufacturer C to the Purchaser which evidence the Purchaser's ownership of the Distributorship Right C, and (b) procure the entering into of sales agreements between the Purchaser and all customers to whom the Vendor sells the products of Manufacturer C under the Distributorship Right C.

If the Purchaser shall elect to renew the Distributorship Rights for two years upon the expiry of the said three-year terms, the Vendor shall procure the renewal of the relevant distributor permit certificates issued by the Manufacturers to the Purchaser for two years.

Particulars of the Distributorship Rights are set forth below:

	Distributorship Right A	Distributorship Right B	Distributorship Right C
Range of products	Electronic components and other ancillary products	Plastic components such as poly (acrylic acid ester rubber), acrylonitrile butadiene styrene and thermoplastic polyurethane and other products	Electronic components and other ancillary products
Term of the Distributorship Right	Three years from the date of issuance of the relevant distributor permit certificate	Three years from the date of issuance of the relevant distributor permit certificate	Three years from the date of issuance of the relevant distributor permit certificate
Region for distribution	The PRC which includes the PRC, Hong Kong and the Macau Special Administrative Region of the PRC	The PRC which includes the PRC, Hong Kong and the Macau Special Administrative Region of the PRC	The PRC which includes the PRC, Hong Kong and the Macau Special Administrative Region of the PRC

As the Vendor could not separate the expenses incurred solely on the Distributorship Rights, the net profits attributable to the Distributorship Rights cannot be accurately arrived at by the Vendor. The revenue and gross profits attributable to the Distributorship Rights amounted to (i) HK\$490,800,000 and HK\$18,800,000, respectively, for the year ended 31 December 2018 and (ii) HK\$481,000,000 and HK\$16,500,000, respectively, for the year ended 31 December 2017.

Consideration

The Consideration of US\$5,000,000 (equivalent to approximately HK\$39,000,000) for the Acquisition was paid/is payable by the Purchaser to the Vendor in the following manner:

- (i) as to US\$2,000,000 (equivalent to approximately HK\$15,600,000) being the Earnest Deposit paid by an indirect wholly-owned subsidiary of the Company (which was not the Purchaser) to the Vendor prior to the execution of the Acquisition Agreement pursuant to the memorandum of understanding dated 28 November 2018 (as amended and supplemented by the supplemental memoranda dated 29 June 2019, 31 July 2019 and 30 August 2019) entered into among the Group, the Vendor and the Guarantors, which is deemed to be part payment of the Consideration;
- (ii) as to US\$1,000,000 (equivalent to approximately HK\$7,800,000) payable by the Purchaser to the Vendor within five business days after the completion of the transfers of both the Distributorship Right A and the Distributorship Right B by the Vendor to the Purchaser in accordance with the Acquisition Agreement; and
- (iii) as to US\$2,000,000 (equivalent to approximately HK\$15,600,000) payable by the Purchaser to the Vendor within five business days after the completion of the transfer of the Distributorship Right C by the Vendor to the Purchaser in accordance with the Acquisition Agreement.

The Consideration was determined based on arm's length negotiations between the Vendor and the Purchaser with reference to, among others, the Valuation of the Distributorship Rights as at 30 June 2019, being US\$5,000,000 (equivalent to approximately HK\$39,000,000), prepared by the Valuer under the income approach using the discounted cash flow method.

Due diligence review

The Purchaser will conduct a due diligence review on the business of the Vendor for a period of 90 days from 1 October 2019.

After completion of the due diligence review, if the Purchaser, at its sole discretion, issues to the Vendor a notice which states that the Purchaser is not satisfied with the results of such due diligence review, the Acquisition Agreement will terminate upon receipt of the said notice by the Vendor and the Vendor shall within five business days after receiving such notice refund to the Purchaser the Earnest Deposit and any part of the Consideration which has been paid by the Purchaser to the Vendor.

Profit Guarantee

The Vendor guarantees to the Purchaser that, for each of the three sales years ending 30 September 2020, 30 September 2021 and 30 September 2022 after the execution of the Acquisition Agreement, the consolidated net profit after tax generated from the operation of the Distributorship Rights shall not be less than HK\$8,000,000 (the “**Guaranteed Profit**”) based on the audited consolidated financial statements of the Purchaser and its subsidiaries for each of such three sales years (the “**Financial Statements**”).

In the event that the Vendor is not able to transfer the Distributorship Right C to the Purchaser in accordance with the Acquisition Agreement, the Vendor and the Purchaser agree that the amount of the Guaranteed Profit will be adjusted to not less than HK\$5,000,000 for each of the aforesaid three sales years, and the Purchaser shall not be required to pay the last instalment of the Consideration of US\$2,000,000 to the Vendor pursuant to the payment terms of the Consideration.

Where the actual consolidated net profit after tax generated from the operation of the Distributorship Rights by the Purchaser is less than the Guaranteed Profit for any of the three sales years based on the Financial Statements for such sales year provided by the Purchaser to the Vendor, the Vendor shall compensate the Purchaser by paying the Purchaser the shortfall between the Guaranteed Profit and the actual consolidated net profit after tax within ten business days after it receives from the Purchaser the Financial Statements for such sales year.

Other undertaking

The Vendor undertakes that, before the transfer of the Distributorship Rights is completed and within three years of the completion of the transfer of the Distributorship Rights, the Vendor and/or its associates will not directly or indirectly conduct or commence any business activities which relate to the Distributorship Rights, including but not limited to sales, the establishment of distribution channels, product promotion and the setting up and promotion of brands.

Guarantee

Each of Mr. Zhao and Ms. Ou agrees to jointly guarantee the performance by the Vendor of its obligations under the Acquisition Agreement, including but not limited to the obligation to refund the Earnest Deposit and any part of the Consideration which has been paid by the Purchaser to the Vendor upon the Purchaser’ issuance of a written notice to the Vendor which states that the Purchaser is not satisfied with the results of its due diligence review on the business of the Vendor.

REASONS FOR AND BENEFITS OF ENTERING INTO THE ACQUISITION AGREEMENT

The Group is a semiconductor and other electronic components distributor and its customers are primarily market players in the technology, media and telecommunications sector in the PRC and Hong Kong. Since the commencement of business, the Group has been focusing on identifying, sourcing, selling and distributing quality electronic components produced by manufacturers. The Board believes that the Acquisition allows the Group to widen its product portfolio to satisfy the requirements of its existing customers and widen its customer base in the rapidly changing and advancing electronic component distribution market, so that in turn the Group's business and financial performance may be enhanced.

The terms of the Acquisition Agreement were arrived at after arm's length negotiations among the parties to the Acquisition Agreement. The Directors (including the independent non-executive Directors) consider that the Acquisition and the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

THE VALUATION AND LETTERS FROM THE REPORTING ACCOUNTANTS AND THE FINANCIAL ADVISER

The Valuation has been prepared by the Valuer. According to the Valuation, the fair value of the Distributorship Rights was reasonably stated at US\$5,000,000 as at the valuation date of 30 June 2019. The Valuation has adopted the income approach using the discounted cash flow method in valuing the Distributorship Rights. As such, the Valuation constitutes a "profit forecast" under Rule 14.61 of the Listing Rules.

The principal assumptions, including commercial assumptions, on which the Valuation has been based, are as follows:

- (i) the information provided and the representations made by the Company with regard to the financial and business affairs in relation to the Distributorship Rights are accurate and reliable;
- (ii) the Purchaser will continue to operate as a going concern and has sufficient liquidity and capability to achieve the financial projection under the Distributorship Rights;
- (iii) the Purchaser has obtained all necessary permits, business certificates, licences and regulatory approvals to operate its principal business and the business contemplated under the Distributorship Rights;
- (iv) the Purchaser is able to renew the Distributorship Rights without substantial expenses for two years after the expiry of the first three-year terms of the Distributorship Rights;
- (v) the projections outlined in the financial projection provided by the Purchaser are reasonable, reflect market conditions and economic fundamentals and will be materialised;

- (vi) there will be sufficient supply of technical staff in the industry in which the Purchaser operates or intends to operate, and the Purchaser will retain competent management, key personnel and technical staff to support its ongoing operations and developments;
- (vii) there will be no major changes in the current taxation laws in the localities in which the Purchaser operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- (viii) there will be no major changes in the political, legal, economic or market conditions in the localities in which the Purchaser operates or intends to operate, which would adversely affect the profitability and the revenue attributable to the Purchaser; and
- (ix) there will be no material changes in the relevant interest rates and exchange rates that would have material impact on the Purchaser's business.

Graham H. Y. Chan & Co., the Reporting Accountants, have reviewed the calculations of the discounted future estimated cash flows of the Distributorship Rights, which does not involve the adoption of accounting policies, in which the Valuation was based. The Board has reviewed the above principal assumptions and confirmed that the forecast has been made after due and careful enquiry. The report from the Reporting Accountants is included in Appendix I to this announcement.

On the basis of the foregoing, the Financial Adviser, VBG Capital Limited, is satisfied that the forecast has been made by the Company after due and careful enquiry. The letter from the Financial Adviser is included in Appendix II to this announcement.

The following are the qualifications of the experts who have given their opinion and advice included in this announcement:

Name	Qualification
Graham H. Y. Chan & Co.	Certified Public Accountants
Ravia Global Appraisal Advisory Limited	Independent professional valuer
VBG Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Valuer, the Reporting Accountants and the Financial Adviser are third parties independent of and not connected with the Company and its connected persons.

As at the date of this announcement, none of the Valuer, the Reporting Accountants and the Financial Adviser has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the Valuer, the Reporting Accountants and the Financial Adviser has given and has not withdrawn its written consent to the publication of this announcement with the inclusion of its report or letter and all references to its name (including its qualifications) in the form and context in which it is included.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Acquisition Agreement exceeds 5% but is less than 25%, the entering into of the Acquisition Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements under Rule 14.33 of the Listing Rules.

GENERAL

The Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in the distribution of semiconductor and other electronic components.

The Purchaser is a company established in the PRC and an indirect wholly-owned subsidiary of the Company. It principally engages in trading of electronic components and other related products in the PRC.

The Vendor and the Guarantors

The Vendor is a company established in the PRC which principally engages in trading of electronic components and other related products in the PRC.

Mr. Zhao and Ms. Ou are the ultimate beneficial owners of the Vendor.

DEFINITIONS

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

“Acquisition”	the acquisition of the Distributorship Rights by the Purchaser under the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 30 September 2019 entered into among the Vendor, the Purchaser and the Guarantors in relation to the acquisition of the Distributorship Rights
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

“Company”	Apex Ace Holding Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 6036)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of US\$5,000,000 (equivalent to approximately HK\$39,000,000) in total for the Acquisition
“Director(s)”	the director(s) of the Company
“Distributorship Right A”	the right to distribute a range of products granted to the Vendor by Manufacturer A
“Distributorship Right B”	the right to distribute a range of products granted to the Vendor by Manufacturer B
“Distributorship Right C”	the right to distribute a range of products granted to the Vendor by Manufacturer C
“Distributorship Right(s)”	Distributorship Right A, Distributorship Right B and Distributorship Right C
“Earnest Deposit”	the earnest deposit in an aggregate amount of US\$2,000,000 paid by an indirect wholly-owned subsidiary of the Company (which was not the Purchaser) to the Vendor prior to the execution of the Acquisition Agreement
“Financial Adviser”	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
“Group”	the Company and its subsidiaries
“Guarantors”	Mr. Zhao and Ms. Ou, being individuals who provide guarantee on the obligations of the Vendor under the Acquisition Agreement
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified from time to time

“Manufacturer A”	the electronic component manufacturer who primarily operates in Taiwan and granted the Distributorship Right A to the Vendor
“Manufacturer B”	the plastic component manufacturer who primarily operates in the PRC and granted the Distributorship Right B to the Vendor
“Manufacturer C”	the electronic component manufacturer who primarily operates in the PRC and granted the Distributorship Right C to the Vendor
“Manufacturer(s)”	Manufacturer A, Manufacturer B and Manufacturer C
“Mr. Zhao”	Mr. Zhao Hongjun (趙紅軍)
“Ms. Ou”	Ms. Ou Jieying (歐解英)
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China which, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Profit Guarantee”	the profit guarantee provided by the Vendor to the Purchaser under the Acquisition Agreement
“Purchaser”	Shenzhen Zhiyupeng Technology Company Limited* (深圳智宇鵬科技有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Reporting Accountants”	Graham H. Y. Chan & Co., Certified Public Accountants
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollar, the lawful currency of the United States of America
“Valuation”	the valuation of the Distributorship Rights as at 30 June 2019 by the Valuer under the income approach using the discounted cash flow method
“Valuer”	Ravia Global Appraisal Advisory Limited, an independent professional valuer

“Vendor”

Shenzhen Zhiyupeng Electronic Company Limited* (深圳市智宇鵬電子有限公司), a company established in the PRC with limited liability

“%”

per cent.

By order of the Board of
Apex Ace Holding Limited
Lee Bing Kwong

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 30 September 2019

As at the date of this announcement, the executive Directors are Mr. Lee Bing Kwong (Chairman and Chief Executive Officer), Mr. Lo Yuen Kin and Ms. Lo Yuen Lai; and the independent non-executive Directors are Mr. Cheung Siu Kui, Mr. Yim Kwok Man and Dr. Chow Terence.

For the purpose of this announcement, unless otherwise indicated, the conversion of US\$ into HK\$ is based on the exchange rate of US\$1.00 = HK\$7.8. Such rate is for the purpose of illustration only and does not constitute a representation that any amount in question in US\$ or HK\$ has been or could have been or may be converted at such or another rate or at all.

* *For identification purpose only*

Appendix I — Report from the Reporting Accountants



GRAHAM H. Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

HONG KONG

Rooms 3719–26, 37/F.,
Sun Hung Kai Centre,
30 Harbour Road,
Wanchai,
Hong Kong

REPORT FROM REPORTING ACCOUNTANTS ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF DISTRIBUTORSHIP RIGHTS

TO THE BOARD OF DIRECTORS OF APEX ACE HOLDING LIMITED

We refer to the discounted future estimated cash flows on which the valuation (the “Valuation”) dated 30 September 2019 prepared by Ravia Global Appraisal Advisory Limited in respect of the fair value of the distributorship rights (“Distributorship Rights”) as at 30 June 2019 is based. The Valuation is in connection with the acquisition of Distributorship Rights by Apex Ace Holding Limited (the “Company”) as set out in the Company’s announcement dated 30 September 2019. The Valuation, based on the discounted future estimated cash flows, is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ Responsibilities

The directors of the Company (the “Directors”) are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation (the “Bases and Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the Bases and Assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Distributorship Rights.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the Bases and Assumptions adopted by the Directors. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the Bases and Assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA, Accordingly, we do not express an audit opinion.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled in all material respects in accordance with the Bases and Assumptions adopted by the Directors as set out in the Valuation.

Graham H. Y. Chan & Co.

Certified Public Accountants (Practising)
Hong Kong

30 September 2019

Appendix II — Letter from the Financial Adviser



18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

30 September 2019

Apex Ace Holding Limited

Units 2–3, 1/F.
Sun Cheong Industrial Building
1 Cheung Shun Street
Kowloon, Hong Kong

Attention: The Board of Directors

Dear Sirs,

We refer to the valuation prepared by Ravia Global Appraisal Advisory Limited set out in the valuation report dated 30 September 2019 as referred to in the announcement of the Company dated 30 September 2019 (the “**Announcement**”) in relation to the total value of 100% transfer of the Distributorship Rights as at 30 June 2019. Terms used in this letter shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

The Valuation, which has been arrived at using the discounted cash flow method, is based on the cash flow forecasts (the “**Forecasts**”) provided by the management of the Company. The Forecasts are regarded as a profit forecast under Rule 14.61 of the Listing Rules and we have been engaged for the purpose of reporting to you.

The assessment, review and discussion carried out by us as described in this letter are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that we have, in arriving at our views, relied on information and materials supplied to us by the Valuer and the Group and opinions expressed by, and representations of, the employees and/or management of the Valuer and the Group. We have assumed that all information, materials, opinions and/or representations so supplied, including all information, materials, opinions and/or representations referred to or contained in the Announcement, for which the Directors are solely responsible, were true, accurate, complete and not misleading at the time they were supplied or made and continued to be so up to the date of this letter and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our assessment and review. In addition, the qualifications, bases and assumptions adopted by the Valuer are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Valuer and the Group.

We have reviewed the Forecasts, for which you as the Directors are solely responsible for, and have discussed with you and the Valuer the basis and assumptions adopted for the Forecasts as well as the information and materials provided by the Valuer and the Group.

While we are not reporting on the arithmetical calculations of the Forecasts or the Valuation, nor the adoption of accounting policies thereof (if applicable), we have also considered the letter issued by Graham H.Y. Chan & Co., the Reporting Accountants, dated 30 September 2019 as set out in Appendix I to the Announcement regarding the calculations upon which the Forecasts have been made.

On the basis of foregoing, we are satisfied that the Forecasts including the bases and assumptions of the Forecasts adopted by the Valuer, for which you as the Directors are solely responsible for, have been made after due and careful enquiry. However, we express no opinions on the reasonableness of the valuation methods or whether the actual cash flows would eventually be achieved in correspondence with the Forecasts. We accept no responsibilities to any other person in respect of, arising out of or in connection with our work. Our work in connection with the Forecasts has been undertaken solely in connection with Rule 14.61 of the Listing Rules and for no other purposes.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Deputy Managing Director