WINFULL GROUP HOLDINGS LIMITED
宏輝集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 183)**

*Executive Directors:*
Mr. Pong Wilson Wai San *(Chairman)*
Mr. Lee Wing Yin
Mr. Ngan Man Ho

*Non-executive Director:*
Mr. Lai Hin Wing Henry

*Independent non-executive Directors:*
Mr. Koo Fook Sun Louis
Ms. Yeung Wing Yan Wendy
Mr. Lung Hung Cheuk

*Registered Office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal Place of Business in Hong Kong:*
Unit A, 6/F.
9 Queen's Road Central
Hong Kong

28 April 2017

*To the Shareholders*

Dear Sir or Madam,

# MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN FLEXWOOD LIMITED AND APPLICATION FOR WHITEWASH WAIVER

## INTRODUCTION

The Board announces that on 14 March 2017 (after trading hours of the Stock Exchange), the Group entered into the Acquisition Agreement with the Vendor in relation to the acquisition of the Sale Share and the Sale Loan by the Purchaser for an aggregate consideration of HK$450,600,000, which will be satisfied by the allotment and issue of 2,409,625,668 Consideration Shares to the Vendor (or his nominee), credited as fully paid, at the Issue Price. The Acquisition is subject to the satisfaction of the conditions as set out in the paragraph headed "Conditions" below.

As all the relevant percentages exceed 25% but below 100%, the Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. As the Vendor is a controlling Shareholder and an executive Director of the Company, the Acquisition also constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to, among others, the approval of the Independent Shareholders at the EGM.

Since the date of Announcement, the Group has conducted several transactions (the "**Subsequent Transactions**") with Independent Third Parties concerning the acquisition and disposal of certain properties in Hong Kong. Announcements made by the Company dated 15 March 2017, 23 March 2017, 3 April 2017 and 18 April 2017 contain further details of the Subsequent Transactions. The Group is principally engaged in property investment and trading and property development and provision of renovation services, as such it is in the ordinary and usual course of the Group's business to invest in properties in Hong Kong and other overseas market. The Acquisition and each of the Subsequent Transactions represent property investment made by the Group in its ordinary and usual course of business.

As at the Latest Practicable Date, the Vendor is beneficially interested in 7,328,000 Shares, representing approximately 0.23% of the existing issued share capital of the Company and Virtue Partner, which is beneficially wholly-owned by the Vendor, is beneficially interested in 936,794,000 Shares. Therefore, the Vendor, Virtue Partner and parties acting in concert with them are holding 944,122,000 Shares in aggregate, representing approximately 30.08% of the existing issued share capital of the Company as at the Latest Practicable Date.

Upon Completion, 2,409,625,668 Consideration Shares will be allotted and issued to the Vendor (or his nominee) and the interests of the Vendor, Virtue Partner and parties acting in concert with them in the voting rights of the Company will increase from approximately 30.08% to approximately 60.44% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, the Vendor would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Consideration Shares has been made by the Vendor. The Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The Vendor, Virtue Partner and parties acting in concert with any of them, and their respective associates, Mr. Ngan Man Ho and any other Shareholders who are involved or interested in the Acquisition Agreement and/or the Whitewash Waiver have abstained from voting on the board resolution approving Acquisition Agreement and shall abstain from voting at the EGM in respect of the resolution(s) approving the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The Acquisition Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

The purpose of this circular is to provide you with, among other things, further details of the Acquisition, valuation report on the Property and the Whitewash Waiver, together with the recommendations of the Connected Transaction Independent Board Committee and the Whitewash Independent Board Committee to the Independent Shareholders, the letter of advice from Veda Capital to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement and the Whitewash Waiver, and a notice of the EGM.

## THE ACQUISITION

### The Acquisition Agreement

**Date:** 14 March 2017

**Parties:**
(1) The Vendor as vendor

(2) The Purchaser as purchaser

(3) The Company as issuer

The Purchaser is an investment holding company and a wholly owned subsidiary of the Company incorporated in the BVI. The Vendor, Mr. Pong Wilson Wai San, is the Chairman of the Board and an executive Director.

### Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell (i) the Sale Share, representing 100% of the entire issued share capital of the Target Company; and (ii) the Sale Loan, representing all the obligations, liabilities and debts owed or incurred by the Target Company to the Vendor and its associates on or at any time prior to Completion. Up to 31 March 2017, the Sale Loan amounted to about HK$29,223,535.

The Target Company is a company incorporated in the BVI with limited liability and is principally engaged in property investment. The only significant asset of the Target Company is the Property which was acquired by the Target Company in 2009 and the total acquisition costs were HK$128,380,795 inclusive of stamp duty and legal fees.

### The consideration for the Acquisition

The total consideration for the Acquisition is HK$450,600,000, which shall be satisfied by the Company allotting and issuing 2,409,625,668 Consideration Shares at the Issue Price, credited as fully paid, to the Vendor (or his nominee) upon Completion.

The consideration was determined after arm's length negotiations between the parties to the Acquisition Agreement with reference to, among others, (i) the transacted prices of comparable commercial building in the vicinity of the Property; (ii) the net assets of the Target Company; and (iii) the outstanding Bank Loan of the Target Company upon Completion shall not exceed HK$56,400,000. The Directors (excluding Mr. Pong Wilson Wai San who is the Vendor and has abstained from voting at the Board meeting due to conflict of interest) consider the consideration of the Acquisition to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole, notwithstanding, the occurence of the Subsequent Transactions.

The consideration of HK$450,600,000 represents a discount of approximately 0.49% to the adjusted net asset value of the Target Company of approximately HK$452,799,100, after taking into account of (i) the market value of HK$500,000,000 as at 28 February 2017 according to the Property Valuation Report as set out in the Appendix V to this circular; (ii) the net current liability of the Target Company as at 31 December 2016 of HK$50,891,000 (excluding the amounts due to a director of approximately HK$29,796,000); and (iii) the 4 months rental income of the Property from 1 January 2017 and up to 30 April 2017 of approximately HK$3,690,100 (based on a monthly net rental income of approximately HK$922,525, and the assumption that the Completion will take place at the end of April 2017) but has disregarded any administrative costs for the same period as the Board considers this sum to be immaterial.

**Conditions precedent to the Acquisition Agreement**

The Acquisition is conditional upon the satisfaction of the following:

(a) the Purchaser being satisfied with the results of the due diligence review in particular the review of the assets, liabilities, operations and affairs of the Target Company as the Purchaser may reasonably consider appropriate;

(b) the Purchaser being satisfied that there are no title defects to the Property (save for the existing mortgage if the mortgage consent under sub-paragraph (d) below can be obtained);

(c) production of written evidence by the Vendor to the satisfaction of the Purchaser that all debts and liabilities of the Target Company (other than (1) the Sale Loan, (2) the Bank Loan which shall not exceed HK$56,400,000 and (3) other normal accruals in the ordinary course of business of the Target Company not exceeding HK$200,000 and acceptable by the Purchaser) having been discharged, released, waived or extinguished;

(d) all necessary bank and/or mortgagee consents and approvals required to be obtained on the part of the Purchaser, the Vendor and the Target Company in respect of the Acquisition Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect;

(e) the passing by the Independent Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules and the Takeovers Code at a general meeting of the Company to be convened and held of the necessary ordinary resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereby and the Whitewash Waiver, and all other consents and acts required to be obtained by the Purchaser under the Listing Rules and/or other applicable laws and regulations having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange and/or the SFC;

(f) the warranties provided by the Vendors under the Acquisition Agreement remaining true, accurate and complete in all material respects;

(g) the obtaining of a valuation report (in form and substance satisfactory to the Purchaser) from a firm of independent professional valuer appointed by the Purchaser showing the valuation of the Property to be not less than HK$500,000,000;

(h) the despatch of the circular by the Company in respect of the Acquisition as required under the Listing Rules and the Takeovers Code;

(i) the Purchaser being satisfied that there has not been any material adverse change in respect of the Target Company since the date of the Acquisition Agreement; and

(j) the granting of the Whitewash Waiver by the Executive.

The Purchaser may at any time at its absolute and sole discretion waive in writing the conditions (a), (b), (d), (f) and/or (i) set out above. The other conditions set out above are incapable of being waived. The Purchaser has no intention to waive any conditions but in the event that the required mortgagee bank consent in respect of the transaction contemplated under the Acquisition Agreement cannot be obtained, the Company will settle the Bank Loan upon Completion and arrange re-financing of the Property with the same mortgagee bank after Completion. If the conditions set out above have not been satisfied (or waived, as the case may be) on or before 30 June 2017, or such later date as the Vendor and the Purchaser may agree in writing (the "**Long Stop Date**"), the Acquisition Agreement shall cease and terminate and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies thereafter.

**Completion**

Completion is expected to take place on the third Business Day after the fulfilment (or waiver) of the conditions (or such later date as the parties to the Acquisition Agreement may agree) mentioned above.

Upon Completion, the Target Company will become an indirect wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the books of the Group.

**Consideration Shares**

The Issue Price represents:

(a) a premium of about 1.63% over the closing price of HK$0.184 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of about 0.53% over the average of the closing prices of HK$0.186 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(c) a discount of about 2.09% to the closing price of HK$0.191 as quoted on the Stock Exchange on the Latest Practicable Date; and

(d) a discount of about 53.9% to the unaudited net asset value per Share of approximately HK$0.406 per Share as at 31 December 2016.

The Issue Price was arrived at after arm's length negotiation between the Company and the Vendor by reference to the recent trading price of the Share. The Vendor had abstained from all the Board meetings in which the Acquisition was being considered and did not take part in the decision making of the Acquisition nor the consideration of the terms of the Acquisition Agreement for the Company. The Directors (excluding Mr. Pong Wilson Wai San who is the Vendor and has abstained from voting at the Board meeting due to conflict of interest) consider that the Issue Price is fair and reasonable and in the interests of the Shareholders as a whole.

The Consideration Shares will be allotted and issued under the specific mandate to be sought at the EGM. An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

The 2,409,625,668 Consideration Shares to be allotted and issued represent approximately 76.78% of the existing issued share capital of the Company and approximately 43.43%% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. Having considered the reasons and benefits of the Acquisition, including the positive financial impact on the net profit and net asset value of the Group, and the reasonableness of the consideration and the issue price of the Consideration Shares (which have been explained in details in the Independent Valuation Report on Target Company in Appendix V to this circular), the Board (excluding Mr. Pong Wilson Wai San who is the Vendor and has abstained from voting at the Board meeting due to conflict of interest) considers that the dilution on the shareholding interests of the Independent Shareholders in the Company upon completion of the Acquisition is justifiable.

The Consideration Shares, when allotted and issued, will rank pari passu in all respects with each other and with the Shares in issue on the date of allotment and issue of the Consideration Shares.

### Mandate to issue the Consideration Shares

The Consideration Shares will be issued and allotted pursuant to the specific mandate proposed to be sought from the Independent Shareholders at the EGM.

### Application for listing

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

## MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET COMPANY AND THE PROPERTY

### Overview

The Target Company is a company incorporated in the BVI with limited liability and is principally engaged in property investment. Immediately prior to the entering into of the Acquisition Agreement, the Target Company is held as to 100% by the Vendor. After Completion, the Purchaser will be interested in the entire issued share capital of the Target Company.

The Target Company is currently holding the Property located at the 6th Floor of 9 Queen's Road Central, Hong Kong. The Property is a commercial property with saleable area of approximately 11,371 sq. ft. located in Central, Hong Kong. The Property is currently used for commercial purpose and has been rented to various tenants including but not limited to the Group. Based on the land search record, the Property was acquired by the Target Company in 2009 at a consideration of HK$123,680,000 (exclusive of stamp duty and legal fees).

### Financial Review

Set below is the financial information of the Target Company:

| | For the year ended 31 March 2014 | For the year ended 31 March 2015 | For the year ended 31 March 2016 | For the nine months ended 31 December 2015 | For the nine months ended 31 December 2016 |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (Audited) | (Audited) | (Audited) | (Unaudited) | (Audited) |
| Revenue | 10,657 | 10,679 | 10,847 | 7,953 | 8,276 |
| Profit before taxation | 10,476 | 23,806 | 23,600 | 6,641 | 52,483 |
| Profit after taxation | 9,248 | 22,568 | 22,534 | 5,875 | 51,413 |
| Net asset value | 306,899 | 329,467 | 352,001 | 335,342 | 403,414 |

Please refer to the valuation report of the Property and the accountant's report of the Target Company in the appendices to this circular.

Revenue of the Target Company for the three years ended 31 March 2016 and for the nine months ended 31 December 2016 represent rental income derived from the Property, which was fully occupied during the periods under review. During the three years ended 31 March 2014, 2015 and 2016 and for the nine months ended 31 December 2016, the Target Company recorded revenue of approximately HK$10.7 million, HK$10.7 million, HK$10.8 million and HK$8.2 million, respectively, and net profits before taxation of approximately HK$10.5 million, HK$23.8 million, HK$23.6 million and HK$52.5 million, respectively. The increase in net profit before tax for the year ended 31 March 2015 and for the nine months ended 31 December 2016 was mainly attributable to the increase in rental income and the fair value gain on investment properties, while the decrease in net profit margin for the year ended 31 March 2016 was mainly due to the increase in directors remuneration, which is classified as administrative and other expenses.

The administration expenses and finance costs mainly represent directors remuneration, donation and bank loan interest, which, in total, represent over 88% of the total expenses of the Target Company for the three years ended 31 March 2016 and for the nine months ended 31 December 2016.

For the year ended 31 March 2014, the administration expenses and finance costs mainly represent directors' remuneration of approximately HK$1 million, donation of approximately HK$1.1 million and bank loan interest of approximately HK$0.8 million. For the year ended 31 March 2015, they mainly represent directors' remuneration of approximately HK$1 million, donation of approximately HK$1.1 million and bank loan interest of approximately HK$0.7 million. For the year ended 31 March 2016, they mainly represent directors' remuneration of approximately HK$2.7 million, donation of approximately HK$0.8 million and bank loan interest of approximately HK$0.7 million. The administration expenses increased for the year ended 31 March 2016 was due to the increase in directors' remuneration. For the nine months ended 31 December 2016, they mainly represent director's remuneration of approximately HK$0.7 million, donation of approximately HK$0.5 and bank loan interest of approximately HK$0.5 million.

**Liquidity, Financial Resource and Funding**

As at 31 March 2014, the Target Company had net current liabilities of approximately HK$99,325,000 including cash and bank balance of approximately HK$1,705,000. As at 31 March 2015, the Target Company had net current liabilities of approximately HK$92,349,000 including cash and bank balance of approximately HK$4,712,000. As at 31 March 2016, the Target Company had net current liabilities of approximately HK$86,406,000 including cash and bank balance of approximately HK$6,281,000. As at 31 December 2016, the Target Company had net current liabilities of approximately HK$80,687,000 including cash and bank balance of approximately HK$10,508,000. The decrease in net current liabilities during the periods under review was mainly due to the rental income from the Property.

The gearing ratio were 16.6%, 15.0%, 13.4% and 11.5% as at 31 March 2014, 2015 and 2016 and 31 December 2016, respectively. The gearing ratio is derived by dividing the total borrowings by total assets. The gearing ratio as at 31 December 2016 has decreased when compared to 31 March 2016 due to the repayment of bank loan.

During the periods under review, the Target Company financed its operations with its own working capital, bank borrowings and amounts due to a director. As at 31 March 2014, the unsecured and secured bank borrowing of the Target Company was approximately HK$68,163,000, in which approximately HK$20,399,000 were repayable within a period of not exceeding 5 years and approximately HK$47,764,000 were repayable beyond 5 years. Total other borrowings of the Target Company amounted to approximately HK$29,812,000, which were repayable within a period of not exceeding 5 years. As at 31 March 2015, the unsecured and secured bank borrowing of the Target Company was approximately HK$64,161,000, in which approximately HK$20,614,000 were repayable within a period of not exceeding 5 years and approximately HK$43,547,000 were repayable beyond 5 years. Total other borrowings of the Target Company amounted to approximately HK$29,797,000, which were repayable within a period of not exceeding 5 years. As at 31 March 2016, the unsecured and secured bank borrowing of the Target Company was approximately HK$60,122,000, in which approximately HK$20,841,000 were repayable within a period of not exceeding 5 years and approximately HK$39,281,000 were repayable beyond 5 years. Total other borrowings of the Target Company amounted to approximately HK$29,800,000, which are repayable within a period of not exceeding 5 years. As at 31 December 2016, the unsecured and secured bank borrowing of the Target Company was approximately HK$57,066,000, in which approximately HK$21,018,000 were repayable within a period of not exceeding 5 years and approximately HK$36,048,000 were repayable beyond 5 years and there was no other borrowing. Total other borrowings of the Target Company amounted to approximately HK$29,796,000, which were repayable within a period of not exceeding 5 years.

**Foreign Currency Management**

The Target Company has minimal exposure to foreign currency risks as all of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars.

The Target Company currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Target Company will monitor its foreign currency exposure closely and will consider hedging foreign currency exposure if necessary.

**Significant Investment Held, Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies, and Future Plans for Material Investments or Capital Assets**

Save for those disclosed in this circular, the Target Company did not have significant investment held, material acquisitions or disposal of subsidiaries and affiliated companies, and future plans for material investments or capital assets for the three years ended 31 March 2014, 2015 and 2016 and for the nine months ended 31 December 2016.

**Pledge of Assets**

As at 31 March 2014, 2015 and 2016 and 31 December 2016, the Property was pledged to secure bank borrowings for the Target Company.

**Contingent Liabilities**

As at 31 March 2014, 2015 and 2016 and 31 December 2016, the Target Company did not have any significant contingent liabilities.

**Capital Commitment**

As at 31 March 2014, 2015 and 2016 and 31 December 2016, the Target Company did not have any material capital commitment.

## REASONS FOR THE ACQUISITION

The Group is principally engaged in property investment and trading, property development and provision of renovation services.

The Directors are optimistic about the prospect of the Hong Kong commercial office market. The Directors considered that the Acquisition represents an investment opportunity in Hong Kong commercial office market and the tenancy agreements entered into by the Target Company will provide stable income for the Group while at the same time the Group will have the benefits from the long term appreciation of the price in commercial offices in Hong Kong.

It is noted that under the Acquisition Agreement, the Group need not to pay the consideration sum in cash at Completion and this will allow the Group to retain its cash reserves for its future business development. The Directors are also in the process of evaluating the existing properties held by the Group and may make adjustment of the portfolio in response to the changes in the property market in Hong Kong.

In view of the rental income from the Property with the possibility of future long term appreciation in value of the Property, the Directors believe that it is an appropriate time to invest in the Property, and the Directors (excluding Mr. Pong Wilson Wai San who is the Vendor and has abstained from voting at the Board meeting due to conflict of interest) consider that the terms and conditions of the Acquisition Agreement are reasonable and fair and in the interests of the Shareholders as a whole.

After Completion, the expected usage of the Property will remain unchanged. Approximately 15.6% of the Property will continue to be used by the Company as its principal office and the Company shall not need to pay any rental fee for its use as principal office upon Completion. The tenants of the remaining part of the Property are all Independent Third Parties.

## PROSPECTS OF THE GROUP

The growth of Hong Kong economy remained moderate for the nine months ended 31 March 2017 and the property market showed a brisk performance in late 2016 and the first quarter of 2017. The Hong Kong Government (the "**Government**") continued to put in significant effort to manage demand and reduce the possible risks to financial stability arising from an exuberant property market. The Government also sustained its effort of raising flat supply through land sale program and other terms of land supply sources. Looking forward, market sentiment in the near future may still be influenced by the US Federal Reserve's recent repeated hesitations in lifting interest rates, which implied an interest rate uptrend that would be more gradual than earlier expected.

With the purpose of offering better returns to the Shareholders, the Group decided to concentrate on property investment and trading, and development businesses. The Group believed that the business of property developments and property investment and trading both locally and internationally can broaden the revenue base and benefit the Company and the Shareholders as a whole in the long run.

Despite the uncertainty in Hong Kong and global economy, we are confident that Hong Kong will remain relevant and vital in its own right and as part of China. The Group will continue to explore potential property investment and trading opportunities with a view to have a diversified and balanced portfolio and to provide steady income source to the Group. The Group is conscious to monitor and analyze the impact of the local and global economy so as to make cautious business decisions and to adjust our development plan if necessary so as to maximize the return to the Shareholders.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, the Group had net current assets of approximately HK$834,937,000 (30 June 2016: approximately HK$839,864,000), including cash and bank balances of approximately HK$418,881,000 (30 June 2016: approximately HK$410,936,000).

The gearing ratio was 1.6% as at 31 December 2016 (30 June 2016: 1.9%). The gearing ratio is derived by dividing the total borrowings by total assets. The gearing ratio as at 31 December 2016 has decreased when compared to 30 June 2016 due to the partial repayment of the mortgage loan for acquisition of the Atlantic House at Cardiff, the United Kingdom.

During the six months ended 31 December 2016, the Group financed its operations with its own working capital and bank borrowings. As at 31 December 2016, the unsecured and secured bank borrowing of the Group was approximately HK$25,453,000 (30 June 2016: HK$29,148,000), in which approximately HK$12,056,000 were repayable within a period of not exceeding 5 years (30 June 2016: HK$14,574,000) and approximately HK$13,397,000 were repayable beyond 5 years (30 June 2016: HK$14,574,000), and there was no other borrowing (30 June 2016: Nil).

## EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon Completion (subject to Completion of the Acquisition and assuming that there is no other change in the shareholding structure of the Company before the allotment and issue of the Consideration Shares) are set out below:

| Shareholders | As at the Latest Practicable Date | | Immediately upon Completion | |
|---|---|---|---|---|
| | *Number of issued Shares* | *Approximate Percentage* | *Number of issued Shares* | *Approximate Percentage* |
| *The Vendor and his concert parties* | | | | |
| The Vendor *(Note)* | 7,328,000 | 0.23% | 2,416,953,668 | 43.56% |
| Virtue Partner *(Note)* | 936,794,000 | 29.85% | 936,794,000 | 16.88% |
| *Sub-total* | *944,122,000* | *30.08%* | *3,353,747,668* | *60.44%* |
| Mr. Ngan Man Ho (an executive Director) | 248,000 | 0.01% | 248,000 | 0.01% |
| Public Shareholders | 2,194,130,000 | 69.91% | 2,194,130,000 | 39.55% |
| **Total:** | **3,138,500,000** | **100.00%** | **5,548,125,668** | **100.00%** |

*Note:* Virtue Partner is a company incorporated in the BVI with limited liability and is wholly beneficially owned by the Vendor.

## FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Company will become wholly-owned subsidiaries of the Company. The financial results, assets and liabilities of the Target Company will be consolidated into the Group's financial statements.

Based on the unaudited pro forma financial information of the Enlarged Group following the Acquisition as set out in Appendix III to this circular, the total assets of the Group following the Acquisition would increase from approximately HK$1,274 million to approximately HK$1,707 million, while the total liabilities of the Group following the Acquisition would increase from approximately HK$270 million to approximately HK$337 million. The details of the financial effect of the Acquisition on the financial position together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix III to this circular.

## INTENTIONS OF THE VENDOR REGARDING THE GROUP

As at the Latest Practicable Date, the Vendor intends to continue the existing business and the continued employment of the employees of the Group and save for the Acquisition, does not intend to introduce any major changes to the existing operation and business of the Company or redeployment of any of the fixed assets of the Group other than in the ordinary course of business.

## LISTING RULES IMPLICATION

As all the relevant percentages exceed 25% but below 100%, the Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. As the Vendor is a controlling Shareholder of the Company, the Acquisition also constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to, among others, the approval of the Independent Shareholders at the EGM.

An EGM will be convened and held for the Shareholders to, among other things, consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder including the Acquisition.

## INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

Each of the Vendor, Virtue Partner and the parties acting in concert with them has confirmed that neither the Vendor, Virtue Partner nor any persons acting in concert with any of them:

(a) has acquired or entered into any agreement or arrangement to acquire any voting rights in the Company within the six months prior to the date of the Announcement;

(b) save for the share options granted to the Vendor by the Company entitling him to subscribe for a total of 60,000,000 Shares, owns any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;

(c) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or of the Vendor and which might be material to the transactions contemplated under the Acquisition Agreement and/or the Whitewash Waiver;

(d) has received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolution approving the transactions contemplated under the Acquisition Agreement and/or the Whitewash Waiver;

(e) has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Acquisition Agreement or the Whitewash Waiver (including any such agreements or arrangements that would result in any break fees being payable); and

(f) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

**WHITEWASH WAIVER**

As at the Latest Practicable Date, the Vendor is beneficially interested in 7,328,000 Shares, representing approximately 0.23% of the existing issued share capital of the Company.

Virtue Partner which is beneficially wholly-owned by the Vendor, holds 936,794,000 Shares as at the Latest Practicable Date. Therefore, the Vendor, Virtue Partner and parties acting in concert with them are holding 944,122,000 Shares in aggregate, representing approximately 30.08% of the existing issued share capital of the Company as at the Latest Practicable Date.

Upon Completion, 2,409,625,668 Consideration Shares will be allotted and issued to the Vendor (or his nominee) and the interests of the Vendor, Virtue Partner and parties acting in concert with them in the voting rights of the Company will increase from approximately 30.08% to approximately 60.44% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, the Vendor would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the issue and allotment of the Consideration Shares has been made by the Vendor. The Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The Vendor, Virtue Partner and parties acting in concert with any of them, and their respective associates, Mr. Ngan Man Ho and any other Shareholders who are involved or interested in the Acquisition Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The Acquisition Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

The Board does not believe that the Acquisition gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Executive has indicated that it agreed to grant the Whitewash Waiver subject to approval by the Independent Shareholders at the EGM.

## THE INDEPENDENT BOARD COMMITTEES

The Whitewash Independent Board Committee comprising the non-executive Director and all the independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code has been formed to advise the Independent Shareholders on the terms of the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver and as to voting. The Connected Transaction Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Acquisition Agreement and the transactions contemplated thereunder. None of the members of the Connected Transaction Independent Board Committee and the Whitewash Independent Board Committee has any interest or involvement in the transactions contemplated under the Acquisition Agreement or the Whitewash Waiver. Veda Capital has been appointed as the independent financial adviser with the approval of the Connected Transaction Independent Board Committee and the Whitewash Independent Board Committee to advise the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver and as to voting.

## THE EGM AND VOTING ARRANGEMENT

The EGM will be convened and held for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Acquisition, the grant of the specific mandate for the issue of the Consideration Shares and the Whitewash Waiver.

By reason of the requirements of the Takeovers Code and the Listing Rules, the Vendor, Virtue Partner and parties acting in concert with any of them, and their respective associates, Mr. Ngan Man Ho and any other Shareholders who are involved or interested in the Acquisition Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

Save for the aforesaid, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, no other Shareholder is required to abstain from voting in respect of the resolutions to consider and approve the Acquisition and the Whitewash Waiver at the EGM.

A notice convening the EGM to be held on Wednesday, 17 May 2017 at 9:30 a.m. at 7/F, Wheelock House, 20 Pedder Street, Central, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions set out therein.

Under Rule 13.39(4) of the Listing Rules any vote of the Shareholders at general meetings must be taken by poll. Under Rule 2.9 of the Takeovers Code, voting on the Whitewash Waiver at the EGM must be taken by poll.

You will find enclosed the proxy form for use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours (i.e. 9:30 a.m. on Monday, 15 May 2017) before the time appointed for holding the EGM, or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

For the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 12 May 2017 to Wednesday, 17 May 2017, both days inclusive, and no transfers of the shares of the Company will be effected during such period. In order to be entitled to attend and vote at the EGM, all transfers of shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Thursday, 11 May 2017.

**RECOMMENDATION**

The Connected Transaction Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Koo Fook Sun Louis, Ms. Yeung Wing Yan Wendy and Mr. Lung Hung Cheuk, has been established to consider, and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition Agreement.

The Whitewash Independent Board Committee comprising the non-executive Director Mr. Lai Hin Wing Henry and all the independent non-executive Directors, namely Mr. Koo Fook Sun Louis, Ms. Yeung Wing Yan Wendy and Mr. Lung Hung Cheuk, has been established to consider, and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition Agreement and the Whitewash Waiver.

The Connected Transaction Independent Board Committee, having considered the advice from Veda Capital, considers that (i) the terms of the Acquisition Agreement are fair and reasonable; (ii) the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms and are in the ordinary and usual course of business of the Group; and (iii) the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Connected Transaction Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolution in respect of the Acquisition Agreement to be proposed at the EGM.

The Whitewash Independent Board Committee, having considered the advice from Veda Capital, considers that the terms of the Acquisition Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Whitewash Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Acquisition Agreement and the Whitewash Waiver to be proposed at the EGM.

The Directors, excluding Mr. Pong Wilson Wai San who is the Vendor and has abstained from voting at the Board meeting due to conflict of interest, consider the terms of the Acquisition Agreement and the Whitewash Waiver are fair, just and reasonable in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Acquisition, the grant of specific mandate for the issue of the Consideration Shares and the Whitewash Waiver to be proposed at the EGM.

The recommendation of the Connected Transaction Independent Board Committee is set out on pages 23 to 24 in this circular, the recommendation of the Whitewash Independent Board Committee is set out on pages 25 to 26 in this circular and the letter from Veda Capital is set out on pages 27 to 49 in this circular.

**ADDITIONAL INFORMATION**

Your attention is also drawn to the information set out in the appendices to this circular.

**Shareholders and public investors should note that immediately upon issue of the Consideration Shares, the shareholding of the Vendor and parties acting in concert with him in the Company will exceed 50% of the voting rights of the Company and that the Vendor and parties acting in concert with him may increase their shareholding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company. However, there may be circumstances where there are changes in the make-up of the concert group consisting of the Vendor and Virtue Partner and holdings of each party in this concert group may change from time to time. This being the case, any party in this concert group holding less than 50% of the issued share capital of the Company may incur further obligation to make a general offer under Rule 26.1 of the Takeovers Code upon further acquisition of the Shares by any of them unless a waiver from the Executive is granted.**

By Order of the Board
**Winfull Group Holdings Limited**

**Lee Wing Yin**
*Executive Director*