
THIS 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 the action to be taken, you should consult a 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 Ascent International Holdings Limited (the “Company”), you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or 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 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 of the Offer contained herein.

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.



Waterfront Holding Group Co., Ltd. Ascent International Holdings Limited

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

中璽國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 264)

**COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO
MANDATORY UNCONDITIONAL CASH OFFER BY
LEGO SECURITIES LIMITED
FOR AND ON BEHALF OF WATERFRONT HOLDING GROUP CO., LTD.
TO ACQUIRE ALL THE ISSUED SHARES
IN ASCENT INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR TO BE ACQUIRED BY
WATERFRONT HOLDING GROUP CO., LTD.
AND PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



Unless the context otherwise requires, capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this Composite Document.

A letter from Lego Securities, among other things, details of the terms of the Offer is set out on pages 9 to 19 of this Composite Document.

A letter from the Board is set out on pages 20 to 25 of this Composite Document. A letter from the Independent Board Committee is set out on pages 26 to 27 of this Composite Document. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee, is set out on pages 28 to 51 of this Composite Document.

The procedures for acceptance and settlement of the Offer and other related information of the Offer and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptance of the Offer should be received by the Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event no later than 4:00 p.m. (Hong Kong time) on Tuesday, 18 June 2019 (or such later time and/or date as the Offeror may determine and announce in accordance with the requirements under the Takeovers Code).

This Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.irasia.com/listco/hk/ascent/index.htm> as long as the Offer remains open.

28 May 2019

CONTENTS

	<i>Page</i>
EXPECTED TIMETABLE	ii
IMPORTANT NOTICES	iv
DEFINITIONS	1
LETTER FROM LEGO SECURITIES	9
LETTER FROM THE BOARD	20
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	26
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	28
APPENDIX I — FURTHER TERMS AND PROCEDURES FOR ACCEPTANCE OF THE OFFER	I-1
APPENDIX II — FINANCIAL INFORMATION OF THE GROUP	II-1
APPENDIX III — GENERAL INFORMATION OF THE OFFEROR	III-1
APPENDIX IV — GENERAL INFORMATION OF THE GROUP	IV-1
ACCOMPANYING DOCUMENT — FORM OF ACCEPTANCE	

EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.

All time and date references contained in this Composite Document refer to Hong Kong time and dates.

Event	Time & Date 2019
--------------	---------------------------------

Despatch date of this Composite Document and the Form of Acceptance (<i>Note 1</i>)	Tuesday, 28 May
--	-----------------

Offer opens for acceptance (<i>Note 1</i>)	Tuesday, 28 May
--	-----------------

Latest time and date for acceptance of the Offer and the Closing Date (<i>Note 2</i>)	by 4:00 p.m. on Tuesday, 18 June
--	-------------------------------------

Announcement of the results of the Offer (or its extension or revision, if any) on the website of the Stock Exchange (<i>Note 2</i>)	by 7:00 p.m. on Tuesday, 18 June
--	-------------------------------------

Latest date for posting of remittances in respect of valid acceptances received under the Offer (<i>Note 3</i>)	Thursday, 27 June
--	-------------------

Notes:

1. The Offer, which is unconditional in all respects, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until 4:00 p.m. on the Closing Date, unless the Offeror revises the Offer in accordance with the Takeovers Code. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the paragraph headed “6. RIGHT OF WITHDRAWAL” in Appendix I to this Composite Document.
2. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. The latest time and date for acceptance of the Offer is 4:00 p.m. on Tuesday, 18 June 2019 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement in respect of the result of the Offer will be issued on the website of the Stock Exchange by 7:00 p.m. on the Closing Date. In the event that the Offeror decides to revise or extend the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. The revised Offer must be kept open for at least 14 days following the date on which the revised offer document(s) are posted and shall not close earlier than the Closing Date.

EXPECTED TIMETABLE

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 remain on the same day, i.e. 4:00 p.m. on the Closing Date.

3. Remittances in respect of the cash consideration (after deducting the seller’s ad valorem stamp duty) payable for the Offer Shares tendered under the Offer will be despatched to the Independent Shareholders accepting the Offer by ordinary post at their own risk as soon as possible, but in any event within seven (7) Business Days following the date of receipt of all relevant documents required to render such acceptance complete and valid in accordance with the Takeovers Code.

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).

IMPORTANT NOTICES

NOTICE TO THE OVERSEAS SHAREHOLDERS

The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws and regulations of the relevant jurisdictions. Overseas Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. The Offeror and parties acting in concert with it, the Company, Lego Securities, Lego Corporate Finance, the Independent Financial Adviser, the Registrar, their respective ultimate beneficial owners, directors, officers, agents and associates and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please refer to the paragraph headed “Overseas Shareholders” in the “Letter from Lego Securities”.

DEFINITIONS

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

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“associate(s)”	has the meaning ascribed thereto under the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	Tuesday, 18 June 2019, being the closing date of the Offer which is 21 days following the date on which this Composite Document is posted (or if the Offer is extended, any subsequent closing date as may be determined by the Offeror and jointly announced by the Offeror and the Company in accordance with the Takeovers Code)
“Company”	Ascent International Holdings Limited (stock code: 264), an exempted company incorporated in the Cayman Islands with limited liability and its issued Shares are listed on the Stock Exchange
“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company in accordance with the Takeovers Code containing, among other things, details of the Offer, the recommendation from the Independent Board Committee to the Independent Shareholders and the advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Offer
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Encumbrances”	a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Form of Acceptance”	the form of acceptance and transfer of the Offer Shares in respect of the Offer accompanying this Composite Document
“Group”	the Company and its subsidiaries from time to time
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors established for the purpose of advising the Independent Shareholders in respect of the Offer and in particular as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer
“Independent Financial Adviser” or “Grand Moore”	Grand Moore Capital Limited, a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee for the purpose of advising the Independent Board Committee in respect of the terms of the Offer and as to acceptance of the Offer
“Independent Shareholders”	the Shareholders other than the Offeror, Mason Group and parties acting in concert with any of them

DEFINITIONS

“Joint Announcement”	the announcement jointly published by the Offeror and the Company dated 7 May 2019 in relation to, among other things, the Offer pursuant to Rule 3.5 of the Takeovers Code
“Last Trading Day”	22 March 2019, being the last trading day of the Shares on the Stock Exchange prior to the halt of trading in the Shares pending the release of the Joint Announcement
“Latest Practicable Date”	24 May 2019, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Lego Corporate Finance”	Lego Corporate Finance Limited, a corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong), being the financial adviser to the Offeror in respect of the Offer
“Lego Securities”	Lego Securities Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong), being the agent making the Offer on behalf of the Offeror
“Letter”	a letter dated 22 March 2019 issued by Mason Securities and acknowledged by the Offeror on 22 March 2019, pursuant to which the Offeror acknowledged that the Transfer would be effected by Mason Securities exercising its rights under the TL Finance Documents, and subject to and, upon payment of the total consideration for the Sale Shares by the Offeror

DEFINITIONS

“Letter of Intent”	a letter of intent dated 21 December 2018 entered into between Mason Securities and Mr. Zhao, which sets out, among other things, the non-legally binding provisions in respect of the intention of Mr. Zhao (as purchaser) to purchase, and Mason Securities (as chargee of the 287,028,000 Shares charged by Twinkle Link in favour of Mason Securities under the TL Security Deed (the “Subject Shares”)) to exercise its rights under the TL Security Deed and other related documents to effect the transfer from Twinkle Link to Mr. Zhao of the Subject Shares
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mason Concert Group”	Mason Securities or any party acting in concert with it and/or their respective nominees (if any) and/or representatives (if any)
“Mason Group”	Mason Holdings and its subsidiaries
“Mason Holdings”	Mason Group Holdings Limited (formerly known as Mason Financial Holdings Limited), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Stock Exchange (stock code: 273)
“Mason Securities”	Mason Securities Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), which is an indirect wholly-owned subsidiary of Mason Holdings
“Mr. Zhao”	Mr. Zhao Jingfei, the ultimate sole shareholder and the sole director of the Offeror
“Offer”	the mandatory unconditional cash offer being made by Lego Securities on behalf of the Offeror to acquire all the Offer Shares

DEFINITIONS

“Offeror”	Waterfront Holding Group Co., Ltd., a company incorporated in the British Virgin Islands with limited liabilities which is ultimately wholly and beneficially owned by Mr. Zhao
“Offer Period”	has the meaning ascribed thereto under the Takeovers Code, which commenced on 3 January 2019, being the date of the Rule 3.7 Announcement and ending on the Closing Date
“Offer Price”	HK\$1.0975 per Offer Share
“Offeror’s Securities Account”	the securities account in the name of the Offeror maintained with Mason Securities, in which the Offeror shall deposit (i) all the Sales Shares acquired by the Offeror upon the completion of the Transfer; and (ii) the Shares to be acquired by the Offeror under the Offer
“Offer Share(s)”	all the issued Shares (other than those already beneficially owned or to be acquired by the Offeror and parties acting in concert with it)
“Overseas Shareholders”	Independent Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong
“Placing”	the placing of 60,736,000 Shares, representing approximately 15.87% of the entire issued share capital of the Company as at the date of the Public Float Announcement, through the placing agent to independent placees on 25 January 2019
“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 People’s Republic of China and Taiwan
“Public Float Announcement”	the announcement of the Company dated 25 January 2019 in relation to the Placing

DEFINITIONS

“Rule 3.7 Announcement”	the announcement of the Company dated 3 January 2019 pursuant to Rule 3.7 of the Takeovers Code in relation to, among others, the Letter of Intent
“Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, located at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Period”	the period from 3 July 2018, being the date falling six months immediately preceding the commencement of the Offer Period, up to and including the Latest Practicable Date
“Sale Share(s)”	the 287,024,406 Shares transferred to the Offeror from Twinkle Link under the Transfer
“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)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers
“TL Facilities”	a term loan facilities in the aggregate principal amount of HK\$406,000,000 granted by Mason Securities (as lender) to Twinkle Link (as borrower) under the TL Facility Agreement
“TL Facility Agreement”	a facility agreement dated 10 May 2018 entered into between Twinkle Link (as borrower) and Mason Securities (as lender) for granting the TL Facilities

DEFINITIONS

“TL Finance Documents”	the TL Facility Agreement and the TL Security Deed
“TL Security Deed”	a security deed dated 10 May 2018 entered into between Mason Securities (as chargee) and Twinkle Link (as chargor) whereby Twinkle Link shall charge to Mason Securities as security for the TL Facilities all the Shares deposited with the securities account in the name of Twinkle Link held with Mason Securities in respect of 347,760,406 Shares immediately before the completion of the Placing, which were reduced to 287,024,406 Shares immediately after the completion of the Placing
“Transfer”	the transfer of the Sale Shares which took place on 25 March 2019
“Twinkle Link”	Twinkle Link Limited, a company incorporated in the British Virgin Islands which was interested in approximately 75.00% of the issued share capital of the Company immediately before the Transfer
“Twinkle Concert Group”	Twinkle Link, Mr. Xu Hongwei and/or any party acting in concert with any of them and/or their respective nominees (if any) and/or representatives (if any)
“WH Deed Poll”	the deed poll dated 22 March 2019 executed by the Offeror and Mr. Zhao in respect of the WH Facility Agreement for the benefit of Mason Securities
“WH Facilities”	term loan facilities in the aggregate principal amount of HK\$171,000,000 granted by Mason Securities (as lender) to the Offeror (as borrower) in accordance with the terms of the WH Facility Agreement for financing part of the consideration for the Sale Shares and the Offer
“WH Facility Agreement”	the facility agreement dated 22 March 2019 entered into between Mason Securities (as lender) and the Offeror (as borrower) for granting the WH Facilities

DEFINITIONS

“WH Fee Letter”	the fee letter dated 22 March 2019 entered into between Mason Securities (as lender) and the Offeror (as borrower), setting out the arrangement fee and other amounts payable by the Offeror in connection with the WH Facilities
“WH Finance Documents”	the WH Facility Agreement, the WH Security Deed, the WH Personal Guarantee, the WH Deed Poll and the WH Fee Letter
“WH Personal Guarantee”	the personal guarantee dated 22 March 2019 entered into between Mason Securities (as lender) and Mr. Zhao (as guarantor) for guaranteeing all liabilities owed by the Offeror (as borrower) to Mason Securities under the WH Finance Documents
“WH Security Deed”	the security deed entered into between Mason Securities (as chargee) and the Offeror (as chargor) dated 22 March 2019 whereby the Offeror shall charge to Mason Securities as security for the WH Facilities (i) all of the Sale Shares acquired by the Offeror upon the completion of the Transfer; (ii) the Shares to be acquired by the Offeror under the Offer; and (iii) the Offeror’s Securities Account, in which the Offeror shall deposit the aforesaid Shares
“Zhao Concert Group”	the Offeror, Mr. Zhao and/or any party acting in concert with any of them and/or their respective nominees (if any) and/or representatives (if any)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM LEGO SECURITIES



Room 301
3/F, China Building
29 Queen's Road Central
Central, Hong Kong

28 May 2019

To the Independent Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
LEGO SECURITIES LIMITED
FOR AND ON BEHALF OF
WATERFRONT HOLDING GROUP CO., LTD.
TO ACQUIRE ALL THE ISSUED SHARES IN
ASCENT INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR TO BE ACQUIRED BY
WATERFRONT HOLDING GROUP CO., LTD.
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to (i) the Rule 3.7 Announcement in relation to the Letter of Intent in connection with the possible transfer of the Sale Shares; (ii) the two monthly update announcements in relation to the progress of the then proposed Transfer pursuant to Rule 3.7 of the Takeovers Code dated 1 February 2019 and 1 March 2019, respectively; (iii) the Public Float Announcement in relation to the restoration of public float of the Company; and (iv) the Joint Announcement jointly published by the Offeror and the Company on 7 May 2019 in relation to, among other matters, the Offer pursuant to Rule 3.5 of the Takeovers Code.

As disclosed in the Joint Announcement, the Company was informed by Twinkle Link that on 22 March 2019 (after trading hours of the Stock Exchange), Mason Securities exercised its rights under the TL Finance Documents to enforce the TL Security Deed and agreed to effect the Transfer of 287,024,406 Shares (representing approximately 75.00% of the entire issued share capital of the

LETTER FROM LEGO SECURITIES

Company as at the Latest Practicable Date), which were charged by Twinkle Link under the TL Security Deed in favor of Mason Securities, from Twinkle Link to the Offeror at the total consideration of HK\$315,009,285.58 (equivalent to HK\$1.0975 per Sale Share) subject to and, upon payment of the total consideration for the Sale Shares by the Offeror. The total consideration for the Sale Shares was settled by the Offeror on 25 March 2019 and the Transfer was completed on 25 March 2019.

Immediately upon the completion of the Transfer and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it are interested in 287,024,406 Shares, representing approximately 75.00% of the total issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or to be acquired by the Offeror and the parties acting in concert with it).

This letter forms part of this Composite Documents and sets out, among other things, the principal terms of the Offer, together with the information on the Offeror and its intention in relation to the Group. Further details of the terms of the Offer and procedures for acceptance of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance. Independent Shareholders are strongly advised to consider carefully the information contained in 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 and to consult their professional advisers if in doubt before reaching a decision as to whether or not to accept the Offer.

MANDATORY UNCONDITIONAL CASH OFFER

As at the Latest Practicable Date, the Company has 382,704,000 Shares in issue. The Company did not have any outstanding options, derivatives, warrants, relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) or securities which are convertible or exchangeable into Shares, and has not entered into any agreement for the issue of such options, derivatives, warrants, relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

LETTER FROM LEGO SECURITIES

Principal terms of the Offer

Lego Securities, for and on behalf of the Offeror, hereby makes the Offer in compliance with the Takeovers Code on the following terms:

For each Offer Share. HK\$1.0975 in cash

The Offer Price of HK\$1.0975 per Offer Share is determined at a price of approximately equal to but not lower than the price per Sale Share paid by the Offeror, which is determined after arm's length negotiations between the Offeror and Mason Securities as the chargee of the Sale Shares with reference to the market price of the Shares.

The Offer is unconditional in all aspects when it is made and will not be conditional upon acceptances being received in respect of a minimum number of Shares or other conditions.

Comparisons of value

The Offer Price of HK\$1.0975 per Share represents:

- (i) a discount of approximately 19.89% over the closing price of HK\$1.370 per Share as quoted on the Stock Exchange on 25 July 2018, being the last trading day for the Shares prior to the commencement of the Offer Period;
- (ii) a discount of approximately 2.01% to the closing price of HK\$1.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 0.69% over the average of the closing prices of approximately HK\$1.090 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 1.90% over the average of the closing prices of approximately HK\$1.077 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 1.53% over the average of the closing prices of approximately HK\$1.081 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;

LETTER FROM LEGO SECURITIES

- (vi) a discount of approximately 10.77% to the closing price of HK\$1.230 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 1,403.42% over the audited consolidated net asset value attributable to the owners of the Company of approximately HK\$0.073 per Share (based on the total number of issued Shares as at the Latest Practicable Date) as at 31 December 2018, being the date to which the latest published audited annual financial results of the Group were made up.

Highest and lowest Share prices

During the Relevant Period, the highest closing prices of the Shares as quoted on the Stock Exchange were HK\$1.48 per Share on 4 July 2018, 17 July 2018, 18 July 2018 and 23 July 2018; and the lowest price of the Shares as quoted on the Stock Exchange was HK\$1.03 per Share on 29 January 2019.

Total consideration of the Offer

Based on the Offer Price of HK\$1.0975 per Offer Share and the 382,704,000 Shares in issue as at the Latest Practicable Date, of which 287,024,406 Shares are already owned by the Offeror and parties acting in concert with it as at the Latest Practicable Date, 95,679,594 Shares will be subject to the Offer (assuming there is no change to the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer), and based on the Offer Price per Offer Share and on the basis of full acceptance of the Offer, the cash consideration payable by the Offeror under the Offer will amount to approximately HK\$105,008,354.4.

Confirmation of financial resources available for the Offer

The Offeror intends to finance the entire consideration payable under the Offer through the WH Facilities provided by Mason Securities. The Offeror does not intend that the payment of interest on, repayment of or provision of security for any liability (contingent or otherwise) under the WH Facilities will depend to any significant extent on the business of the Company.

Lego Corporate Finance, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the total consideration payable by the Offeror upon full acceptances of the Offer.

LETTER FROM LEGO SECURITIES

On 22 March 2019, the Offeror entered into the WH Facility Agreement in connection with the WH Facilities, and executed the WH Security Deed in favour of Mason Securities.

Effect of accepting the Offer

The Offer is unconditional in all respects. By validly accepting the Offer, the relevant Shareholders will sell their respective Shares to the Offeror at the Offer Price free from all Encumbrances and together with all rights accruing or attaching thereto, including (without limitation) the right to receive dividends and distributions declared, made or paid, if any, on or after the date of the posting of this Composite Document (i.e. the date on which the Offer is made).

Acceptance of the Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) under the paragraph headed “6. RIGHT OF WITHDRAWAL” in Appendix I to this Composite Document.

Hong Kong stamp duty

The seller’s Hong Kong ad valorem stamp duty payable by the Independent Shareholders who accept the Offer and calculated at a rate of 0.1% of the higher of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer will be deducted from the amount payable by the Offeror to such person on acceptance of the Offer.

The Offeror will arrange for payment of the seller’s ad valorem stamp duty on behalf of the relevant Independent Shareholders who accept the Offer and pay the buyer’s Hong Kong ad valorem stamp duty in connection with the acceptances of the Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Settlement

Settlement of the considerations for the Offer Shares will be made in cash as soon as possible but in any event within seven (7) Business Days after the date on which the duly completed acceptances of the Offer and the relevant documents of title in respect of such acceptances are received by the Offeror (or its agent acting on behalf of it) to render each such acceptance complete and valid pursuant to the Takeovers Code.

No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

LETTER FROM LEGO SECURITIES

Taxation advice

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, Lego Securities, Lego Corporate Finance and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Overseas Shareholders

The availability of the Offer to persons who are not residents in Hong Kong or who have registered addresses outside Hong Kong may be affected by the applicable laws of the relevant jurisdiction in which they reside. Overseas Shareholders and Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should fully observe all applicable legal or regulatory requirements and, where necessary, seek their own legal advice. 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 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 of other taxes due by such accepting Overseas Shareholders in respect of such jurisdiction).

The attention of Independent Shareholders with registered addresses outside Hong Kong is also drawn to the paragraph headed “8. Overseas Shareholders” in Appendix I to this Composite Document.

Acceptance of the Offer 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 in case of any doubt.

INFORMATION ON THE OFFEROR

The Offeror is incorporated in the British Virgin Islands with limited liability, and is an investment holding company ultimately wholly and beneficially owned by Mr. Zhao, who is also the sole director of the Offeror. Mr. Zhao obtained a bachelor’s degree in economics from Wuhan Sports University in 2013. Since graduation, Mr. Zhao has been assisting in the management of his family business. Mr. Zhao’s father is the president and director of Kaiyuan Investment Co., Ltd.* (開源股權投資有限公司), a financial investment company established in the PRC and principally invested in the fields of aviation, technology, security, health and medical care, logistics and

LETTER FROM LEGO SECURITIES

cultural tourism. Mr. Zhao has also been accumulating other working and investment experience in the PRC, which include financial and apparel businesses. Mr. Zhao has personally invested in unit trusts, the portfolios of which include equity instruments, high-yield and convertible bonds from issuers domiciled in the United States or Canada, and investments in companies predominantly engaged in the design, production or distribution of products and services related to the leisure time activities of individuals, which include automobile, household construction and durables, media and internet companies and other companies engaged in meeting the demands of consumers. In addition, from January 2015 to January 2019, Mr. Zhao worked in Hubei Hengji Business Co., Ltd* (湖北亨基商貿有限公司) (“**Hubei Hengji**”), a manufacturing and processing company of apparel, with his last position as the operations manager. During his years working in Hubei Hengji, Mr. Zhao was primarily responsible for the procurement of garments and the introduction of brands.

In late 2018, Mr. Zhao started to look for investment opportunities in different industries in Hong Kong, including financial and apparel industries, and preferably listed companies as listed companies which have more means of financing and fund-raising to support their own business growth and development compared to non-listed companies. Mr. Zhao then identified the investment opportunity to invest in the Company through Mason Securities. As Mr. Zhao considered that the Company is a listed company in Hong Kong and in view of the limited sales of the Group’s leather products to the PRC market as evidenced by the relatively low contribution from its external customers in the PRC which only accounted for approximately 3.6% and 3.4% to the Group’s total revenue for the two years ended 31 December 2017 and 2018, respectively, the products of the Group may have growth potential in the PRC market, Mr. Zhao decided to invest in the Company through the Transfer.

Following the close of the Offer, Mr. Zhao intends to be an executive Director of the Company in managing the businesses of the Group. Given that Mr. Zhao had no relevant experience in the manufacturing and distribution of leather products, which is the principal business of the Group, while taking time to familiarise with the businesses of the Group, Mr. Zhao intends to leverage on the day-to-day operational experiences of the management of the Group, in particular those of the operating subsidiaries of the Group in developing the businesses of the Group in order not to create unfavourable disruptions thereto.

INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

Following the close of the Offer, it is the intention of the Offeror that the Company will continue to focus on the development of its existing businesses, namely, the manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon and after the close of the Offer.

LETTER FROM LEGO SECURITIES

Nevertheless, the Offeror will conduct a detailed review on the existing principal businesses and operations, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group's long-term business development and will explore other business opportunities for the Group. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

As at the Latest Practicable Date, no investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

Save for the changes to the members of the Board as described in the paragraph headed "Proposed change of the Board composition" below, the Offeror has no intention to discontinue the employment of any employees of the Group (save for change in the composition of the Board) or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business.

PROPOSED CHANGE OF THE BOARD COMPOSITION

As at the Latest Practicable Date, the Board is made up of four Directors, comprising one executive Directors (being Ms. Wang Wei) and three independent non-executive Directors (being Mr. Chong Man Hung Jeffrey, Mr. Liang Jianhai and Mr. Wong Kwun Ho).

It is expected that all of the existing Directors will resign with effect from such date as being required by the Offeror or the earliest time permitted under the Takeovers Code or the Stock Exchange, whichever is the later.

The Offeror intends to nominate two executive Directors, namely, Mr. Zhao and Mr. Fan Xin (together, the "**Proposed Directors**") to the Board to facilitate the business operation, management and strategy of the Group and such appointments will be subject to the approval of the Board and will not take effect earlier than the date of posting of this Composite Document or such other date as permitted under the Takeovers Code. In addition, the Offeror is in the course of identifying additional candidates for the Board, subject to compliance with the Takeovers Code and the Listing Rules. Any of such appointments will be made in compliance with the Takeovers Code and the Listing Rules and will take effect on the earliest day permitted under the Takeovers Code.

LETTER FROM LEGO SECURITIES

Set out below are the biographic details of the Proposed Directors:

Mr. Zhao Jingfei, aged 29, obtained a bachelor's degree in economics from Wuhan Sports University in 2013. Since graduation, Mr. Zhao has been assisting in the management of his family business as well as accumulating other working and investment experience in the PRC, which include financial and apparel businesses. In addition, from January 2015 to January 2019, Mr. Zhao worked in Hubei Hengji Business Co., Ltd* (湖北亨基商貿有限公司) (“**Hubei Hengji**”), a manufacturing and processing company of apparel, with his last position as the operations manager. During his years working in Hubei Hengji, Mr. Zhao was primarily responsible for the procurement of garments and the introduction of brands.

Mr. Fan Xin, aged 36, obtained a New Zealand Diploma in Business (Level 6) from New Zealand Academy of Studies in 2008. Mr. Fan was a part-time researcher in the Securities Research Institute of Fudan University* (復旦大學證券研究所) from March 2013 to December 2013. He was a general manager in Beijing Sinan Think Tank Economics Research Co., Ltd.* (北京司南車智庫經濟學研究有限公司). He has been an executive director of Yinglian Technology Co., Ltd.* (鷹鏈科技有限公司) since February 2018. He has also been the general manager of Lijiang Airlines Investment Co., Ltd.* (麗江航空投資有限公司) since December 2018.

Each of the Proposed Directors has not held any directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

As at the Latest Practicable Date, the Offeror is wholly owned by Mr. Zhao, save as this, as at the Latest Practicable Date, each of the Proposed Directors did not have any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends the issued Shares to remain listed on the Stock Exchange upon the close of the Offer.

The Stock Exchange has stated that if, at the close 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:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

LETTER FROM LEGO SECURITIES

then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

The sole director of the Offeror and the Proposed Directors to be appointed by the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that sufficient public float exists in the Shares after the close of the Offer.

In this connection, in the event that the public float of the Company falls below 25% upon the close of the Offer, the Offeror will, as soon as practicable, dispose of such number of Shares either directly in the market or through a placing agent to be appointed by the Offeror to ensure that the public float requirement under the Listing Rules can be met. Appropriate announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

COMPULSORY ACQUISITION

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer.

PROCEDURES FOR ACCEPTANCE AND SETTLEMENT

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

GENERAL

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominees on behalf of 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.

All documents and remittances to be sent to the Independent Shareholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company or in case of joint Shareholders, to such Shareholder whose name appears first in the register of members of the Company. The Company, the Offeror and parties acting in concert with it, Lego Securities, Lego Corporate Finance, the Independent Financial Adviser, the Registrar or

LETTER FROM LEGO SECURITIES

any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other persons involved in the Offer will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document and the accompanying Form of Acceptance, which form part of this Composite Document. You are reminded to read carefully the “Letter from the Board”, the “Letter from the Independent Board Committee”, the “Letter from the Independent Financial Adviser” and other information about the Group which are set out in this Composite Document before deciding whether or not to accept the Offer.

In considering what action to take in connection with the Offer, you should consider your own tax or financial position and if you are in any doubt, you should consult your professional advisers.

Yours faithfully,

For and on behalf of
Lego Securities Limited
Kelvin Li
Director

LETTER FROM THE BOARD



ASCENT INTERNATIONAL HOLDINGS LIMITED

中壘國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 264)

Executive Director:
Wang Wei (*Chairlady*)

Independent Non-executive Directors:
Chong Man Hung Jeffrey
Liang Jianhai
Wong Kwun Ho

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

Principal Place of Business in Hong Kong:
7/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

28 May 2019

To the Independent Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
LEGO SECURITIES LIMITED
FOR AND ON BEHALF OF
WATERFRONT HOLDING GROUP CO., LTD
TO ACQUIRE ALL ISSUED SHARES IN
ASCENT INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR TO BE ACQUIRED BY
WATERFRONT HOLDING GROUP CO., LTD
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to (i) the Rule 3.7 Announcement in relation to the Letter of Intent in connection with the possible transfer of the Sale Shares; (ii) the two monthly update announcements in relation to the progress of the then proposed Transfer pursuant to Rule 3.7 of the Takeovers Code dated 1 February 2019 and 1 March 2019, respectively; (iii) the Public Float

LETTER FROM THE BOARD

Announcement in relation to the restoration of public float of the Company; and (iv) the Joint Announcement jointly published by the Offeror and the Company on 7 May 2019 in relation to, among other matters, the Offer pursuant to Rule 3.5 of the Takeovers Code. Terms used in this letter have the same meanings as defined in this Composite Document unless the context otherwise requires.

As mentioned in the Joint Announcement, the Company was informed by Twinkle Link that on 22 March 2019 (after trading hours of the Stock Exchange), Mason Securities exercised its rights under the TL Finance Documents to enforce the TL Security Deed and agreed to effect the Transfer of 287,024,406 Shares (representing approximately 75.00% of the entire issued share capital of the Company as at the Latest Practicable Date, which were charged by Twinkle Link under the TL Security Deed in favour of Mason Securities, from Twinkle Link to the Offeror at the total consideration of HK\$315,009,285.58 (equivalent to HK\$1.0975 per Sale Share) subject to and, upon payment of the total consideration for the Sale Shares by the Offeror.

The total consideration for the Sale Shares was settled by the Offeror in the following manner:

- (i) a sum of HK\$30,000,000 which was paid by Mr. Zhao to Mason Securities as earnest money for the Transfer pursuant to the Letter of Intent was subsequently applied as part of the total consideration for the Sale Shares upon the signing of the Letter;
- (ii) Mr. Zhao further paid HK\$220,235,322.92 in cash to Mason Securities; and
- (iii) the remaining sum of HK\$64,773,962.66 was financed by Mason Securities under the WH Facilities.

Other than the HK\$64,773,962.66 financed by Mason Securities, the remaining part of the Consideration was funded by the internal resources of Mr. Zhao, which was mainly supported by Mr. Zhao's father.

The total consideration for the Sale Shares was settled by the Offeror on 25 March 2019 and the Transfer was completed on 25 March 2019. Although the Sale Shares are subject to the share charge granted by the Offeror in favour of Mason Securities pursuant to the WH Security Deed, the voting rights of the Sale Shares remain vested in the Offeror.

Immediately upon the completion of the Transfer and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it are interested in 287,024,406 Shares, representing approximately 75.00% of the total issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all

LETTER FROM THE BOARD

the issued Shares (other than those already owned or to be acquired by the Offeror and the parties acting in concert with it). Lego Securities is, on behalf of the Offeror, making the Offer in compliance with the Takeovers Code on the terms set out in this Composite Document.

Details of the Offer are set out in the “Letter from Lego Securities”, Appendix I to this Composite Document and the Form of Acceptance.

This letter forms part of this Composite Document, together with the Form of Acceptance, which, among other matters, provides you with information relating to the Group and the Offeror, the Offer (including the expected timetable and terms of the Offer), the letter from the Board, the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Offer and the letter of advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rules 2.1 and 2.8 of the Takeovers Code, the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chong Man Hung Jeffrey, Mr. Liang Jianhai and Mr. Wong Kwun Ho, has been established by the Board to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer.

In accordance with Rule 2.1 of the Takeovers Code, as disclosed in the Joint Announcement, Grand Moore has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and, in particular, as to whether the Offer is fair and reasonable and as to acceptance of the Offer. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee. The letter from the Independent Financial Adviser addressed to the Independent Board Committee is set out on pages 28 to 51 of this Composite Document.

You are advised to read the “Letter from the Independent Board Committee” addressed to the Independent Shareholders and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offer.

THE OFFER

As disclosed in the “Letter from Lego Securities”, Lego Securities is, on behalf of the Offeror, making the Offer in compliance with the Takeovers Code on the following terms:

For each Offer Share HK\$1.0975 in cash

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has 382,704,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants, relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) or securities which are convertible or exchangeable into Shares.

The Offer Price of HK\$1.0975 per Offer Share is determined at a price of approximately equal to but not lower than the price per Sale Share paid by the Offeror, which is determined after arm's length negotiations between the Offeror and Mason Securities as the chargee of the Sale Shares with reference to the market price of the Shares.

The Offer is unconditional in all aspects and is not be conditional upon acceptances being received in respect of a minimum number of Shares or other conditions. The Offer Shares to be acquired under the Offer shall be fully paid and free from all liens, charges, options, claims, encumbrances, adverse interests, pre-emptive rights and all third party rights of any nature together with all rights attached thereto as at the date on which the Offer is made or subsequently becoming attached to them, including the right to receive all dividends and other distributions recommended or declared, if any, paid or made on or after the date on which the Offer is made, being the date of this Composite Document.

Further details of the Offer

Further details of the Offer including, among other things, its extension to the Overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period are set out in the "Letter from Lego Securities", Appendix I to this Composite Document and the Form of Acceptance.

INFORMATION OF THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, the Shares of which are currently listed on the Stock Exchange (stock code: 264). The Group is principally engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

Your attention is drawn to Appendices II and IV to this Composite Document which contain further financial information and general information of the Group.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structures of the Company (i) immediately before the Transfer; and (ii) immediately after the Transfer and as at the Latest Practicable Date:

	Immediately before the Transfer		Immediately after the Transfer and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximately %</i>	<i>Number of Shares</i>	<i>Approximately %</i>
The Offeror and parties acting in concert with it	—	—	287,024,406	75.00
Twinkle Link Limited	287,024,406	75.00	—	—
Public Shareholders				
Other public Shareholders	<u>95,679,594</u>	<u>25.00</u>	<u>95,679,549</u>	<u>25.00</u>
Total	<u><u>382,704,000</u></u>	<u><u>100.00</u></u>	<u><u>382,704,000</u></u>	<u><u>100.00</u></u>

INFORMATION ON THE OFFEROR

Please refer to the section headed “Information on the Offeror” in the “Letter from Lego Securities” for information on the Offeror.

INTENTION OF THE OFFEROR IN RELATION TO THE GROUP AND THE PROPOSED CHANGE OF COMPOSITION OF THE BOARD

Please refer to the section headed “Intention of the Offeror in relation to the Group” and “Proposed change of the Board composition” in the “Letter from Lego Securities” for detailed information on the Offeror’s intention on the business and management of the Group, including but not limited to the proposed change of the composition of the Board. The Board is aware of the intention of the Offeror in respect of the Group 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.

LETTER FROM THE BOARD

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close 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 false market exists or may exist in the trading of the Shares; or
- that 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 Board noted from the “Letter from Lego Securities” that the Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offer. The Board noted that the sole director of the Offeror and the Proposed Directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps as soon as practicable following the close of the Offer to ensure that sufficient public float exists in the Shares after the close of the Offer.

RECOMMENDATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” on pages 26 to 27 of this Composite Document, which sets out its recommendations to the Independent Shareholders in relation to the Offer; and (ii) the “Letter from the Independent Financial Adviser” on pages 28 to 51 of this Composite Document, which sets out its advice to the Independent Board Committee in respect of the Offer and, in particular, as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

ADDITIONAL INFORMATION

You are also 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 consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,
By order of the Board
Ascent International Holdings Limited
Wang Wei
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



ASCENT INTERNATIONAL HOLDINGS LIMITED

中璽國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 264)

28 May 2019

To the Independent Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
LEGO SECURITIES LIMITED
FOR AND ON BEHALF OF
WATERFRONT HOLDING GROUP CO., LTD
TO ACQUIRE ALL ISSUED SHARES IN
ASCENT INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR TO BE ACQUIRED BY
WATERFRONT HOLDING GROUP CO., LTD
AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the Composite Document dated 28 May 2019 issued jointly by the Offeror and the Company of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as those defined in the Composite Document.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to make a recommendation to the Independent Shareholders as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to the acceptance of the Offer.

Grand Moore has been appointed as the Independent Financial Adviser to advise us in this respect. Details of its advice and the principal factors and reasons taken into consideration in arriving at its advice and recommendations are set out in the “Letter from the Independent Financial Adviser” on pages 28 to 51 of the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw your attention to the “Letter from Lego Securities”, the “Letter from the Board” and the additional information set out in the appendices to the Composite Document.

We, being the members of the Independent Board Committee, have declared that, as disclosed in Appendix IV to the Composite Document, we are independent and do not have any conflict of interest in respect of the Offer or any direct or indirect interest in the Offer and are therefore able to consider the terms of the Offer and to make recommendations to the Independent Shareholders.

RECOMMENDATIONS

Having considered the terms of the Offer, taking into account the information contained in the Composite Document and the advice from Grand Moore, in particular the factors, reasons and recommendations as set out in the “Letter from the Independent Financial Adviser”, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and accordingly recommend the Independent Shareholders to accept the Offer.

Independent Shareholders are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Offer, if the net proceeds from such sales exceed the net amount receivable under the Offer.

Notwithstanding our recommendation, the Independent Shareholders are strongly advised that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives. If in any doubt, the Independent Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,
For and on behalf of

**Independent Board Committee of
Ascent International Holdings Limited**

Mr. Chong Man Hung Jeffrey
*Independent non-executive
Director*

Mr. Liang Jianhai
*Independent non-executive
Director*

Mr. Wong Kwun Ho
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



Unit 1607, 16/F.,
Silvercord Tower 1, 30 Canton Road
Tsim Sha Tsui, Kowloon,
Hong Kong

28 May 2019

*To the Independent Board Committee of
Ascent International Holdings Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
LEGO SECURITIES LIMITED
FOR AND ON BEHALF OF
WATERFRONT HOLDING GROUP CO., LTD
TO ACQUIRE ALL ISSUED SHARES IN
ASCENT INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR TO BE ACQUIRED BY
WATERFRONT HOLDING GROUP CO., LTD
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the composite document (the “**Composite Document**”) dated 28 May 2019 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

References are made to (i) the Rule 3.7 Announcement in relation to the Letter of Intent in connection with the possible transfer of the Sale Shares; (ii) the two monthly update announcements in relation to the progress of the then proposed Transfer pursuant to Rule 3.7 of the Takeovers Code dated 1 February 2019 and 1 March 2019, respectively; (iii) the Public Float

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Announcement in relation to the restoration of public float of the Company; and (iv) the Joint Announcement jointly published by the Offeror and the Company on 7 May 2019 in relation to, among other matters, the Offer pursuant to Rule 3.5 of the Takeovers Code.

As disclosed in the Joint Announcement, the Company was informed by Twinkle Link that on 22 March 2019 (after trading hours of the Stock Exchange), Mason Securities exercised its rights under the TL Finance Documents to enforce TL Security Deed and agreed to effect the Transfer of 287,024,406 Shares (representing approximately 75.00% of the entire issued share capital of the Company as at the Latest Practicable Date), which were charged by Twinkle Link under the TL Security Deed in favor of Mason Securities, from Twinkle Link to the Offeror at the total consideration of HK\$315,009,285.58 (equivalent to approximately HK\$1.0975 per Sale Share) subject to and, upon payment of the total consideration for the Sale Shares by the Offeror. The total consideration for the Sale Shares was settled by the Offeror on 25 March 2019 and the Transfer was completed on 25 March 2019.

Immediately upon the completion of the Transfer and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it are interested in 287,024,406 Shares, representing approximately 75.00% of the total issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or to be acquired by the Offeror and parties acting in concert with it). Lego Securities is, on behalf of the Offeror, making the Offer on terms set out in the Composite Document.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chong Man Hung Jeffrey, Mr. Liang Jianhai and Mr. Wong Kwun Ho, has been established by the Board to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. We have been appointed as the Independent Financial Adviser to the Independent Board Committee in respect of the Offer, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer and, in particular, 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

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, the Offeror or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates and we were not in the same group as the financial or other professional adviser (including a stockbroker) to the Offeror and the Group, we do not and did not have, a significant connection, financial or otherwise with either the Offeror or the Group, or the controlling shareholder(s) of either of them, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice. Accordingly, we are considered suitable to give independent advice to the Independent Board Committee in respect of the Offer in compliance with Rule 2.6 of the Takeovers Code. In the last two years, we have not acted as any financial adviser role to the Company, but we have been engaged as (i) the independent financial adviser to the Company in respect of certain continuing connected transactions, the details of which are set out in the Company's announcements dated 28 March 2017, 20 April 2017 and 19 May 2017, which had subsequently been terminated as per the Company's announcement dated 4 September 2017 before our independent financial advice had been given; and (ii) the independent financial adviser to the independent board committee in respect of a mandatory unconditional cash offer by First Shanghai Security Limited for and on behalf of Twinkle Link to acquire all the issued shares in the Company (other than those already owned or to be acquired by Twinkle Link and parties acting concert with it) (the "**2018 MGO**"), the details of which are set out in the Company's announcements dated 18 May, 8 June, 28 June, 19 July and 26 July 2018 and composite document dated 28 June 2018 (collectively, the "**Previous Appointments**").

Apart from the normal professional fees paid to us in relation to the Previous Appointments by the Company and the current appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company, the Offeror or other parties that could reasonably be regarded as relevant to our independence. The aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Besides, we have maintained our independence from the Company during the Previous Appointments, and our independence from the Company has not been compromised because of the Previous Appointments. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Offer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors, the management of the Company (the “**Management**”) and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors, the Management and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the sole director of the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors’, the Management’s and the Offeror’s representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Offer.

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

The information contained in the 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 contained in the Composite Document (other than that relating to the Group, Twinkle Link and parties acting in concert with any of them), and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions, or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer. The Company has been separately advised by its own professional advisers with respect to the Offer and the preparation of the Composite Document (other than this letter).

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date. The Independent Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Offer, we have taken into account the following principal factors and reasons:

1. Background information of the Group

1.1 Financial information of the Group

The Group is principally engaged in the manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the audited consolidated financial information of the Group for each of the year ended 31 December 2017 and 2018 (the “FY2017” and “FY2018”, respectively) as extracted from the annual report of the Company for the year ended 31 December 2018 (the “2018 Annual Report”).

	FY2018	FY2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue	63,900	78,937
— Manufacturing	43,099	51,049
— Retail	20,801	27,888
Gross profit	21,975	34,979
Gross profit margin (approximately)	34.4%	44.3%
Net loss	(31,466)	(14,225)
Net loss margin (approximately)	(49.2)%	(18.0)%

	As at 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Net assets	28,057	61,526

For FY2018, the Group’s consolidated revenue decreased by approximately HK\$15.0 million, or 19.0%, from approximately HK\$78.9 million for FY2017 to approximately HK\$63.9 million for FY2018. As per the 2018 Annual Report, the decrease in revenue was primarily attributable to the decrease in sales of manufacturing and retail business segments during FY2018. The revenue for manufacturing business decreased by approximately HK\$8.0 million, or 15.6%, from approximately HK\$51.0 million for FY2017 to approximately HK\$43.1 million for FY2018. The revenue for retail business segment decreased by HK\$7.1 million, or 25.4%, from approximately HK\$27.9 million for FY2017 to approximately HK\$20.8 million for FY2018.

The Group recorded a significant decrease in gross profit of approximately HK\$13.0 million, or 37.2%, from approximately HK\$35.0 million for FY2017 to approximately HK\$22.0 million for FY2018. The gross profit margin decreased from approximately 44.3% for FY2017 to approximately 34.4% for FY2018. As per the 2018 Annual Report, the decrease in gross profit margin was mainly attributable to a provision for impairment of certain slow moving inventories of approximately HK\$6.1 million for FY2018 and a reversal of write-down of inventories of approximately HK\$3.0 million for FY2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded consolidated net loss of approximately HK\$31.5 million for FY2018, representing an increase of approximately HK\$17.2 million, or 121.2%, as compared to that of approximately HK\$14.2 million for FY2017. As confirmed by the Management, such increase was mainly attributable to the decrease in sales and gross profit of manufacturing and retail business segments as mentioned above, and an increase in administrative and other operating expenses by approximately HK\$9.4 million, or 32.5%, from approximately HK\$29.1 million for FY2017 to approximately HK\$38.5 million for FY2018. The increase in administrative and other operating expenses was mainly attributable to a significant increase in staff costs of the senior executives of the Company and the non-recurring legal and professional fee in relation to the 2018 MGO.

The Group's net assets amounted to approximately HK\$28.1 million as at 31 December 2018, representing a decrease of approximately HK\$33.5 million, or 54.4%, as compared to that of approximately HK\$61.5 million as at 31 December 2017. The reduction was mainly attributable to the decrease in inventory level and cash and bank balances.

1.2. Future plan and prospects

With reference to the 2018 Annual Report, Elite Ascent Investment Limited (“**Elite Ascent**”), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Jubilee Ventures International Limited (“**Jubilee Ventures**”) on 17 August 2018, pursuant to which Elite Ascent agreed to sell 30% of the issued share capital of Eastation Gallery (HK) Limited to Jubilee Ventures at the consideration of HK\$18 million (the “**Disposal**”). After the Disposal, the Company would be able to focus its operational resources on its principal business of (i) manufacturing segment which is engaged in the manufacture and distribution of leather products; and (ii) retail segment which is engaged in the retailing of fashion apparel, footwear and leather accessories.

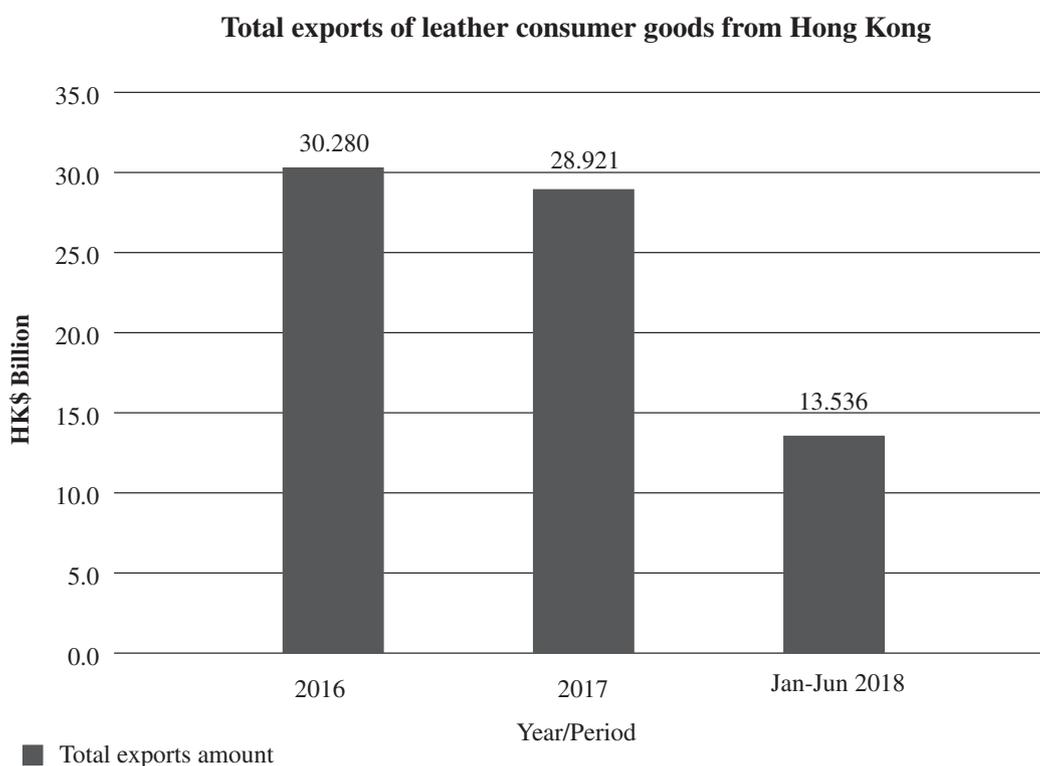
As per the Management, the ongoing trade disputes between the PRC and the United States (the “**US**”) added pressure to the already challenging environment in the PRC, being the manufacturing operation base of the Group. As per the 2018 Annual Report, the leather manufacturing industry continued to face significant headwinds in 2018. Looking forward to 2019, the Group would continue to reduce inventory level, strengthen its competitiveness by maintaining the quality of its products and flexibly to cater the needs of its customers, streamline its operation, re-examine the use of its resources prudently and strive to mitigate losses.

As per the 2018 Annual Report, the local retail market continued to face strong challenges and keen competition. Retail shop rental remains to be one of the Group's largest expenses and rental increase is expected to be an impediment to the growth of the Group. In 2018, the Group has been very cautious in securing potential store locations and renewing the tenancies of existing

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

stores upon their expiry, in order to maintain effective cost control and continuously improve its profit margin. The Group has closed the non-performing stores and those in isolated locations, meanwhile, exploring potential new stores locations that are close to key districts.

The 2018 Annual Report further mentions that the rapid development of e-commerce has presented the Group with an opportunity to exploit the weakness in the rental cycle. The Group is leveraging this opportunity to prepare for the launch of the new online shop AREA0264.com in 2019. In respect of the continuous loss-making leather business, the Group will continue to review the business strategic directions and operations of the Group in order to promote its long-term corporate strategy and growth, and to explore other business or investment opportunities with a view to enhance the Group's future development.



Source: Hong Kong Trade Development Council (HKTDC)

As per the 2018 Annual Report, the revenue of the Group is derived from export sales to Europe, the US and other countries and domestic sales, of which export sales accounted for approximately 54.7% and approximately 47.7% for FY2017 and FY2018, respectively. We noted from the 2018 Annual Report that the US and Europe accounted for the largest portions of revenue among the Group's export sales for both FY2017 and FY2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the relatively large portion of export sales among the Group's revenue, we have conducted a research on the export sales of leather consumer goods from Hong Kong. According to the publication by Hong Kong Trade and Development Council, "Leather Consumer Goods Industry in Hong Kong" dated 28 August 2018 (<http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Leather-Consumer-Goods-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X00406U.htm>), we noted from the chart above, from 2016 to the six months ended 30 June 2018 (the "**Trend Period**"), the total export sales of leather consumer goods from Hong Kong declined by approximately 10.6% (on an annualised basis of approximately HK\$27.1 billion for 2018).

Furthermore, the US administration under President Donald Trump has recently announced significant changes in the trade policies of the US starting from 10 May 2019, including increasing tariffs on US\$200 billion worth of certain goods imported from the PRC into the US from the previous 10% rate to 25%. We note that the tariffs cover a wide array of goods, from minerals used in manufacturing, o vegetable juices, to leather handbags. As confirmed by the Management, the leather products for their US customers will be subject to the said tariffs. As per the Management, such changes in trade policies or trade wars may increase the burden of their US customers to import leather products to the US, which in turn may pose pricing pressure on the Group's leather products in order to retain the existing US customers and the pace of sourcing of customers in the US in the future. In particular, deterioration of trade relationship between the PRC and the US may pose uncertainties on whether customers previously sourcing leather products from the Group may source leather products or components from other countries due to the change of trade policies or trade wars, which would have a negative impact on the Group's business.

Considering (i) the continuous declining trend for export sales for the leather consumer goods from Hong Kong during the Trend Period; (ii) the challenging environment in the PRC, being the manufacturing operation base of the Group; and (iii) the recent increase in tariffs on imported leather products from the PRC to the US and the ongoing trade disputes between the PRC and the US posing potential impact to the Group's export sales to the US customers, we are of the view that the subdue industry outlook of leather goods is likely to continue to be stagnant in the foreseeable future.

In light of (i) the deterioration in revenue and net loss position of the Group during FY2018 and the consistent loss-making record since at least the year ended 31 March 2013 (the Company had changed its financial year end date from 31 March to 31 December as per its announcement dated 8 December 2016) as per the "Five years financial summary" set out in the Company's prior annual reports; (ii) the unfavorable industry outlook as discussed above; (iii) at least four changes of controlling Shareholders leading to mandatory general offers since 2015; and (iv) the Offeror's lack of relevant experience in the manufacturing and distribution of leather products and lack of potential synergies that maybe generated between the Offeror and the Group's existing business as

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

discussed in section 2.2 in this letter, we are of the view that there is no indication as to whether the Group can turnaround its unsatisfactory financial performance in the foreseeable future. Having considered the above, we are of the view that the Group's future prospect is considered to be highly uncertain.

2. Information of the Offeror

2.1 Background information of the Offeror

To provide the Independent Shareholders with basic information on the background of the Offeror, set out below is the key information on the Offeror as extracted from the "Letter from Lego Securities".

The Offeror is incorporated in the British Virgin Islands with limited liability, and is an investment holding company ultimately wholly and beneficially owned by Mr. Zhao, who is also the sole director of the Offeror. Mr. Zhao obtained a bachelor's degree in economics from Wuhan Sports University in 2013. Since graduation, Mr. Zhao has been assisting in the management of his family business. Mr. Zhao's father is the president and director of Kaiyuan Investment Co., Ltd.* (開源股權投資有限公司), a financial investment company established in the PRC and principally invested in the fields of aviation, technology, security, health and medical care, logistics and cultural tourism. Mr. Zhao has also been accumulating other working and investment experience in the PRC, which include financial and apparel businesses. Mr. Zhao has personally invested in unit trusts, the portfolios of which include equity instruments, high-yield and convertible bonds from issuers domiciled in the United States or Canada, and investments in companies predominantly engaged in the design, production or distribution of products and services related to the leisure time activities of individuals, which include automobile, household construction and durables, media and internet companies and other companies engaged in meeting the demands of consumers. In addition, from January 2015 to January 2019, Mr. Zhao worked in Hubei Hengji, a manufacturing and processing company of apparel, with his last position as the operations manager. During his years working in Hubei Hengji, Mr. Zhao was primarily responsible for the procurement of garments and the introduction of brands.

In late 2018, Mr. Zhao started to look for investment opportunities in different industries in Hong Kong, including financial and apparel industries, and preferably listed companies as listed companies which have more means of financing and fund-raising to support their own business growth and development compared to non-listed companies. Mr. Zhao then identified the investment opportunity to invest in the Company through Mason Securities. As Mr. Zhao considered that the Company is a listed company in Hong Kong and in view of the limited sales of the Group's leather products to the PRC market as evidenced by the relatively low contribution from its external customers in the PRC which only accounted for approximately 3.6% and 3.4% to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Group's total revenue for the two years ended 31 December 2017 and 2018, respectively, the products of the Group may have growth potential in the PRC market, Mr. Zhao decided to invest in the Company through the Transfer.

2.2 Intentions of the Offeror in relation to the Group

Following the close of the Offer, Mr. Zhao intends to be an executive Director of the Company in managing the businesses of the Group. Given that Mr. Zhao had no relevant experience in the manufacturing and distribution of leather products, which is the principal business of the Group, while taking time to familiarise with the businesses of the Group, Mr. Zhao intends to leverage on the day-to-day operational experiences of the management of the Group, in particular those of the operating subsidiaries of the Group in developing the businesses of the Group in order not to create unfavourable disruptions thereto.

Following the close of the Offer, it is the intention of the Offeror that the Company will continue to focus on the development of its existing businesses, namely, the manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon and after the close of the Offer.

Nevertheless, the Offeror will conduct a detailed review on the existing principal businesses and operations, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group's long-term business development and will explore other business opportunities for the Group. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

In this connection, we consider that the Offeror does not have any concrete plan on the future development of the business of the Group, considering the unsatisfactory financial performance of the Group and its subdue industry prospect as discussed in sections 1.1 and 1.2 of this letter respectively, while whether the credentials of the Offeror may provide alternative business opportunities and/or direction to enhance the Group's future prospects is uncertain. Nonetheless, we would like to remind the Independent Shareholders that it is uncertain whether and when business opportunities may be presented to the Group by the Offeror. Furthermore, since Mr. Zhao has no relevant experience in manufacturing and distribution of leather products, which is the principal business of the Group 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the date of the Latest Practicable Date, no investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

Save for the changes to the members of the Board as described in the paragraph headed “Proposed change of the Board composition” in the “Letter from Lego Securities” as contained in the Composite Document, the Offeror has no intention to discontinue the employment of any employees of the Group (save for change in the composition of the Board) or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business.

2.3 Proposed change of the Board composition

As at the Latest Practicable Date, the Board is made up of four Directors, comprising one executive Director (being Ms. Wang Wei) and three independent non-executive Directors (being Mr. Chong Man Hung Jeffrey, Mr. Liang Jianhai and Mr. Wong Kwun Ho).

It is expected that all of the existing Directors will resign with effect from such date as being required by the Offeror or the earliest time permitted under the Takeovers Code or the Stock Exchange, whichever is the later.

As per the “Letter from Lego Securities”, the Offeror intends to nominate the Proposed Directors to the Board to facilitate the business operation, management and strategy of the Group and such appointments will be subject to the approval of the Board and will not take effect earlier than the date of posting of the Composite Document or other date as permitted under the Takeovers Code. In addition, the Offeror is in the course of identifying additional candidates for the Board, subject to compliance with the Takeovers Code and the Listing Rules. Any of such appointments will be made in compliance with the Takeovers Code and the Listing Rules and will take effect on the earliest day permitted under the Takeovers Code.

Please refer to the paragraph headed “Proposed change of the Board composition” in the “Letter from Lego Securities” for further biographical details of the Proposed Directors.

2.4 Public float and maintaining the listing status of the Company

The Offeror intends the issued Shares to remain listed on the Stock Exchange upon the close of the Offer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Stock Exchange has stated that if, at the close 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:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

The sole director of the Offeror and the Proposed Directors to be appointed by the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that sufficient public float exists in the Shares after the close of the Offer.

In this connection, in the event that the public float of the Company falls below 25% upon the close of the Offer, the Offeror will, as soon as practicable, dispose of such number of Shares either directly in the market or through a placing agent to be appointed by the Offeror to ensure that the public float requirement under the Listing Rules can be met. Appropriate announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer.

3. Principal terms of the Offer

With reference to the “Letter from Lego Securities” as contained in the Composite Document, immediately upon the completion of the Transfer and as at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in a total of 287,024,406 Shares, representing approximately 75.00% of the total issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or to be acquired by the Offeror and parties acting in concert with it).

Lego Securities, for and on behalf of the Offeror, makes the Offer in compliance with the Takeovers Code on the following terms:

For each Offer Share HK\$1.0975 in cash

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Offer Price of HK\$1.0975 per Offer Share is determined at a price of approximately equal to but not lower than the price per Sale Share paid by the Offeror, which is determined after arm's length negotiations between the Offeror and Mason Securities as the chargee of the Sale Shares with reference to the market price of the Shares.

The Offer is unconditional in all aspects when it is made and will not be conditional upon acceptances being received in respect of a minimum number of Shares or other conditions.

3.1 The Offer Price

The Offer Price of HK\$1.0975 per Offer Share represents:

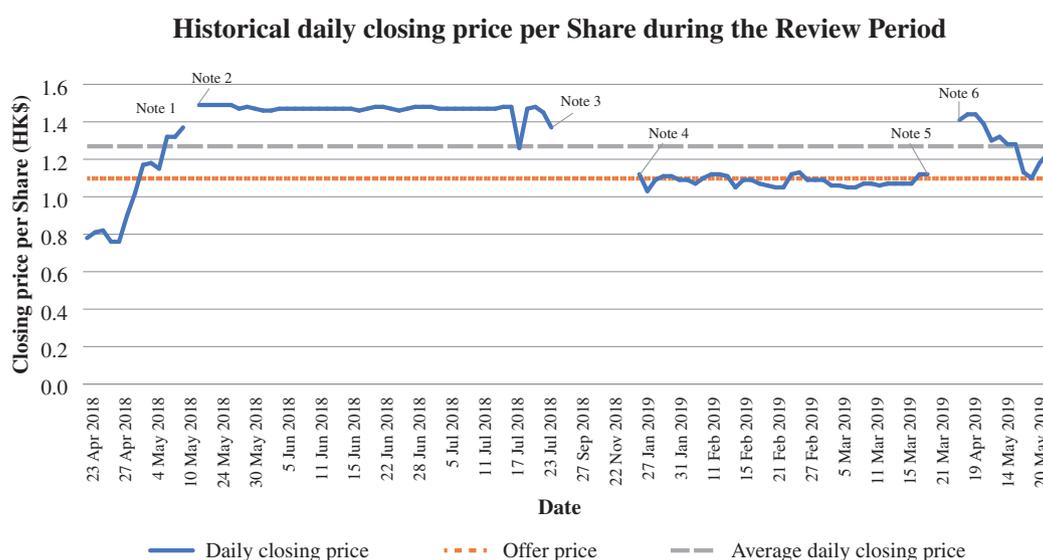
- (i) a discount of approximately 19.89% over the closing price of HK\$1.370 per Share as quoted on the Stock Exchange on 25 July 2018, being the last trading day for the Shares prior to the commencement of the Offer Period;
- (ii) a discount of approximately 2.01% to the closing price of HK\$1.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 0.69% over the average of the closing prices of approximately HK\$1.090 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 1.90% over the average of the closing prices of approximately HK\$1.077 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 1.53% over the average of the closing prices of approximately HK\$1.081 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 10.77% to the closing price of HK\$1.230 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 1,397.27% (the "**Premium over NAV**") over the audited consolidated net asset value attributable to the owners of the Company of approximately HK\$0.0733 per Share (based on the total number of issued Shares as at the Latest Practicable Date) as at 31 December 2018, being the date to which the latest published audited annual financial results of the Group were made up.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Historical price and trading volume of the Shares

Set out below is the historical price performance of the Shares as quoted on the Stock Exchange during (i) the one-year period prior to the Last Trading Day; and (ii) the period from the Last Trading Day up to the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is appropriate as (i) it reflects the general trend and recent market valuation of the Shares; (ii) a shorter period (e.g. 6 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment given that the Company had certain corporate events such as the 2018 MGO and insufficiency of public float which resulted in trading halt from 11 May 2018 to 21 May 2018 and 26 July 2018 to 28 January 2019 (the “**Insufficient Public Float Suspension**”), respectively, in the past one year; and (iii) a longer period than 12 months (e.g. 2 years) may have been too distant in time making such historical trend less relevant within the context of the Offer and with reference to the dynamic financial markets.

4.1 Historical price performance of the Shares



Source: website of the Stock Exchange

Notes:

1. Trading in the Shares was halted from 11 May 2018 to 21 May 2018. The closing price of Shares was HK\$1.37 per Share on 10 May 2018.
2. The joint announcement in respect of the transfer of sale Shares in the Company and the 2018 MGO was published and trading in the Shares was resumed on 21 May 2018. The closing price of the Shares was HK\$1.49 per Share on 21 May 2018.
3. Trading in the Shares was suspended from 26 July 2018 to 28 January 2019. The closing price of the Shares was HK\$1.37 per Share on 25 July 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Trading in the Shares was resumed on 28 January 2019. The closing price of the Shares was HK\$1.12 per Share on 28 January 2019.
5. Trading in the Shares was halted from 25 March 2019 to 8 May 2019. The closing price of the Shares was HK\$1.12 per Share on 22 March 2019.
6. The Joint Announcement was published on 7 May 2019 and trading in the Shares was resumed on 8 May 2019. The closing price of the Shares was HK\$1.41 per Share on 8 May 2019.

As illustrated in the chart above, the closing price of Shares started from HK\$0.78 per Share in the beginning of the Review Period and slightly decreased to HK\$0.76 per Share on 26 April 2018. We noted that the closing price of Shares increased significantly from HK\$0.76 per Share to HK\$1.37 per Share on 10 May 2018. As advised by the Directors, the Directors were not aware of any specific event that might have caused the sudden increase of Share price. Due to the pending of the release of the joint announcement in respect of the 2018 MGO, the trading in the Shares was halted from 11 May 2018 until the publication of such on 21 May 2018. The closing price of the Shares increased to HK\$1.49 per Share on the first day of resumption of trading on 21 May 2018 (the “**2018 MGO Trading Resumption**”). Afterwards, the closing price of the Shares remained relatively stable for the period of 21 May 2018 to 18 July 2018. The closing price of the Shares declined to HK\$1.26 per Share on 19 July 2018, being the original closing date of the 2018 MGO which was extended to 25 July 2018 announced by the Company on 19 July 2018, and rebounded to HK\$1.47 per Share on 20 July 2018 and decreased to HK\$1.37 per Share on 25 July 2018. Followed by the Insufficient Public Float Suspension and the Public Float Announcement, the closing price of the Shares further declined to HK\$1.12 per Share on the first date of resumption of trading after the Insufficient Public Float Suspension on 28 January 2019. Since then, the closing price of Shares remained relatively flat and the closing price of Shares was HK\$1.12 per Share on the Last Trading Day. Trading in the Shares was halted from 25 March 2019 to 8 May 2019 pending the release of Joint Announcement. Upon resumption of trading of the Shares, the Share price climbed up to HK\$1.41 per Share and slightly decreased to HK\$1.230 per Share on the Latest Practicable Date.

During the Review Period, the closing price of the Shares ranged from a low of HK\$0.76 per Shares (recorded on 26 April 2018) to a high of HK\$1.49 per Shares (recorded on 10 May 2018) (the “**Price Range**”). The Offer Price (i) falls within the Price Range; (ii) represents a discount of approximately 12.95% to the average closing price of the Shares of approximately HK\$1.261 per Share during the Review Period; (iii) represents a discount of approximately 26.34% to the highest closing price of HK\$1.49 per Share recorded on the 2018 MGO Trading Resumption; and (iv) represents a premium of approximately 44.41% to the lowest closing price of HK\$0.76 per Share recorded on 26 April 2018 before the announcement of the 2018 MGO. We noted that the closing prices of the Shares remained stable and maintained between HK\$1.05 per Share and HK\$1.13 per Share after the Public Float Announcement, which is on a similar level of the closing price of the Shares of HK\$1.12 per Share on the Last Trading Day.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Considering (i) the deteriorating financial performance of the Group; (ii) the adverse market outlook for leather goods in the recent years as stated in the section 1.2 of this letter; and (iii) the low liquidity of the Shares and possible downward price pressure on the Share price as a result of disposal of large block of Shares in the open market (especially for those Shareholders with sizeable holdings) as mentioned in the section 4.2 of this letter, we consider that despite the discount of approximately 10.77% to the closing price of the Shares of HK\$1.230 per Share on the Latest Practicable Date, there is no guarantee that the improved Share price performance will sustain after the Closing Date.

4.2 Average daily trading volume for each month during the Review Period

The table below sets out the average daily trading volume of the Shares for each month during the Review Period.

Month	Number of trading days during the Review Period	Average daily trading volume of the Shares during the Review Period <i>(approximate)</i>	Average daily trading volume of the Shares during the Review Period to the total number of issued Shares held by the public Shareholders <i>(Note 4)</i> <i>(approximate)</i> <i>(%)</i>	Average daily trading volume of the Shares during the Review Period to the total number of issued Shares <i>(Note 5)</i> <i>(approximate)</i> <i>(%)</i>
2018				
April (Starting from 23 April 2018)	6	536,000	0.56	0.14
May <i>(Note 1)</i>	15	7,326,267	7.66	1.91
June	20	1,365,350	1.43	0.36
July <i>(Note 2)</i>	17	1,129,529	1.18	0.30
August <i>(Note 2)</i>	NA	NA	NA	NA
September <i>(Note 2)</i>	NA	NA	NA	NA
October <i>(Note 2)</i>	NA	NA	NA	NA
November <i>(Note 2)</i>	NA	NA	NA	NA
December <i>(Note 2)</i>	NA	NA	NA	NA

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Month	Number of trading days during the Review Period	Average daily trading volume of the Shares during the Review Period <i>(approximate)</i>	Average daily trading volume of the Shares during the Review Period to the total number of issued Shares held by the public Shareholders <i>(Note 4)</i> <i>(approximate)</i> <i>(%)</i>	Average daily trading volume of the Shares during the Review Period to the total number of issued Shares <i>(Note 5)</i> <i>(approximate)</i> <i>(%)</i>
2019				
January <i>(Note 2)</i>	4	17,525,000	18.32	4.58
February	17	424,059	0.44	0.11
March	16	56,000	0.06	0.01
April <i>(Note 3)</i>	NA	NA	NA	NA
May (up to the Latest Practicable Date) <i>(Note 3)</i>	12	995,333	1.04	0.26

Source: website of the Stock Exchange

Notes:

1. Trading in the Share was suspended from 11 May 2018 to 21 May 2018.
2. Trading in the Shares was suspended from 26 July 2018 to 28 January 2019.
3. Trading in the Shares was suspended from 25 March 2019 to 8 May 2019.
4. Based on 152,756,000 Shares held by the public Shareholders as at the Latest Practicable Date.
5. Based on 382,704,000 Shares in issue as at the Latest Practicable Date.

We noted that trading in the Shares had been extremely thin during the Review Period except for May 2018 and January 2019, where there were only 15 and 4 trading days in the respective months. As advised by the Directors, except for the 2018 MGO and the Insufficient Public Float Suspension, the Directors were not aware of any other specific event that might have caused the relatively higher trading volume of the Shares (above 1%) in May 2018 and January 2019 as compared to the rest of the months during the Review Period. Excluding the trading volume anomalies in May 2018 and January 2019, the range for the average daily trading volume of the Shares in each of the months would narrow to the highest of approximately 1.37 million Shares in June 2018 to the lowest of approximately 0.06 million Shares in March 2019, representing

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately 1.43% and approximately 0.06 % to the total number of issued Shares held by the public Shareholders as at the end of the respective months, and approximately 0.36% and approximately 0.01% to the total number of issued Shares as at the Latest Practicable Date.

In the case that Independent Shareholders want to realise their investments in the Shares in the open market, given the extremely thin liquidity of the Shares, they (especially for those with relatively sizeable shareholdings who wish to dispose all of their Shares in the open market immediately) may not be able to dispose their Shares at the higher price than the Offer Price, considering disposal of large blocks of Shares by the Independent Shareholders in the open market would likely create downward pressure to the Share price and it may be time consuming to identify buyer(s) to acquire their Shares. As such, we consider that the Offer provides a viable exit alternative for the Independent Shareholders who would like to realise their investments in the Shares at the fixed Offer Price for any number of Shares held and without any influence by or consideration of the trading liquidity of the Shares.

Considering (i) there is no guarantee that the improved closing price of HK\$1.230 per Share on the Latest Practicable Date will sustain after the Closing Date; and (ii) the Offer provides a viable exit alternative for the Independent Shareholders to realise their investments in the Shares, we are of the view that the Offer Price's slight discount of 2.01% to the closing price of the Shares on the Last Trading Day is acceptable.

5. Comparative analysis on the proposed terms of the Offer

In assessing the fairness and reasonableness of the Offer Price, we have performed a comparable analysis on the proposed terms of the Offer. We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”), are commonly adopted valuation methods in the market. As the Group was loss making for FY2018, the PER analysis would not be feasible. We consider that PBR which compares the market capitalization of a company against its net asset value 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 leather goods industry since the business mainly involves leather goods products in the inventory, trade receivables and payables, meaning that net asset value would reflect the underlying value of the Company.

We have identified an exhaustive list of 4 companies (the “**Comparable Company(ies)**”) which (i) have principal business in manufacturing, processing, designing and retailing leather goods and/or accessories, which is similar to that of the Group; and (ii) are listed on the Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Although there are differences of financial conditions, target markets, target customers and market capitalization between the Company and the Comparable Companies, in light of that the Comparable Companies are engaged in similar principal activities and listed on the Stock Exchange, thereby being influenced by similar macro-economic factors as the Group including, but not limited to, economic outlook and demand for leather products, we consider the Comparable Companies are fair and representative sample and can be served as a reference to the fairness and reasonableness of the Offer Price.

The following table sets out the details of the Comparable Companies:

Company name (stock code)	Principal business	Market capitalization/ valuation (Note 1) <i>HK\$ 'millions</i>	Net asset value attributable to owners of the company (Note 2) <i>HK\$ 'millions</i>	PBR (Note 3) <i>times</i>
Sitoy Group Holdings Ltd (1023)	Design, research, development manufacturing, sale, retailing and wholesale of handbags, small leather goods, travel goods, footwear and fashion products, provision of advertising and marketing services and property investment	1,592.96	2,120.04	0.75
Guangdong Tannery Ltd (1058)	Processing and sale of semi-finished and finished leather	295.91	59.09	5.01
Bauhaus Intl Holdings Ltd (483)	Design and retail of trendy apparel, bags and fashion accessories	451.88	742.77	0.61

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (stock code)	Principal business	Market capitalization/ valuation (Note 1) HK\$ 'millions	Net asset value attributable to owners of the company (Note 2) HK\$ 'millions	PBR (Note 3) times
Sling Group Holdings Ltd (8285)	Provision of manufacturing services and sale of handbags, leather goods and travel goods as an original equipment manufacturer to customers both in and outside the PRC (Note 4)	61.04	71.06	0.86
			<i>Average:</i>	<i>1.81</i>
			<i>Maximum:</i>	<i>5.01</i>
			<i>Minimum:</i>	<i>0.61</i>
Company (264)	Manufacturing and distribution of leather products, and retail of fashion apparel, footwear and leather accessories.	420.02	28.06	14.97

Source: website of the Stock Exchange and the annual/interim reports of the Comparable Companies

Notes:

1. For the Comparable Companies, the market capitalisation is calculated as total number of shares in issue times the closing price as at the Latest Practicable Date, where the total number of shares in issue is based on the published monthly return as at 30 April 2019 of the respective Comparable Companies. For the Company, the valuation is calculated as total number of Shares in issue times the Offer Price.
2. For the Comparable Companies, the net asset value attributable to owners of the company is extracted from their latest annual/interim reports.
3. For the Comparable Companies, the PBR is calculated as market capitalisation divided by the net asset value attributable to the owners of the Comparable Company from their latest annual/interim reports. For the Company, the PBR is calculated as the valuation based on the Offer Price divided by the net asset value as extracted from the 2018 Annual Report.
4. As per the latest annual report of Sling Group Holding Ltd (stock code: 8285), the financial statements are expressed in RMB. For illustration purpose, an exchange rate of RMB1.00 = HK\$1.1232 on the Latest Practicable Date (as determined by the Hong Kong Monetary Authority pursuant to section 18(2) of the Stamp Duty Ordinance) is used to convert the exchange rate to Hong Kong Dollars.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the table above, the PBRs of the Comparable Companies ranged from approximately 0.61 times to approximately 5.01 times (the “**PBR Range**”), with an average of approximately 1.81 times. Accordingly, the implied PBR of the Offer Price of approximately 14.97 times falls outside of the PRB Range and is significantly higher than the maximum and average PBR of the Comparable Companies by approximately 2.99 times and 8.27 times, respectively. This indicates that the valuation of the Company based on the Offer Price offered by the Offeror to the Independent Shareholders is outstandingly higher than the PBRs of the Comparable Companies derived from their respective closing prices per share on the Latest Practicable Date. In light of the above, we are of the view that the Offer Price is indicated to be attractive in terms of valuation in comparison with the Comparable Companies.

RECOMMENDATION

We have considered the aforementioned principal factors and in particular:

- (i) the Group has recorded consistent net losses since at least the year ended 31 March 2013 and including the more recent FY2017 and FY2018 and the industry has been experiencing a downward trend as discussed in sections 1.1 and 1.2 of this letter;
- (ii) the business plans of the Group remain unmaterialized and the future prospects of the Group is uncertain as discussed in sections 1.2 and 2.2 of this letter;
- (iii) as at the Latest Practicable Date, the Offeror does not appear to have any concrete plan to turnaround the Group’s existing business to improve the recurrent net loss position and it remains uncertain whether the Proposed Directors who will be the key decision makers of the Group possess relevant experience, whereas whether the credentials of Mr. Zhao may bring new business opportunities to the Group remains uncertain;
- (iv) as discussed in section 4.2 of this letter, except for the trading volume anomalies in May 2018 and January 2019 as a result of the 2018 MGO and the Insufficient Public Float Suspension, the historical liquidity of the Shares was extremely thin;
- (v) in view of the uncertainty of the future prospect of the Group, there is no guarantee that the improved closing price of HK\$1.230 per Share recorded on the Latest Practicable Date will sustain after the Closing Date;
- (vi) the Offer provides a viable exit alternative for the Independent Shareholders to realise their investments in the Shares at the fixed Offer Price for any number of Shares held and without any influence by or consideration of the trading liquidity of the Shares;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vii) as discussed in section 4 of this letter, the Offer Price's slight discount of 2.01% to the closing price of the Shares on the Last Trading Day is acceptable;

(viii) the Offer Price represents a Premium over NAV of approximately 1,397.27%; and

in addition, we have considered the following as a reference to the fairness and reasonableness of the Offer Price:

- (i) the valuation of the Company based on the Offer Price offered by the Offeror to the Independent Shareholders is outstandingly higher than the PBRs on the Latest Practicable Date, which indicates that the Offer represents a significantly higher valuation of the Company than the Comparable Companies. Therefore, the Offer Price is indicated to be attractive to the Independent Shareholder.

Based on the above, we consider that terms of the Offer (including the Offer Price being set at a discount of approximately 2.01% to the closing price of the Shares 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.

Although the Offer Price represent a discount to the closing price of the Shares as at the Latest Practicable Date, Independent Shareholders (especially for those with large holdings of the Shares) who wish to realise their investments in the Company by selling their Shares in the open market may not be able to dispose their Shares at a higher price than the Offer Price, considering disposal of large blocks of Shares by the Independent Shareholders in the open market would likely create downward pressure the Share prices due to the thin trading liquidity of the Shares. Therefore, we would like to remind the Independent Shareholders to closely monitor the Shares price and the liquidity of the Shares during the Offer Period, and considering selling their Shares in the open market, where possible, instead of accepting the Offer, if the sales proceeds, net of all transaction costs, exceed the amount receivable under acceptance of the Offer.

On the contrary, if Independent Shareholders maintain an optimistic view on the business prospect and Share price performance of the Group, they may consider not to accept the Offer and maintain all or part of their Shares at their own discretion. 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 given the historically low liquidity of the Shares, take into consideration the potential difficulties in realizing their investments in the Company at or higher than the Offer Price after the Closing Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any 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 would 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
Grand Moore Capital Limited
Philip Chau
Managing Director

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited
Kevin So
Director — Investment Banking Department

Note:

Mr. Philip Chau 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 Grand Moore's type 6 regulated activity (advising on corporate finance). Mr. Chau has over 30 years of experience in banking and corporate finance in Hong Kong.

Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore's type 6 regulated activity (advising on corporate finance). Mr. So has over 16 years of experience in the corporate finance industry in Hong Kong.

1. PROCEDURES FOR ACCEPTANCE OF THE SHARE 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by post or by hand, marked "**Ascent International Holdings Limited General Offer**" on the envelope, as soon as possible but in any event so as 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.
- (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) in respect of your Shares 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 "**Ascent International Holdings 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 by no later than 4:00 p.m. on the Closing Date; or
- (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver in an envelope marked "**Ascent International Holdings 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 by no later than 4:00 p.m. on the Closing Date; 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 authorise 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 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 by HKSCC Nominees Limited.
- (d) 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 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, signed and delivered in an envelope marked "**Ascent International Holdings 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 other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it is/they 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 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. The Offeror shall have the absolute discretion to decide whether any Shares in respect of which the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by the Offeror.

- (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 “**Ascent International Holdings 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 Lego 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 authorise 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.
- (f) Acceptance of the Offer will be treated as valid only if the completed and signed 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 that the Form of Acceptance and any relevant documents as 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/her 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 Independent Shareholder, appropriate documentary evidence of authority (for example, 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 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) are complete and in good order and in all respects in accordance with the Takeovers Code and have been received by the Registrar by 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, a cheque for the amount representing the cash consideration due to each of the Independent 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 Independent 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.

Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect of the payment of seller's ad valorem 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 Independent 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 is 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 Independent 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 fourteen (14) days' notice in writing will be given before the Offer is closed to the Independent 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 Independent Shareholders who accept the Share 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 Independent Shareholders, those registered Independent Shareholders who hold Shares as nominees on behalf of 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

- (a) 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:

- (i) for which acceptances of the Offer have been received;
- (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and
- (iii) acquired or agreed to be acquired during the Offer Period by the Offer 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 as of the Closing Date, only valid acceptances that are in complete, in good order and fulfill the acceptance conditions set out in the 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.

- (b) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Offer which the Executive and the Stock Exchange have confirmed that they have no further comments, will be made in accordance with the requirements of the Takeovers Code and the Listing Rules, where appropriate.

6. RIGHT OF WITHDRAWAL

- (a) Acceptances of the Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) below.

- (b) In the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with the requirements of making announcements relating to the Offer as described in the paragraph headed “5. ANNOUNCEMENTS” above, the Executive may require that Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms acceptable to the Executive until such requirements set out in that paragraph are met.

In such case, when the Independent 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 Independent Shareholders.

If the Offer is withdrawn, the Offeror must, as soon as possible but in any event within 10 days thereof, 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) lodged with the Form(s) of Acceptance to, or make such Share certificate(s) and/or document(s) available for collection by, the relevant Independent Shareholders who have accepted the Offer.

7. STAMP DUTY

Seller’s ad valorem stamp duty payable by the Independent 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 seller’s 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.

8. 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 register 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 such Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas 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. Shareholders who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

9. TAX ADVICE

Shareholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offer. None of the Offeror nor the Company accepts any 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 Independent 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 owner, the Company, Lego Securities, Lego Corporate Finance, 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 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 are governed by and shall be construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an authority to the Offeror, Lego 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 accepted the Offer.
- (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 and together with all rights accruing or attaching thereto including (without limitation) the rights to receive in full all dividends and distributions 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 in the Form of Acceptance shall include any extension and/or revision 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 Independent Shareholders with registered address(es) outside Hong Kong or whom the Offeror or Lego 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 Independent Shareholders to receive or see such notice, and all references in this Composite Document to notice in writing shall be construed accordingly.
- (k) In making their decision, Independent 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 legal or business advice on the part of the Company, the Offeror and parties acting in concert with it, Lego Securities, Lego Corporate Finance, the Independent Financial Adviser, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other persons involved in the Offer. The Independent Shareholders should consult their own professional advisers for professional advice.
- (l) Unless otherwise expressly stated in this Composite Document and/or the Form of Acceptance, no person other than the Offeror and the accepting Independent Shareholders may enforce any terms of the Offer that will arise out of complete and valid acceptances under the Contracts (Rights of Third Parties) Ordinance, Cap. 623 of the Laws of Hong Kong.
- (m) The English texts of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts in case of inconsistency.

1. FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2018 and 2017, the nine months ended 31 December 2016 and the year ended 31 March 2016 as extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the two years ended 31 December 2018 and 2017, the nine months ended 31 December 2016 and the year ended 31 March 2016:

	For the year ended 31 December 2018 <i>HK\$'000</i>	For the year ended 31 December 2017 <i>HK\$'000</i>	For the nine months ended 31 December 2016 <i>HK\$'000</i>	For the year ended 31 March 2016 <i>HK\$'000</i> <i>(Note)</i>
Revenue	63,900	78,937	83,256	128,259
Loss before taxation	(31,466)	(16,676)	(10,708)	(26,231)
Income tax expense	–	–	(87)	(1,821)
Loss attributable to owners of the Company	(31,466)	(14,225)	(10,795)	(28,052)
Total comprehensive income attributable to owners of the Company	(33,469)	(13,433)	(11,506)	(32,780)
Dividends	–	–	–	147,998
Dividends per share (HK cents)	–	–	–	0.4254
Basic and diluted loss per share attributable to owners of the Company (HK cents)	(8.22)	(4.05)	(3.10)	(8.31)

Note: The financial year ended date of the Company changed from 31 March to 31 December with effect from 8 December 2016.

The Group has no exceptional items (because of size, nature or incidence) in respect of the consolidated financial results of the Group and no non-controlling interests for each of the aforesaid period. BDO Limited, the auditor of the Company, did not issue any qualified opinion on the financial statements of the Group for the two years ended 31 December 2018 and 2017, the nine months ended 31 December 2016 and the year ended 31 March 2016.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the audited consolidated financial statements of the Company for the year ended 31 December 2018 as extracted from the annual report of the Company for the year ended 31 December 2018:

Consolidated Statement of Comprehensive Income*For the year ended 31 December 2018*

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	7	63,900	78,937
Cost of sales		(41,925)	(43,958)
Gross profit		21,975	34,979
Other income and gains		1,764	335
Selling and distribution costs		(14,643)	(22,936)
Administrative and other operating expenses		(38,489)	(29,054)
Finance cost	27(a)(iii)	(87)	—
Share of loss of a jointly controlled entity	8	(1,986)	—
Loss before income tax expense	9	(31,466)	(16,676)
Income tax expense	12	—	—
Loss from continuing operations		(31,466)	(16,676)
Profit from discontinued operation	13	—	2,451
Loss for the year attributable to owners of the Company		(31,466)	(14,225)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of operations outside Hong Kong		(2,003)	639
Other comprehensive income arising from discontinued operation	13	—	153
Other comprehensive income for the year		(2,003)	792
Total comprehensive income for the year attributable to owners of the Company		(33,469)	(13,433)
Attributable to:			
Continuing operations		(33,469)	(16,037)
Discontinued operation		—	2,604
Total comprehensive income for the year		(33,469)	(13,433)
Loss per share from continuing operations attributable to owners of the Company			
— Basic and diluted	14	(HK8.22 cents)	(HK4.74 cents)
Loss per share attributable to owners of the Company			
— Basic and diluted	14	(HK8.22 cents)	(HK4.05 cents)

Consolidated Statement of Financial Position*As at 31 December 2018*

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	15	506	662
Deposits paid		584	1,226
		<u>1,090</u>	<u>1,888</u>
Current assets			
Inventories	16	14,096	28,275
Trade and bills receivables	17	7,074	8,402
Other receivables, deposits and prepayments		3,965	4,275
Amounts due from former fellow subsidiaries	19	8	—
Amounts due from fellow subsidiaries	19	—	8
Tax recoverable		268	284
Bank balances and cash		25,729	44,507
		<u>51,140</u>	<u>85,751</u>
Current liabilities			
Trade payables	18	2,643	3,754
Other payables and accrued charges		7,769	9,563
Amounts due to former fellow subsidiaries	19	8,171	—
Amount due to a former intermediate holding company	19	5,590	—
Amounts due to fellow subsidiaries	19	—	7,206
Amount due to an intermediate holding company	19	—	5,590
		<u>24,173</u>	<u>26,113</u>
Net current assets		<u>26,967</u>	<u>59,638</u>
Total assets less current liabilities/Net assets		<u>28,057</u>	<u>61,526</u>
Capital and reserves attributable to owners of the Company			
Share capital	21	3,827	3,827
Reserves		24,230	57,699
Total equity		<u>28,057</u>	<u>61,526</u>

Consolidated Statement of Changes In Equity*For the year ended 31 December 2018*

	Share capital	Share premium	Foreign exchange reserve	Statutory and discretionary reserves	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 21)	(Note 24(i))	(Note 24(iii))	(Note)	(Note 24 (ii))	
At 1 January 2017	3,479	53,808	2,982	5,249	(14,859)	50,659
Loss for the year	—	—	—	—	(14,225)	(14,225)
Disposal of subsidiaries (Note 13)	—	—	153	—	—	153
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	—	639	—	—	639
Total comprehensive income for the year	—	—	792	—	(14,225)	(13,433)
Shares issued under a subscription agreement, net of issue expenses of HK\$234,000 (Note 21(a))	348	23,952	—	—	—	24,300
At 31 December 2017 and 1 January 2018	3,827	77,760	3,774	5,249	(29,084)	61,526
Loss for the year	—	—	—	—	(31,466)	(31,466)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	—	(2,003)	—	—	(2,003)
Total comprehensive income for the year	—	—	(2,003)	—	(31,466)	(33,469)
At 31 December 2018	<u>3,827</u>	<u>77,760</u>	<u>1,771</u>	<u>5,249</u>	<u>(60,550)</u>	<u>28,057</u>

Note:

The statutory and discretionary reserves are non-distributable and the transfers to these reserves are determined by the board of directors and in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital of the subsidiaries in the PRC upon approval from the relevant authorities.

Consolidated Statement of Cash Flows*For the year ended 31 December 2018*

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities			
Loss before income tax expense			
Continuing operations		(31,466)	(16,676)
Discontinued operation		—	2,451
Loss before income tax including discontinued operation		<u>(31,466)</u>	<u>(14,225)</u>
Adjustments for:			
Interest income		(78)	(55)
Finance cost		87	—
Depreciation of property, plant and equipment		165	216
Impairment loss on trade and bills receivables, net	30(iii)	211	7
Write-down/(reversal of write-down) of inventories		6,127	(3,044)
Write-off of long outstanding other payables		(912)	—
Loss on disposal of a jointly controlled entity, net of transaction cost	8	204	—
Share of loss of a jointly controlled entity	8	1,986	—
Gain on disposal of on property, plant and equipment		—	(38)
Gain on disposal of a subsidiary, net of transaction cost	13	—	(4,809)
Operating loss before working capital changes		<u>(23,676)</u>	<u>(21,948)</u>
Decrease in deposits paid		642	2,053
Decrease in inventories		7,055	11,618
Decrease in trade and bills receivables		1,113	5,345
Decrease in other receivables, deposits and prepayments		235	787
Decrease in trade payables		(981)	(68)
Decrease in other payables and accrued charges		<u>(1,231)</u>	<u>(2,083)</u>
Cash used in operations		<u>(16,843)</u>	<u>(4,296)</u>
Interest paid		(87)	—
Net cash used in operating activities		<u>(16,930)</u>	<u>(4,296)</u>

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from investing activities			
Investment in a jointly controlled entity	8	(20,000)	—
Sales proceeds from disposal of a jointly controlled entity	8	18,000	—
Interest received		78	55
Purchases of property, plant and equipment		(19)	(10)
Payment for the professional fees related to disposal of a jointly controlled entity	8	(190)	—
Net cash outflow from disposal of a subsidiary	13(iii)	—	(2,098)
Payment for the professional fees related to disposal of a subsidiary	13(iii)	—	(86)
Sales proceeds from disposal of property, plant and equipment		—	152
Increase in amount due from a fellow subsidiary		—	(2,630)
Net cash used in investing activities		<u>(2,131)</u>	<u>(4,617)</u>
Cash flows from financing activities			
Increase in amounts due to former fellow subsidiaries	29(b)	965	—
Advance from a jointly controlled entity		6,500	—
Repayment to a jointly controlled entity		(6,500)	—
Decrease in amount due to a director	29(b)	—	(121)
Increase in amounts due to fellow subsidiaries	29(b)	—	7,116
Proceeds from issue of shares, net of issue expenses of HK\$234,000		—	24,300
Net cash generated from financing activities		<u>965</u>	<u>31,295</u>
Net (decrease)/increase in cash and cash equivalents		<u>(18,096)</u>	<u>22,382</u>
Cash and cash equivalents at beginning of year		44,507	21,475
Effect of exchange rate changes on cash and cash equivalents		<u>(682)</u>	<u>650</u>
Cash and cash equivalents at end of year represented by bank balances and cash		<u><u>25,729</u></u>	<u><u>44,507</u></u>

Notes to the Consolidated Financial Statements*31 December 2018***1. GENERAL**

Ascent International Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to the annual report. The Group, comprising the Company and its subsidiaries, is engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

During the year ended 31 December 2017, the Company, through a wholly-owned subsidiary, had commenced the provision of property management services to a former fellow subsidiary and ceased this operation upon completion of disposal of this subsidiary on 4 September 2017 as detailed in note 13.

The directors of the Company considered the Company’s ultimate holding company as at 31 December 2017 was Zhonghong Holding Co. Ltd, a company established in the People’s Republic of China and its ultimate controlling party was Mr Wang Yonghong.

As disclosed in the Company’s joint announcement dated 18 May 2018, Zhurong Global Limited, an immediate holding Company of the Company, had transferred approximately 60.09% of the issued shares of the Company to Twinkle Link Limited (“Twinkle Link”), a company incorporated in the British Virgin Islands on 11 May 2018. As at 31 December 2018, the directors of the Company consider the Company’s immediate and ultimate holding company is Twinkle Link which is ultimately controlled by Mr Xu Hongwei. As at 31 December 2018, Twinkle Link held approximately 90.87% of the total issued shares of the Company since it had completed the mandatory unconditional cash offer to acquire all the issued shares of the Company as detailed in the Company’s joint announcement dated 25 July 2018. The percentage of issued shares of the Company held by Twinkle Link was subsequently reduced to approximately 75% upon completion of placement of certain of these shares on 25 January 2019.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new/revised to HKFRSs — effective 1 January 2018

During the year, the Group has adopted a number of new/revised HKFRSs that are relevant to its operations and effective for the current accounting period.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

The impacts of adoption of these new/revised HKFRSs that are relevant to the consolidated financial statements are set out below.

HKFRS 9 — Financial Instruments (“HKFRS 9”)

HKFRS 9 replaced the standard on accounting for financial instruments, Hong Kong Accounting Standard 39 “Financial instruments: Recognition and measurement” (HKAS 39). HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes in the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

(i) Classification and measurement of financial instruments

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). This superseded HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”).

Financial assets measured at amortised cost

The Group’s financial assets are classified and measured at amortised cost as they meet both of the following conditions and they have not been designated as at FVPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

The Group has assessed that all its financial assets previously classified as loan and receivables (comprising trade and bills receivables, other receivables and deposits paid, amounts due from fellow subsidiaries and bank balances and cash) are classified as financial assets measured at amortised cost with no change in their measurement upon the adoption of HKFRS 9.

(ii) *Impairment of financial assets*

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit losses” (“ECLs”) model. Under the ECLs model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month ECLs or a lifetime ECLs, depending on the asset and the facts and circumstances.

The Group has applied the ECLs model to the financial assets measured at amortised cost comprising trade and bills receivables, other receivables and deposits paid, amounts due from fellow subsidiaries and bank balances and cash.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The Group’s accounting policy for impairment of financial assets are disclosed in note 4(f)(ii).

Trade and bills receivables

The Group has elected to measure loss allowances for trade and bills receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

There was no material impact on the loss allowance as at 1 January 2018 which was determined in accordance with HKFRS 9 and accordingly, no opening adjustment was made as at 1 January 2018. The loss allowances further increased by HK\$211,000 for trade debtors and bills receivable during the year ended 31 December 2018. The details of the calculation of the loss allowance is disclosed in note 30(iii).

Other financial assets at amortised cost

Other financial assets at amortised cost of the Group comprise other receivables, amounts due from fellow subsidiaries, deposits paid and bank balances and cash. Applying ECLs model, the ECLs as at 1 January 2018 were immaterial and therefore no opening adjustment at 1 January 2018 has been recognised. There was no increase in the loss allowance recognised during the year ended 31 December 2018 as the amount involved is insignificant.

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments (if any) arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

There was no adjustment on the carrying amounts of the Group's financial assets and financial liabilities upon adoption of HKFRS 9. Accordingly, no opening adjustment at 1 January 2018 has been recognised.

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 and its amendments supersede HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method and has applied the new requirements only to contracts that were not completed before 1 January 2018 as permitted by HKFRS 15. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings as at 1 January 2018, if any. As a result, the financial information presented for 2017 has not been restated.

Regarding timing of revenue recognition, previously, revenue arising from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from manufacturing and trading of leather products, and retails of fashion apparel, footwear and leather accessories.

HKFRS 15 includes specific guidance on particular revenue related topics and also significantly enhances the qualitative and quantitative disclosures related to revenue. The application of HKFRS 15 has resulted in more disclosures. However, there was no material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Amendments to HKFRS 15 — Revenue from Contracts with Customers (Clarification to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and has taken up the clarifications in its first year of adoption of HKFRS 15.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on the financial statements as the Group has not paid or received advance consideration in a foreign currency.

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a venture capital organisation’s permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on the financial statements as the Group is not a venture capital organisation.

(b) New/revised HKFRSs that have been issued but are not yet effective

Up to the date of issue of the consolidated financial statements, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been early adopted in the consolidated financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 16, Lease	1 January 2019
Amendments to HKAS 1 and HKAS 8, Definition of Material	1 January 2020
HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments	<u>1 January 2019</u>

HKFRS 16, Leases

As disclosed in note 4(e), currently the Group classifies leases into operating leases, and account for the lease arrangements, according to the nature of the lease. The Group enters into leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease. The lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of comprehensive income over the period of the lease. As disclosed in note 26, as at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK\$10,842,000, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives.

Amendments to HKAS 1 and HKAS 8, Definition of Material

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

3. BASIS OF PREPARATION**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“The Hong Kong Stock Exchange”).

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

(d) Going concern basis

The Group has continued to sustain loss with a significant increase in loss for the year. The loss for the year ended 31 December 2018 amounted to HK\$31,466,000 and the net current assets and the net assets had decreased to HK\$26,967,000 and HK\$28,057,000 respectively as at 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

In view of the above circumstances, the directors have prepared a cash flow forecast of the Group covering a period up to 31 March 2020 (the “Forecasted Period”) and are satisfied that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within twelve months from 31 December 2018 after taking into account of the following:

- (i) the Group will be able to maintain its scale of existing business at least similar to that of the year ended 31 December 2018 and undertake certain measures to reduce operating expenses so as to reduce the Group’s operating loss and working capital requirements during the Forecasted Period;

- (ii) As detailed in the Company's announcement dated 3 January 2019, the Company was informed by Mason Securities Limited ("Mason Securities") that on 21 December 2018, Mason Securities entered into a letter of intent with a potential purchaser ("Purchaser"), which sets out, among other things, the non-legally binding provisions in respect of the intention of the Purchaser (as purchaser) to purchase, and Mason Securities (as chargee of the approximately 75% of the issued shares ("Subject Shares") of the Company held by the Company's ultimate holding company, Twinkle Link) to exercise its rights under a share charge and other related documents to effect the transfer (the "Transfer") from Twinkle Link to the Purchaser of, the Subject Shares.

After completion of the Transfer, the Company will seek the financial support from the Purchaser and the directors expect that the Purchaser will provide sufficient working capital to the Group to meet its financial obligations as and when they fall due; and

- (iii) The Company has requested a financial institution ("financial institution") to provide a loan facility of no more than HK\$30 million with maturity of 18 months from date of drawn down to the Company so as to strengthen the Group's available working capital. The financial institution has indicated that it will provide the loan facility to the Company subject to all necessary internal approval. The directors consider that the Company will be able to obtain and utilise this loan facility as necessary to meet the Group's working capital requirements.

There is a material uncertainty related to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the consolidated financial statements be considered to be inappropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable values, to provide for any further liabilities which might arise and to re-classify non-current assets to current assets. The effect of these adjustments have not been reflected in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

(c) Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries. The Group classifies its interest in joint arrangements as a joint venture (i.e. jointly controlled entity) where the Group has rights to only the net assets of the joint arrangement.

The Group accounts for its interest in joint venture using the equity method whereby it is initially recognised at cost and thereafter, its carrying amount is adjusted for the Group's share of the post-acquisition change in the joint venture's net assets except that losses in excess of the Group's interest in the joint venture are not recognised unless there is an obligation to make good those losses. Profits and losses arising on transactions between the Group and its joint venture are recognised only to the extent of unrelated investors' interests in the joint venture. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value using reducing balance method at the following principal annual rates:

Plant and machinery	—	30%
Furniture and fixtures	—	10%—20%
Leasehold improvements	—	Annual rates as determined by shorter of expected useful lives and the unexpired period of the leases
Motor vehicles	—	30%

The annual rates, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Leasing

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

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) Financial instruments

(i) Financial assets

Accounting policies applied from 1 January 2018

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not measured at FVPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group's debt instruments are classified as financial assets at amortised cost.

Financial assets including trade and bills receivables, other receivables and deposits paid, amounts due from former fellow subsidiaries and bank balances and cash that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables, including trade and bills receivables, other receivables deposits paid, amounts due from fellow subsidiaries and bank balances and cash, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Impairment loss on financial assets*

Accounting policies applied from 1 January 2018

The Group recognises loss allowances for ECLs on trade and bills receivables and other financial assets measured at amortised cost (including other receivables, amounts due from fellow subsidiaries, deposits paid and bank balances and cash). The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and bills receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of an other debt financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group takes into account the following information when assessing whether credit risk has increased significantly since initial recognition and assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due irrespective of the outcome of the above assessment.

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

Depending on the nature of the financial assets, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial assets are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial assets' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial assets measured at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Accounting policies applied until 31 December 2017

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) *Financial liabilities*

Accounting policies applied from 1 January 2018 and applied until 31 December 2017

Financial liabilities at amortised cost including trade payables, other payables and accrued charges, amounts due to former fellow subsidiaries and amount due to a former intermediate holding company. They are initial measured at fair value, net of directly attributable transaction cost incurred. Subsequently, they are measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Effective interest method*

Accounting policies applied from 1 January 2018 and applied until 31 December 2017

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Derecognition*

Accounting policies applied from 1 January 2018 and applied until 31 December 2017

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(g) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(h) Inventories and other contract costs

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

Other contract costs are the incremental costs of obtaining a contract with a customer. Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. The Group has applied the practical expedient to recognise these incremental costs as expenses when incurred as the amortisation period of these assets that the Group would otherwise have recognised is one year or less.

(i) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) *Sale of goods*

Revenue from sales of leather products is recognised when the customers have obtained control of the goods, being when the goods are delivered to the respective customers' specific locations and have been accepted by customers. For retail of fashion apparel, footwear and leather accessories, revenue is recognised when the customer has taken possession of and accepted the goods. The corresponding trade or bills receivable or cash received are recognised in the financial statements as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days for sales of leather products. For certain customers such as new customers, deposits paid in advance are required before goods are delivered. No credit term is granted to customers from retail of fashion apparel, footwear and leather accessories and cash or credit card payment is required upon goods received by customers.

In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

The Group's contracts with customers from the sale of leather products and retail of fashion apparel, footwear and leather accessories generally do not provide customers a right of return (a right to exchange another product or right to refund in cash). In addition, return of defective products seldom occurs as goods sold to customers generally meet the objective specifications required by customers or the customers have accepted the goods when they have taken possession of the goods and made payments. Any necessary costs incurred in replacement or rectification of defective goods sold are insignificant to the consolidated financial statements. No warranty is provided by the Group for goods sold to customers.

The Group gives certain discount on selling price to those customers from retail business who have accumulated a specific amount of purchases from the Group within a specific period of time. The period of entitlement of discount is generally one year. Based on the Group's historical experience and the estimate of the customers who will be eligible to utilise this discount, the financial impact on the consolidated financial statements is insignificant.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iii) *Dividend income*

Dividend income is recognised when the right to receive the dividend is established.

(j) **Income taxes**

Income taxes for the period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(k) **Foreign currency**

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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 the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

(l) Employee benefits*(i) Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the period when the employees render the related service.

(ii) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(m) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 as income immediately.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.

(p) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, 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 ongoing 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.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year.

Write-down of inventories

Management estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories differ from the original estimate, a material write-down or reversal of write-down may arise.

Impairment loss on trade receivables

The assessment of impairment losses on financial assets measured at amortised cost is performed based on expected credit losses model commencing from 1 January 2018 (incurred loss model until 31 December 2017) as detailed in the accounting policies and note 4(f)(ii). The Group uses judgements and estimates, and makes assumptions and selects inputs as considered appropriate in performing the impairment assessment. Any change in the estimates, assumptions and inputs adopted in the assessment would increase or decrease the impairment losses for the year and affect the Group's net asset value.

Critical judgements in applying accounting policies*Going concern basis*

As disclosed in note 3 (d), the consolidated financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into account of all relevant available information about the future of the Group, including cash flow forecast of the Group covering a period up to 31 March 2020. Such forecast about the future inherently involve various assumptions and uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis not appropriate.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Manufacturing business	—	Manufacturing and distribution of leather products
Retail business	—	Retail of fashion apparel, footwear and leather accessories

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision makers for assessment of segment performance.

During the year ended 31 December 2017, the Company, through a wholly-owned subsidiary, had commenced the provision of property management services to a fellow subsidiary and ceased this operation upon completion of disposal of this subsidiary on 4 September 2017. The financial information of this operating segment for the year ended 31 December 2017 is presented as discontinued operation as set out in note 13.

(a) Reportable segments

	Manufacturing business		Retail business		Total	
	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	43,099	51,049	20,801	27,888	63,900	78,937
Inter-segment revenue	4,321	6,101	—	—	4,321	6,101
Reportable segment revenue	<u>47,420</u>	<u>57,150</u>	<u>20,801</u>	<u>27,888</u>	<u>68,221</u>	<u>85,038</u>
Reportable segment loss	<u>(11,697)</u>	<u>(2,764)</u>	<u>(1,899)</u>	<u>(3,059)</u>	<u>(13,596)</u>	<u>(5,823)</u>
Depreciation of property, plant and equipment	95	132	32	40	127	172
Write-down (Reversal of write-down) of inventories	4,882	(2,027)	1,245	(1,017)	6,127	(3,044)
Additions to property, plant and equipment	—	6	—	4	—	10
Reportable segment assets	39,209	51,262	7,905	12,897	47,114	64,159
Reportable segment liabilities	<u>7,537</u>	<u>11,067</u>	<u>674</u>	<u>912</u>	<u>8,211</u>	<u>11,979</u>

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

(b) Reconciliation of reportable segment revenue, loss, assets and liabilities

	2018 HK\$'000	2017 HK\$'000
Revenue		
Reportable segment revenue	68,221	85,038
Elimination of inter-segment revenue	(4,321)	(6,101)
Consolidated revenue	<u>63,900</u>	<u>78,937</u>
Loss before income tax expense		
Reportable segment loss	(13,596)	(5,823)
Elimination of inter-segment losses/(gains)	852	(483)
Interest income	78	55
Unallocated corporate expenses (Note (i))	(18,800)	(10,425)
Consolidated loss before income tax expense	<u>(31,466)</u>	<u>(16,676)</u>
Depreciation of property, plant and equipment		
Reportable segment depreciation	127	172
Depreciation of unallocated property, plant and equipment	38	44
Consolidated depreciation of property, plant and equipment	<u>165</u>	<u>216</u>
Additions to property, plant and equipment		
Reportable segment additions	—	10
Unallocated additions to property, plant and equipment	19	—
Consolidated additions to property, plant and equipment	<u>19</u>	<u>10</u>
Assets		
Reportable segment assets	47,114	64,159
Tax recoverable	268	284
Unallocated corporate bank balances and cash	3,898	22,607
Other unallocated corporate assets	950	589
Consolidated total assets	<u>52,230</u>	<u>87,639</u>
Liabilities		
Reportable segment liabilities	8,211	11,979
Amounts due to former fellow subsidiaries	8,171	—
Amount due to a former intermediate holding company	5,590	—
Amounts due to fellow subsidiaries	—	7,206
Amount due to an intermediate holding company	—	5,590
Unallocated corporate liabilities (Note (ii))	2,201	1,338
Consolidated total liabilities	<u>24,173</u>	<u>26,113</u>

Notes:

- (i) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, employee costs, foreign exchange loss and other head office expenses.
- (ii) The amount represented unallocated accrued head office expenses including professional fees and staff costs.

(c) Geographical information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, i.e. property, plant and equipment.

	Revenue from external customers (Note)		Property, plant and equipment	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong (place of domicile)	<u>23,179</u>	<u>32,876</u>	<u>262</u>	<u>309</u>
Europe	14,343	14,513	—	—
The PRC	2,143	2,864	244	353
The United States of America	15,231	15,594	—	—
Other countries	<u>9,004</u>	<u>13,090</u>	<u>—</u>	<u>—</u>
Total	<u>40,721</u>	<u>46,061</u>	<u>244</u>	<u>353</u>
	<u>63,900</u>	<u>78,937</u>	<u>506</u>	<u>662</u>

Note: Revenues are attributed to countries on the basis of the customer's location.

(d) Information about major customers

Revenue from a major customer of the Group's manufacturing business segment accounting for 10% or more of the Group's revenue is set out below:

	2018 HK\$'000	2017 HK\$'000
Customer A	<u>11,175</u>	<u>8,995</u>

7. REVENUE

The principal activities of the Group are manufacturing and distribution of leather products, and retail of fashion apparel, footwear and leather accessories. In last year, the Group had ceased the rendering of property management services which was reclassified as “discontinued operation”, the details of which as set out in note 13.

The amount of each significant category of revenue from continuing operations is as follows:

	2018	2017
	HK\$'000	HK\$'000
Sales of goods		
Manufacturing and distribution of leather products	43,099	51,049
Retail of fashion apparel, footwear and leather accessories	20,801	27,888
	<u>63,900</u>	<u>78,937</u>

Revenue from sales of goods is recognised at a point in time when the control of goods has been passed to customers.

The following table provides information about trade receivables and contract liabilities from contracts with customers:

	31 December	1 January
	2018	2018
	HK\$'000	HK\$'000
Trade debtors and bills receivables (note 17)	7,074	8,402
Contract liabilities	<u>283</u>	<u>227</u>

The contract liabilities represent advanced considerations received from customers before the Group transfers the control of goods to customers. The contract liabilities of HK\$227,000 as at 1 January 2018 previously presented as advances from third parties (included in other payables and accrued charges) as at 31 December 2017 has been reclassified as contract liabilities under the terminology of HKFRS 15. The movements of the contract liabilities are set out below:

	2018
	HK\$'000
Movements in contract liabilities	
Balance as at 1 January 2018	227
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(227)
Increase in contract liabilities as a result of receipts in advance from customers during the year	283
Balance as at 31 December 2018	<u>283</u>

Contract liabilities as at 31 December 2018 will be recognised as revenue in next financial year.

8. SHARE OF LOSS OF A JOINTLY CONTROLLED ENTITY

On 23 January 2018, Elite Ascent Investments Limited (“Elite Ascent”), a direct wholly-owned subsidiary of the Company, Ms Leung Shuk Ching, Jubilee Ventures International Limited and Eastation Gallery (HK) Limited (the “JV Company”) entered into a joint venture agreement, pursuant to which Elite Ascent had subscribed for 300 shares of the JV Company at a total subscription price of HK\$20 million which represented 30% of the enlarged issued share capital in the JV Company upon completion of the subscriptions of shares by its shareholders. The JV Company is principally engaged in consultation and trading of artworks and the operating of an art gallery in Hong Kong.

Management considered that the performance of the JV Company was not able to reach the expectation since acquisition. On 17 August 2018, the Group completed the disposal of its entire 30% equity interest in the JV Company to another shareholder of the JV Company, Jubilee Ventures International Limited, for a cash consideration of HK\$18 million pursuant to a sale and purchase agreement. It had resulted in a loss on disposal of HK\$204,000, net of disposal expenses of HK\$190,000, during the year ended 31 December 2018. The Group’s share of the loss of the JV Company for the year since acquisition amounted to HK\$1,986,000.

9. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging/(crediting):

	2018	2017
	HK\$'000	HK\$'000
Auditor's remuneration	800	800
Cost of inventories	41,925	43,958
Employee costs, excluding directors' emoluments (Note 10)	30,753	39,929
Depreciation of property, plant and equipment	165	216
Gain on disposal of property, plant and equipment	—	(38)
Loss of disposal of a jointly controlled entity	204	—
Impairment loss on trade and bills receivables, net	211	7
Write-down/(reversal of write-down) of inventories, net (included in cost of sales)	6,127	(3,044)
Write off of long outstanding other payables	(912)	—
Foreign exchange gains, net	(537)	(951)
Interest income	(78)	(55)
	<u> </u>	<u> </u>

10. EMPLOYEE COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	2018	2017
	HK\$'000	HK\$'000
Salaries and other benefits	30,288	37,423
Retirement benefits scheme contributions	465	2,506
	<u> </u>	<u> </u>
	<u>30,753</u>	<u>39,929</u>

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

Details of directors' emoluments for the year ended 31 December 2018 are as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2018				
<i>Executive directors:</i>				
Wang Wei (Appointed on 8 August 2018)	286	—	—	286
Li Wei (Resigned on 7 September 2018)	82	2,396	—	2,478
Xu Hongwei (Appointed on 6 July 2018 and resigned on 25 July 2018)	—	—	—	—
Huang Shiqiao (Appointed on 6 July 2018 and resigned on 25 July 2018)	—	—	—	—
<i>Independent non-executive directors:</i>				
Wong Kwun Ho (Appointed on 13 August 2018)	71	—	—	71
Liang Jianhai (Appointed on 13 August 2018)	71	—	—	71
Chong Man Hung Jeffrey (Appointed on 7 September 2018)	61	—	—	61
Cheng Shing Hay (Resigned on 7 September 2018)	206	—	—	206
Shen Xiao (Resigned on 25 July 2018)	82	—	—	82
Wong Kon Man, Jason (Resigned on 7 September 2018)	206	—	—	206
Yau Pak Yue (Resigned on 13 August 2018)	197	—	—	197
	<u>1,262</u>	<u>2,396</u>	<u>—</u>	<u>3,658</u>
<i>Non-executive director:</i>				
Lui Kwok Wai (Resigned on 16 March 2018)	—	—	—	—
Total	<u><u>1,262</u></u>	<u><u>2,396</u></u>	<u><u>—</u></u>	<u><u>3,658</u></u>

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 December 2017				
<i>Executive directors:</i>				
Li Wei (Appointed on 15 September 2017)	35	5	—	40
Wu David Hang (Resigned on 15 September 2017)	—	662	31	693
Hou Jian (Resigned on 15 September 2017)	—	—	—	—
<i>Independent non-executive directors:</i>				
Cheng Shing Hay (Appointed on 15 September 2017)	42	—	—	42
Shen Xiao (Appointed on 18 October 2017)	29	—	—	29
Wong Kon Man, Jason (Appointed on 4 October 2017)	35	—	—	35
Yau Pak Yue (Appointed on 18 September 2017)	41	—	—	41
Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	163	—	—	163
Ng Man Fai Matthew (Resigned on 13 October 2017)	116	—	—	116
Wong Yik Chung John (Resigned on 20 September 2017)	108	—	—	108
	<u>569</u>	<u>667</u>	<u>31</u>	<u>1,267</u>
<i>Non-executive director:</i>				
Lui Kwok Wai (Appointed on 28 February 2017 and resigned on 16 March 2018)	—	—	—	—
Total	<u>569</u>	<u>667</u>	<u>31</u>	<u>1,267</u>

No directors waived any emoluments during the years ended 31 December 2018 and 2017.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2017: Nil) was director of the Company whose emoluments are included in the disclosures in Note 11(a) above. The emoluments of the remaining four (2017: five) individuals were as follows:

	2018	2017
	HK\$'000	HK\$'000
Salaries and other benefits	5,760	4,047
Discretionary bonuses	40	189
Retirement benefits scheme contributions	23	167
	<u>5,823</u>	<u>4,403</u>

The emoluments of the top four (2017: Five) individuals were within the following bands:

	2018	2017
	No. of	No. of
	individuals	individuals
Nil to HK\$1,000,000	1	4
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,500,000	<u>3</u>	<u>—</u>

During the years ended 31 December 2018 and 2017, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

(c) The emoluments paid or payable to members of senior management (including directors) were within the following bands:

	2018	2017
	No. of	No. of
	individuals	individuals
Nil to HK\$1,000,000	11	13
HK\$1,000,001 to HK\$1,500,000	—	—
HK\$1,500,001 to HK\$2,500,000	<u>4</u>	<u>—</u>

12. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax have been made as the Group has sustained estimated tax losses for the years ended 31 December 2018 and 2017.

PRC Enterprise Income Tax rate for the Company's subsidiaries in the PRC is 25% (2017: 25%).

The income tax expense for the year can be reconciled to the loss before income tax expense per the consolidated statement of comprehensive income as follows:

	2018	2017
	HK\$'000	HK\$'000
Loss from continuing operations before taxation	(31,466)	(16,676)
Profit from discontinued operation before taxation (Note 13(i))	<u>—</u>	<u>2,451</u>
Loss before income tax expense	<u>(31,466)</u>	<u>(14,225)</u>
Tax credit calculated at Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	(5,192)	(2,347)
Tax effect of expenses not deductible for tax purpose	4,058	3,332
Tax effect of income not taxable for tax purpose	(20)	(1,810)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(229)	(1,069)
Tax effect of tax losses not recognised	1,525	3,170
Utilisation of tax losses previously not recognised	—	(1,326)
Tax effect of other deductible temporary differences not recognised	(142)	<u>50</u>
Income tax expense	<u>—</u>	<u>—</u>

In February 2018, the Hong Kong Inland Revenue Department (“IRD”) initiated a tax audit on certain subsidiaries of the Company. As the year of assessment 2011/12 would be statutorily time-barred after 31 March 2018, the IRD had issued assessment/additional assessments amounting to HK\$648,000 to these subsidiaries to keep the year of assessment 2011/12 open for review. Objection against these assessment/additional assessment has been duly lodged by the subsidiaries and no additional payment is required to be made by the Group up to 31 December 2018.

On 11 March 2019, the IRD issued additional assessments amounting to HK\$485,000 to these subsidiaries for the year of assessment 2012/13. Objection against these additional assessments will be raised by the Company in April 2019.

Up to the present, the tax audit has not yet been commenced by the IRD and is still pending for fact-finding with different views to be exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable certainty. Nevertheless, management have performed assessment and based on the existing facts and circumstances, they consider the aforementioned subsidiaries have properly complied with the applicable Inland Revenue Ordinance in preparation of their Hong Kong Profits Tax computations for previous years. Therefore, for the purpose of the current year's Hong Kong Profits Tax computation of these subsidiaries, management have followed the same basis as adopted in the prior years and consider no additional provision of Hong Kong Profits Tax is required to be made in the financial statements for the year ended 31 December 2018 in respect of the current and prior years. Management have sought for assistance from tax specialists in handling the tax audit.

13. DISCONTINUED OPERATION

As mentioned in note 6, on 4 September 2017, the Company completed the disposal of its 100% equity interest in a wholly-owned subsidiary, Leisure State Limited, and its subsidiaries (collectively "Leisure Group") to the then fellow subsidiary of the Company at a nominal cash consideration of HK\$1. The Group had decided to cease the provision of property management services because Leisure Group had sustained loss since the commencement of its business during the year ended 31 December 2017 and management expected it would have difficulty in securing new business with third-party customers in the near future. Following the decision and completion of disposal of Leisure Group, this business is re-classified as a discontinued operation and is no longer included in operating segment information.

- (i) The financial performance for the period from 1 January 2017 to 4 September 2017 (date of disposal) is presented as follows:

	For the period from 1 January 2017 to 4 September 2017 HK\$'000
Revenue	10,021
Cost of sales	(6,204)
Gross profit	<u>3,817</u>
Other income	10
Administrative and other operating expenses	(6,185)
Loss before income tax of discontinued operation	(2,358)
Income tax expense	—
Loss after income tax of discontinued operation	(2,358)
Net gain on disposal of Leisure Group after income tax and transaction costs (Note 13 (iii))	<u>4,809</u>
Profit from discontinued operation	<u><u>2,451</u></u>
Other comprehensive income	
Exchange differences on translation of discontinued operation	153
Total comprehensive income from discontinued operation	<u><u>2,604</u></u>

Note: The revenue generated with respect to property management services provided to properties developed by Zhonghong Holding Co., Limited, the former holding company of the Company, and its subsidiaries amounted to HK\$9,879,000. The remaining portion of the revenue of HK\$142,000 was attributable to property management services provided to independent third party customers.

- (ii) Net cash flows for the period from 1 January 2017 to 4 September 2017 (date of disposal) were as follows:

	For the period from 1 January 2017 to 4 September 2017 HK\$'000
Net cash inflows from operating activities	702
Net cash outflows from investing activities	(2,609)
Net cash inflows from financing activities	2,080
Net increase in cash and cash equivalents	<u>173</u>

Earnings per share	
Basic and diluted, from the discontinued operation	<u>0.70 cents</u>

The calculations of basic and diluted earnings per share from the discontinued operation for the year ended 31 December 2017 are based on:

	2017 HK\$'000
Profit attributable to owners of the Company from discontinued operation	<u>2,451</u>
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	<u>351,622</u>

(iii) Details of disposal

	2017 HK\$'000
Nominal cash consideration received (HK\$1)	—
Carrying amount of the net liabilities sold	5,048
Reclassification of foreign exchange reserve upon disposal	(153)
Transaction costs incurred for the disposal transaction	(86)
Net gain on disposal after income tax and transaction costs	<u>4,809</u>

The carrying amounts of assets and liabilities as at the date of disposal of 4 September 2017 are as follows:

	As at 4 September 2017 HK\$'000
Trade and other receivables	156
Amounts due from fellow subsidiaries	2,667
Cash and bank balances	<u>2,098</u>
Total assets	<u>4,921</u>
Trade and other payables	(5,616)
Amounts due to fellow subsidiaries	(4,353)
Total liabilities	<u>(9,969)</u>
Net liabilities	<u>(5,048)</u>
Net cash flow from disposal of a subsidiary	
Cash consideration received (HK\$1)	—
Cash and bank balances of subsidiaries disposed of	<u>(2,098)</u>
Net outflow of cash and cash equivalents in respect of disposal of the subsidiary	<u>(2,098)</u>

14. LOSS PER SHARE**(a) Basic loss per share**

The calculations of basic loss per share from continuing operations and basic loss per share are based on:

Loss from continuing operations and loss attributable to owners of the Company are calculated as follows:

	2018	2017
	HK\$'000	HK\$'000
Loss from continuing operations	(31,466)	(16,676)
Profit from discontinued operation (Note 13(i))	—	2,451
Loss attributable to owners of the Company	<u>(31,466)</u>	<u>(14,225)</u>

The weighted average number of 382,704,000 ordinary shares (2017: 351,622,000 ordinary shares) in issue during the year ended 31 December 2018 is used for calculations of basic loss per share from continuing operations and basic loss per share attributable to owners of the Company.

(b) Diluted loss per share

For the years ended 31 December 2018 and 2017, basic and diluted loss per share are the same as there are no potential dilutive ordinary shares in issue for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2018	7,431	6,117	13,654	2,106	29,308
Additions	—	19	—	—	19
Disposal	—	(527)	(1,901)	—	(2,428)
Exchange realignment	(144)	(9)	—	(43)	(196)
At 31 December 2018	<u>7,287</u>	<u>5,600</u>	<u>11,753</u>	<u>2,063</u>	<u>26,703</u>
Accumulated depreciation and impairment					
At 1 January 2018	7,326	5,947	13,422	1,951	28,646
Depreciation	32	38	49	46	165
Eliminated on disposals	—	(527)	(1,901)	—	(2,428)
Exchange realignment	(140)	(7)	—	(39)	(186)
At 31 December 2018	<u>7,218</u>	<u>5,451</u>	<u>11,570</u>	<u>1,958</u>	<u>26,197</u>
Net book value					
At 31 December 2018	<u>69</u>	<u>149</u>	<u>183</u>	<u>105</u>	<u>506</u>
Cost					
At 1 January 2017	7,260	6,106	13,654	2,486	29,506
Additions	6	4	—	—	10
Disposal	—	(4)	—	(430)	(434)
Exchange realignment	165	11	—	50	226
At 31 December 2017	<u>7,431</u>	<u>6,117</u>	<u>13,654</u>	<u>2,106</u>	<u>29,308</u>
Accumulated depreciation and impairment					
At 1 January 2017	7,124	5,900	13,357	2,162	28,543
Depreciation	44	43	65	64	216
Eliminated on disposals	—	(4)	—	(316)	(320)
Exchange realignment	158	8	—	41	207
At 31 December 2017	<u>7,326</u>	<u>5,947</u>	<u>13,422</u>	<u>1,951</u>	<u>28,646</u>
Net book value					
At 31 December 2017	<u>105</u>	<u>170</u>	<u>232</u>	<u>155</u>	<u>662</u>

16. INVENTORIES

	2018	2017
	HK\$'000	HK\$'000
Raw materials	7,800	19,870
Work in progress	1,627	1,960
Finished goods	4,669	6,445
	<u>14,096</u>	<u>28,275</u>

The impairment loss of HK\$6,127,000 for the year ended 31 December 2018 was mainly due to decrease in the estimated net realisable value of certain slow moving inventories with reference to the latest selling price or usage.

A reversal of impairment loss of HK\$3,044,000 during the year ended 31 December 2017 was mainly due to utilisation of certain previously impaired raw materials for production of finished goods which were sold above their carrying amounts and an increase in the estimated net realisable value of certain inventories with reference to the latest selling price or usage.

17. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK\$'000	HK\$'000
Trade and bills receivables	8,046	9,163
Less: impairment loss	(972)	(761)
	<u>7,074</u>	<u>8,402</u>

No credit term is granted to customers from the Group's retail business. Other customers are generally granted with credit terms of 30 to 90 days from the date of billing. The ageing analysis of trade and bills receivables based on invoice date (net of impairment loss) at the end of reporting period is as follows:

	2018 HK\$'000	2017 HK\$'000
Less than 30 days	1,052	2,588
31 to 60 days	4,844	3,670
61 to 90 days	648	609
91 to 120 days	101	799
121 to 365 days	308	529
More than 365 days	121	207
	<u>7,074</u>	<u>8,402</u>

The Group recognised impairment loss based on the accounting policy stated in note 4(f)(ii).

Further details on the Group's credit policy and credit risk arising from trade and bills receivable are set out in note 30(iii).

18. TRADE PAYABLES

The ageing analysis of trade payables at the end of reporting period is as follows:

	2018 HK\$'000	2017 HK\$'000
Less than 30 days	1,268	2,706
31 to 60 days	570	499
61 to 90 days	103	71
91 to 120 days	23	49
121 to 365 days	307	122
More than 365 days	372	307
	<u>2,643</u>	<u>3,754</u>

19. AMOUNTS DUE FROM FORMER FELLOW SUBSIDIARIES AND FELLOW SUBSIDIARIES AND AMOUNTS DUE TO FORMER FELLOW SUBSIDIARIES, A FORMER INTERMEDIATE HOLDINGS COMPANY, FELLOW SUBSIDIARIES AND AN INTERMEDIATE HOLDING COMPANY

The amounts are unsecured, interest free and repayable on demand.

20. UNRECOGNISED DEFERRED TAXATION

As at 31 December 2018, the Group had other deductible temporary differences of approximately HK\$4,459,000 (2017: HK\$5,028,000) and unused tax losses of approximately HK\$85,878,000 (2017: HK\$78,153,000). The other deductible temporary differences and unused tax losses of approximately HK\$4,459,000 (2017: HK\$5,028,000) and HK\$61,898,000 (2017: HK\$63,037,000), respectively, can be carried forward indefinitely, while the remaining unused tax losses of approximately HK\$23,980,000 (2017: HK\$15,116,000) will expire in five years from the respective date of incurrence. Deferred tax assets have not been recognised in relation to such deductible temporary differences and unused tax losses due to unpredictability of future profit streams.

As at 31 December 2018, no deferred tax liability has been recognised on temporary difference in relation to the undistributed earnings of approximately HK\$10,819,000 (31 December 2017: HK\$10,967,000) of a subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

The Group did not have other material unrecognised deferred tax assets and liabilities at the end of respective reporting periods.

21. SHARE CAPITAL**(a) Authorised and issued share capital**

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2017	347,904,000	3,479
Shares issued under a subscription agreement (Note)	34,800,000	348
At 31 December 2017, 1 January 2018 and 31 December 2018	<u>382,704,000</u>	<u>3,827</u>

Note:

On 23 November 2017, 34,800,000 new ordinary shares of HK\$0.01 each were issued at HK\$0.705 per share pursuant to a subscription agreement dated 8 November 2017. This resulted in a net proceeds of HK\$24,300,000, of which HK\$348,000 and HK\$23,952,000 (net of issue expenses of HK\$234,000) were credited to share capital and the share premium account respectively. The shares were issued to provide additional working capital to the Group and for potential investments.

(b) Capital management policy

The Group regards the share capital and reserves attributable to owners of the Company as its capital which amounts to approximately HK\$28,057,000 (2017: HK\$61,526,000) as shown in the consolidated statement of financial position as at 31 December 2018. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may raise bank or other borrowings and adjust the amount of dividends paid to shareholders.

No changes were made in the objectives or policies during the year ended 31 December 2018.

22. DIVIDENDS

The directors of the Company do not recommend the payment of interim or final dividends for the years ended 31 December 2018 and 2017.

23. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Investments in subsidiaries		39,463	52,455
Current assets			
Other receivables		769	391
Amounts due from former fellow subsidiaries		8	—
Amounts due from subsidiaries		—	29
Amounts due from fellow subsidiaries		—	8
Bank balances and cash		3,869	22,572
		<u>4,646</u>	<u>23,000</u>
Current liabilities			
Accrued charges and other payables		2,201	1,338
Amounts due to subsidiaries		3,435	435
Amounts due to former fellow subsidiaries		8,171	—
Amount due to a former intermediate holding company		5,590	—
Amounts due to fellow subsidiaries		—	7,206
Amount due to an intermediate holding company		—	5,590
		<u>19,397</u>	<u>14,569</u>
Net current (liabilities)/assets		<u>(14,751)</u>	<u>8,431</u>
Total net assets		<u>24,712</u>	<u>60,886</u>
Capital and reserves			
Share capital	21	3,827	3,827
Reserves	24	20,885	57,059
Total equity		<u>24,712</u>	<u>60,886</u>

24. RESERVES
The Company

	Share premium HK\$'000 (Note (i))	Accumulated losses HK\$'000 (Note (ii))	Total HK\$'000
At 1 January 2017	101,979	(55,062)	46,917
Loss and total comprehensive income for the year	—	(13,810)	(13,810)
Shares issued under a subscription agreement, net of issue expenses of HK\$234,000 (Note 21(a))	23,952	—	23,952
At 31 December 2017 and 1 January 2018	125,931	(68,872)	57,059
Loss and total comprehensive income for the year	—	(36,174)	(36,174)
At 31 December 2018	<u>125,931</u>	<u>(105,046)</u>	<u>20,885</u>

Notes:

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
(i) Share premium	Amount subscribed for share capital in excess of nominal value.
(ii) Accumulated losses	Cumulative net gains and losses recognised in profit or loss.
(iii) Foreign exchange reserve	Gains/losses arising on retranslating the net assets of operations outside Hong Kong into presentation currency.

25. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/ paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Chanco International Holding Limited	The BVI/Hong Kong	Ordinary shares United States Dollars ("USD")1,000	100%	—	Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK\$6 Ordinary shares HK\$2	—	100%	Manufacturing and trading of leather products
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK\$10,000	—	100%	Trading of leather products
Talent Union Development Limited	The BVI/Hong Kong	Ordinary shares USD8	—	100%	Investment holding
Dongguan Ngai Luen Leather Goods Company Limited (Note (b))	The PRC	Paid up registered capital HK\$5,600,000	—	100%	Manufacturing and trading of leather products
Dongguan Sze Cheik Leather Goods Company Limited (Note (b))	The PRC	Paid up registered capital HK\$5,000,000	—	100%	Manufacturing and trading of leather products
Amid Success Holdings Limited	The BVI/Hong Kong	Ordinary share USD1	—	100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary share HK\$1	—	100%	Retail of fashion apparel, footwear and leather accessories
Elite Ascent Investments Limited	The BVI	Ordinary share USD\$1	100%	—	Inactive
Grandeur Smart Enterprises Limited (Note(a))	The BVI	Ordinary shares USD\$1,000	100%	—	Inactive

Notes:

- (a) The subsidiary was newly incorporated during the year ended 31 December 2018.
- (b) These subsidiaries are wholly foreign-owned enterprises established in the PRC.

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

26. OPERATING LEASES

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to five years (2017: one to five years), and the leases for certain retail outlets include contingent rents, which are determined by applying pre-determined percentages to sales less the basic rentals of the respective leases.

The lease payments recognised as expenses during the year are as follows:

	2018	2017
	HK\$'000	HK\$'000
Minimum lease payments	11,165	15,426
Contingent rents	<u>—</u>	<u>—</u>
	<u>11,165</u>	<u>15,426</u>

The total future minimum lease payments are due as follows:

	2018	2017
	HK\$'000	HK\$'000
Not later than one year	7,133	9,115
Later than one year and not later than five years	<u>3,709</u>	<u>9,215</u>
	<u>10,842</u>	<u>18,330</u>

The above lease commitments only include commitments for basic rentals, and do not include commitments for contingent rents, if any, as it is not practical to determine in advance the amount of such additional rentals.

27. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

(i)	2018	2017
	HK\$'000	HK\$'000
Rental expenses paid to Mr Chan Woon Man and Ms Tsang Sau Lin for office premises	780	780

Mr Chan Woon Man was a director of a subsidiary of the Company and was previously a substantial shareholder of the Company up to 7 September 2015. Ms Tsang Sau Lin is the wife of Mr Chan Woon Man.

The above related party transaction constituted continuing connected transaction, as defined in Chapter 14A of the Listing Rules.

- (ii) During the year, the Group disposed of its entire 30% equity interest in a jointly controlled entity to another shareholder of the jointly controlled entity as detailed in note 8.
- (iii) Interest expenses of HK\$87,000 were paid to a jointly controlled entity in relation to advance from the jointly controlled entity during the year ended 31 December 2018.
- (b) **Relating to discontinued operation**
- (i) Pursuant to the framework cooperation agreement dated 28 March 2017, as supplemented on 20 April 2017 and 19 May 2017, (the “Framework Property Management Services Agreement”), Zhonghong, the then ultimate holding company of the Company, had agreed to engage Zhongxi Property Management Company Limited (“Zhongxi”), an indirect wholly-owned subsidiary of Leisure State Limited which was disposed of by the Company on 4 September 2017 to the then fellow subsidiary of the Company as detailed in note 13, to provide property management services in relation to the properties developed by Zhonghong or its subsidiaries. The service fees receivable and terms of services were determined after arm’s length negotiations and commensurate with the rate of service fee charged by Zhongxi and the relevant terms for similar services provided to independent third parties. The services fees received by Zhongxi during the period from 1 January 2017 to 4 September 2017 amounted to HK\$9,879,000 (equivalent to approximately RMB8,661,000). The captioned agreement was terminated by both contracting parties on 4 September 2017.
- (ii) On 4 September 2017, the Company completed the disposal of its 100% equity interest in Leisure Group to the then fellow subsidiary as detailed in note 13, which is an indirectly wholly-owned subsidiary of Zhonghong.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2018	2017
	HK\$'000	HK\$'000
Short-term benefits	4,535	2,170
Post employment benefits	40	65
	<u>4,575</u>	<u>2,235</u>

28. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

29. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS**(a) Cash and cash equivalents comprise:**

	2018	2017
	HK\$'000	HK\$'000
Cash available on demand	<u>25,729</u>	<u>44,507</u>

- (b) Reconciliation of liabilities arising from financing activities during the years ended 31 December 2017 and 2018:

	Amount due to a jointly controlled entity HK\$'000	Amount due to a director HK\$'000	Amounts due to fellow subsidiaries/ former fellow subsidiaries HK\$'000	Amount due to an intermediate holding company/ a former intermediate holding company HK\$'000
At 1 January 2017	—	121	4,180	5,590
Changes from cash flows:				
Net cash inflows/(outflows)	—	(121)	7,116	—
Non-cash transactions:				
Disposal of subsidiaries (Note 13)	—	—	(4,353)	—
Exchange difference	—	—	263	—
Total changes from financing cash flows:	—	(121)	3,026	—
At 31 December 2017 and 1 January 2018	<u>—</u>	<u>—</u>	<u>7,206</u>	<u>5,590</u>
Changes from cash flows:				
Net cash inflows/(outflows) (Note)	(87)	—	965	—
Non-cash transactions:				
Accrued interest expenses	87	—	—	—
At 31 December 2018	<u>—</u>	<u>—</u>	<u>8,171</u>	<u>5,590</u>

Note:

The Group had obtained interest-bearing advance from a jointly controlled entity of HK\$6,500,000 and had been repaid in full during the year ended 31 December 2018. Interest expenses of HK\$87,000 were paid (2017 Nil).

30. FINANCIAL RISK MANAGEMENT

Exposure to currency, interest rate, credit and liquidity risks arises in the normal course of the Group's business.

These risks are limited by the Group's financial management policies and practices described below.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, mainly denominated in USD and RMB, which expose the Group to currency risk. Certain financial assets and liabilities of the group entities are also denominated in USD and RMB other than their respective functional currency. As HK\$ is pegged to USD, the relevant group entities do not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD.

The carrying amounts of the relevant group entities' financial instruments denominated in RMB other than their respective functional currency at the end of respective reporting periods are insignificant.

Accordingly, the directors considered any reasonably possible appreciation or depreciation of RMB against HK\$ at the end of respective reporting periods, with all other variables held constant, would have insignificant effects on the loss for the year or other components of equity of the Group.

The Group currently does not have a foreign currency hedging policy. However, management monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk is mainly attributable to its interest-bearing bank deposits. The interest rate of bank deposits is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider to enter into interest rate hedging should the need arise.

At the end of respective reporting periods, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have insignificant impact on the loss for the year or other components of equity of the Group at the end of respective reporting periods.

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and bills receivables, other receivables, deposits paid, amounts due from former subsidiaries and bank balances and cash. The Group's exposure to credit risk arising from bank balances and cash is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies for which the Group considers to have low credit risk.

Trade debtors and bills receivable

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore certain concentration of credit risk primarily arise when the Group has significant exposure to individual customers. The amounts due from its three (2017: three) customers as at 31 December 2018 amounted to approximately HK\$4,770,000 (2017: HK\$3,376,000) which accounted for approximately 67% (2017: 40%) of the trade and bills receivables.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30–90 days from the date of billing. Debtors with balances that are past due are usually requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade debtors and bills receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors and bills receivable as at 31 December 2018:

	Expected loss rate (%)	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Net carrying amount HK\$'000
Current (not past due)	1%	4,381	(43)	4,338
1–30 days past due	3%	1,514	(45)	1,469
31–60 days past due	5%	648	(32)	616
61–90 days past due	10%	102	(10)	92
91–365 days past due	15%	308	(46)	262
366–730 days past due	21%	377	(80)	297
More than 730 days past due	100%	716	(716)	—
		8,046	(972)	7,074

Expected loss rates are based on actual loss experience over the past 1 year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (note 4(f)(ii)). At 31 December 2017, the ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017 HK\$'000
Balances neither past due nor impaired	2,730
Less than 30 days past due	4,019
31–60 days past due	118
61–90 days past due	796
91–120 days past due	334
121–365 days past due	359
More than 365 days	46
	<u>5,672</u>
	<u><u>8,402</u></u>

As at 31 December 2017, trade and bills receivables of HK\$2,730,000 that were neither past due nor impaired related to customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired related to customers that had good creditworthiness or good track record with the Group. Based on past experience, management considered no impairment was necessary as there had not been a significant change in credit quality of these balances, which were still considered fully recoverable.

Movement in the loss allowance account in respect of trade debtors and bills receivable during the year is as follows:

	2018	2017
	HK\$'000	HK\$'000
Balance at 31 December under HKAS 39	761	754
Impact of initial application of HKFRS 9 (note 2(a))	<u>—</u>	<u>—</u>
Adjusted balance at 1 January	761	754
Impairment losses recognised during the year	<u>211</u>	<u>7</u>
Balance at 31 December	<u>972</u>	<u>761</u>

The increase in impairment loss during the year ended 31 December 2018 is mainly due to increase in balances of trade receivables past due for no more than 60 days.

Other financial assets at amortised cost

As at 31 December 2018, in addition to the bank balances and cash which are considered to have low credit risk, other financial assets at amortised cost of the Group mainly included rental deposits of HK\$2,333,000 and other debtors of HK\$423,000.

In accordance with the accounting policies on impairment loss assessment as set out in note 4(f)(ii), the Group has assessed that there was no significant increase in credit risk since the initial recognition of the other financial assets at amortised cost to 1 January 2018 and 31 December 2018 and accordingly, the measurement of the expected credit loss is based on 12 months ECLs which was considered by the directors of the Company to be insignificant. Therefore, no opening adjustment for the ECLs on the other financial assets at amortised cost has been made to the retained earnings as at 1 January 2018 and no ECLs was recognised as at 31 December 2018.

Prior to 1 January 2018, an impairment loss on other financial assets (i.e. loans and receivables) at amortised was recognised only when there was objective evidence of impairment (note 4(f)(ii)). As at 31 December 2017, the other financial assets at amortised costs were neither past due nor impaired. Management considered that no impairment allowance was necessary as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(iv) Liquidity risk

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes maintaining adequate bank balances to meet its requirement of operations. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group's financial liabilities comprise trade payables, other payables and accrued charges (excluding contract liabilities) and amounts due to former fellow subsidiaries and a former intermediate holding company maturing in less than one year or repayable on demand and their contractual undiscounted payments approximate their carrying amounts included in the consolidated statement of financial position which amounted to HK\$23,890,000 (2017: HK\$25,886,000).

As mentioned in note 3(d), the Group has undertaken certain measures to increase its available working capital to enable it to continue to operate as going concern.

(v) Fair values

As at 31 December 2018 and 2017, the Group has no financial instruments carried at fair value. The directors of the Company consider the fair values of the Group's financial assets and financial liabilities approximate their carrying amounts as at the end of respective reporting periods.

31. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2019.

3. INDEBTEDNESS

At the close of business on 31 March 2019 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 details of the Group's indebtedness are as follows:

Borrowings

As at the close of business on 31 March 2019, the Group had amounts due to former fellow subsidiaries of approximately HK\$8,171,000 which is unsecured, interest free and repayable on demand and amount due to a former intermediate holding company of approximately HK\$5,590,000 which is unsecured, interest free and repayable on demand.

Commitments

As at the close of business on 31 March 2019, the Group had no material capital commitment.

Pledge of assets

As at the close of business on 31 March 2019, the Group had no pledge of assets.

Contingent liabilities

As at the close of business on 31 March 2019, the Group had no material contingent liabilities.

Disclaimer

Saved as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not, at the close of business on 31 March 2019, have any outstanding loan capital, bank overdrafts, charges or debentures, mortgages, term loans, debt securities or any other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptable credits or any guarantees or other material contingent liabilities.

4. MATERIAL CHANGE

The Directors confirmed that, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date on which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offer, the Offeror and the Group.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group, Twinkle Link and parties acting in concert with any of them), and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than that expressed by the Directors) 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 contained in this Composite Document misleading.

2. DISCLOSURE OF INTERESTS OF THE OFFEROR

As at the Latest Practicable Date, the Offeror and parties acting in concert with it (including the sole director of the Offeror) held 287,024,406 Shares (representing approximately 75.00% of the entire issued share capital of the Company as at the Latest Practicable Date). The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately wholly and beneficially owned by Mr. Zhao, who is also the sole director of the Offeror.

Save as disclosed above, (i) as at the Latest Practicable Date, none of the Offeror and parties acting in concert with it owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; and (ii) none of the Offeror, Mr. Zhao and parties acting in concert with any of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

3. DEALING AND INTERESTS IN THE COMPANY'S SECURITIES AND OTHER ARRANGEMENTS

As at the Latest Practicable Date,

- (a) save for the WH Facility Agreement and the WH Security Deed, pursuant to which, in the event of occurrence of events of default on the part of the Offeror, may result in the transfer of voting rights of securities of the Company acquired in pursuance of the Offer, there is no agreement, arrangement or understanding that any securities of the Company acquired in pursuance of the Offer would be transferred, charged or pledged to any other persons;

- (b) save for the Sale Shares held by the Offeror, none of the Offeror, and parties acting in concert with it (including the sole director of the Offeror) owns or controls any Shares or convertible securities, warrants, options or derivatives in respect of any Shares;
- (c) there is no outstanding derivative in respect of securities in the Company which is owned, controlled or directed by, or has been entered into by the Offeror, its ultimate beneficial owner and/or any person acting in concert with any of them (including the director of the Offeror);
- (d) none of the Offeror, its ultimate beneficial owner and parties acting in concert with any of them (including the director of the Offeror) has received any irrevocable commitment to accept or reject the Offer;
- (e) save for the Letter of Intent , the Letter, the WH Facility Agreement and the WH Security Deed, there is 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 existed between any member of the Zhao Concert Group and/or any other associate of the Offeror on the one hand and any other person on the other, in relation to the shares of the Offeror or the Shares which might be material to the Offer;
- (f) none of the Offeror and 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) of the Company;
- (g) there is no agreement or arrangement to which the Offeror or parties acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (h) there is no agreement or arrangement which constitutes a special deal under Rule 25 of the Takeovers Code between Twinkle Link, its ultimate beneficial owner and parties acting in concert with any of them on one hand and the Offeror and parties acting in concert with it on the other hand;

- (i) save for (a) the total consideration for the Sale Shares of HK\$315,009,285.58; (b) the interests payable by the Offeror (as borrower) to Mason Securities (as lender) for the WH Facilities pursuant to the WH Facility Agreement; and (c) the arrangement fee and other amounts payable by the Offeror (as borrower) to Mason Securities (as lender) for the WH Facilities pursuant to the WH Fee Letter, no other consideration, compensation or benefit in whatever form is paid or to be paid by the Zhao Concert Group to any of the Twinkle Concert Group; and/or (ii) the Mason Concert Group in connection with the sale and purchase of the Sale Shares;
- (j) there is no understanding, arrangement, agreement or special deal between the Zhao Concert Group and the Twinkle Concert Group;
- (k) save for the Letter of Intent (details of which are disclosed in the Rule 3.7 Announcement), the WH Finance Documents (which consist of (i) the WH Facility Agreement; (ii) the WH Security Deed; (iii) the WH Deed Poll; (iv) the WH Personal Guarantee; and (v) the WH Fee Letter) and the Letter, there is no understanding, arrangement, agreement or special deal between the Zhao Concert Group and the Mason Concert Group.

4. GENERAL

As at the Latest Practicable Date:

- (a) there was no arrangement whereby benefit (other than statutory compensation) was or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offer; and
- (b) there was no agreement, arrangement, or understanding (including any compensation arrangement) or special deal existing between the Zhao Concert Group and any of the Directors, recent directors of the Company (if any), Shareholders, or recent shareholders of the Company (including the Twinkle Concert Group and the Mason Concert Group).

5. MARKET PRICES

The table below shows the closing price 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\$)
2018	
30 April	0.90
31 May	1.47
29 June	1.48
25 July (<i>Note 1</i>)	1.37
2019	
31 January	1.11
28 February	1.13
22 March (being the Last Trading Day) (<i>Note 2</i>)	1.12
24 May (being the Latest Practicable Date)	1.23

Notes:

1. Trading in the Shares on the Stock Exchange was suspended from 9:00 a.m. on 26 July 2018 to 27 January 2019 pending the restoration of the public float of the Shares.
2. Trading in the Shares on the Stock Exchange was halted from 9:00 a.m. on 25 March 2019 to 7 May 2019 pending the release of the Joint Announcement.

During the Relevant Period, the highest closing price of the Shares quoted on the Stock Exchange were HK\$1.48 per Share on 4 July 2018, 17 July 2018, 18 July 2018 and 23 July 2018; and the lowest closing price of the Shares quoted on the Stock Exchange was HK\$1.03 per Share on 29 January 2019.

6. EXPERTS AND CONSENTS

The followings are the qualifications of the experts whose letter or opinion is contained or referred to in this Composite Document:

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO
Lego Securities Limited	a corporation licensed by the SFC to conduct Type 1 (dealing in securities) regulated activity under the SFO

Each of Lego Corporate Finance and Lego Securities has given and has not withdrawn their written consents to the issue of this Composite Document with the inclusion of the text of its letter or report and/or references to its name in the form and context in which they are respectively included.

7. MISCELLANEOUS

As at the Latest Practicable Date:

- (a) the principal members of the Offeror's concert group are the Offeror and Mr. Zhao Jingfei;
- (b) the registered office of the Offeror is at Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands;
- (c) the correspondence address of Mr. Zhao is Room 316, Office Building No. 20, No. 5 Box, Vanke Park, Tianshuixiyuan, Chaoyang District, Beijing, the PRC;
- (d) the registered address of Lego Securities is Room 301, 3/F, China Building, 29 Queen's Road Central, Hong Kong; and
- (e) the registered address of Lego Corporate Finance is Room 1601, 16/F, China Building, 29 Queen's Road Central, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION AND DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection (i) at the principal office of the Company at 7/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. (on any weekdays, except public holidays); (ii) on the website of the SFC (<http://www.sfc.com.hk>); and (iii) on the website of the Company (<http://www.irasia.com/listco/hk/ascent/index.htm>) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Offeror;
- (b) the letter from Lego Securities, the text of which is set out on pages 9 to 19 of this Composite Document; and
- (c) the written consents referred to under the paragraph headed "EXPERTS AND CONSENTS" in this appendix.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the sole director of the Offeror) 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

The authorised and issued share capital of the Company as at 31 December 2018 (being the end of the last financial year of the Company) and the Latest Practicable Date were as follows:

Authorised share capital: HK\$

<u>2,000,000,000</u>	Ordinary Shares	<u>20,000,000</u>
----------------------	-----------------	-------------------

Issued and fully paid share capital:

<u>382,704,000</u>	Ordinary Shares	<u>3,827,040</u>
--------------------	-----------------	------------------

Since 31 December 2018 (being the date to which the Company's latest published audited accounts were prepared) and up to the Latest Practicable Date, no new Shares had been issued by the Company.

All of the Shares currently in issue are fully paid up and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting and capital.

The Company did not have any outstanding securities, options, derivatives, warrants or other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Directors and chief executive's interests and short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations

As at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any 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 Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to Section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, notified to the Company and the Stock Exchange.

(b) Substantial shareholders' and other persons' interests and short positions in the Shares and underlying Shares of the Company

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 5% 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	Number of Shares (Note 1)	Appropriate percentage or attributable percentage of shareholding
The Offeror (Note 2)	Beneficial owner	287,024,406 (L)	75.00
Mr. Zhao Jingfei ("Mr. Zhao") (Note 2)	Interest of controlled corporation	287,024,406 (L)	75.00

Notes:

- The letters "L" and "S" denote a long position and a short position respectively in the Shares.
- The Offeror is beneficially and wholly owned by Mr. Zhao. Therefore Mr. Zhao is deemed or taken to be interested in all the Shares held by the Offeror.

Save as disclosed above, as at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and, so far as is known to the Directors, the Directors were not aware of any other persons (not being a Director or chief executive of the Company) had interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 5% 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.

4. SHAREHOLDINGS AND DEALINGS IN THE OFFEROR

As at the Latest Practicable Date, none of the Company nor any of its Directors have any interest in the relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) (the “**Relevant Securities**”) of the Offeror, and no such person (including the Company) had dealt in the Relevant Securities of the Offeror during the Relevant Period.

5. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

None of the Directors held any shares, convertible securities, warrants, options or other derivatives of the Company, and none of the Directors have dealt for value in any Share or any convertible securities, warrants, option or derivatives issued by the Company during the Relevant Period.

As at the Latest Practicable Date,

- (a) no Share or any convertible securities, warrants, option or derivatives issued by the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or who is an associate of the Company by virtue of class (2) of the definition of associate under the Takeovers Code or by the Independent Financial Adviser or any of its associates (as defined in the Takeovers Code), and no such person had dealt for value in the Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period;
- (b) no Shares or any convertible securities, warrants, option or derivatives issued by the Company was managed on a discretionary basis by fund managers connected with the Company, and no such person had dealt for value in the Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period;

- (c) no person has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code, and no such person had dealt for value in the Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period;
- (d) none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offer; and
- (e) none of the Company or any of its Directors has borrowed or lent any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives issued by the Company.

6. ARRANGEMENTS AFFECTING AND RELATING TO DIRECTORS

As at the Latest Practicable Date,

- (a) save as disclosed in the paragraph headed “7. Service Contracts of Directors” in this Appendix IV, no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;
- (b) save as disclosed in the paragraph headed “7. Service Contracts of Directors” in this Appendix IV, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and
- (c) the Offeror had not entered into any material contract in which any Director has a material personal interest.

7. SERVICE CONTRACTS OF DIRECTORS

The Company has entered into service agreement and letters of appointment with its executive Director and independent non-executive Directors respectively, details of which are set out below:

	Position	Form of contract	Date of the service agreement/ letter of appointment	Expiry date of the service agreement/ letter of appointment	Fixed monthly remuneration (HK\$)
Ms. Wang Wei ("Ms. Wei")	Executive Director	Service agreement	8 August 2018	7 August 2021	60,000
Mr. Chong Man Hung Jeffrey	Independent non-executive Director	Letter of appointment	7 September 2018	6 September 2021	16,000
Mr. Wong Kwun Ho	Independent non-executive Director	Letter of appointment	13 August 2018	12 August 2021	The remuneration under the original letter of appointment was HK\$12,000 per month. The remuneration was adjusted to HK\$16,000 per month with effect from 6 September 2018.
Mr. Liang Jianhai	Independent non-executive Director	Letter of appointment	13 August 2018	12 August 2021	The remuneration under the original letter of appointment was HK\$12,000 per month. The remuneration was adjusted to HK\$16,000 per month with effect from 6 September 2018.

Note: There is no variable remuneration payable under each of the service agreement and the letters of appointment as mentioned above.

Ms. Wei's service agreement above may be terminated by serving at least three month's written notice either by the Company or the relevant Director or without notice by agreeing to pay to the other party a sum equals to three times the monthly fees entitled by the Director at the date of termination. In addition to the service agreement entered into between Ms. Wei and the Company, the Company has also entered into a letter of employment ("**Ms. Wei's Letter of**

Employment”) dated 1 October 2018 with Ms. Wei to adjust her position as the executive Director under the service agreement to the executive Director and the chief risk and operating officer with effect from 1 October 2018. No additional remuneration is payable to Ms. Wei under Ms. Wei’s Letter of Employment. Except for such adjustment of her position, other terms and conditions in Ms. Wei’s service agreement (including her term of service and remuneration) remain valid and unchanged.

Each of the letters of appointment above may be terminated at any time by serving at least three months’ notice in writing either by the Company or the relevant Director to the other party.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which:

- (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the commencement of the Offer Period;
- (ii) is continuous contracts with a notice period of 12 months or more; and
- (iii) is a fixed term contracts with more than 12 months to run irrespective of the notice period.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by members of the Group within the two years immediately preceding the commencement of the Offer Period and up to the Latest Practicable Date which are or may be material:

- (a) the framework property management services agreement (the “**Framework Property Management Services Agreement**”) dated 28 March 2017 (as amended and supplemented by a supplemental agreement dated 19 May 2017) entered into between 中弘控股股份有限公司 (Zhonghong Holding Co., Limited*) (“**Zhonghong**”) and 中璽物業管理有限公司 (Zhongxi Property Management Company Limited*) (“**Zhongxi**”) (an indirect wholly-owned subsidiary of the Company) in relation to the provision of property management services from 1 January 2017 to 30 June 2017 subject to an annual cap for the transactions contemplated thereunder of RMB8,800,000 (equivalent to approximately HK\$9,900,000) for the year ended 31 December 2017;

- (b) the supplemental agreement (the “**Supplemental Agreement**”) dated 19 May 2017 entered into between Zhonghong and Zhongxi to make certain amendments to the Framework Property Management Services Agreement; pursuant to the Supplemental Agreement, the term of the Framework Property Management Services Agreement shall be from 1 January 2017 to 31 December 2018, subject to revised annual caps for the transactions contemplated thereunder of RMB19,000,000 (equivalent to approximately HK\$21,850,000) and RMB22,600,000 (equivalent to approximately HK\$25,900,000) for the year ended 31 December 2017 and 31 December 2018 respectively;
- (c) the termination agreement dated 4 September 2017 entered into between Zhonghong and Zhongxi in relation to the termination of the Framework Property Management Services Agreement;
- (d) the subscription agreement dated 8 November 2017 entered into between the Company and Fang Chengyu in relation to the subscription of 34,800,000 new Shares to be allotted and issued to Fang Chengyu at the subscription price of HK\$0.705 per subscription share;
- (e) the joint venture agreement dated 23 January 2018 entered into among Ms. Leung Shuk Ching (“**Ms. Leung**”), Elite Ascent Investments Limited (a direct wholly-owned subsidiary of the Company), Jubilee Ventures International Limited and Eastation Gallery (HK) Limited (the “**JV Company**”) in relation to the subscription of 489, 300 and 200 shares of the JV Company by Ms. Leung, Elite Ascent Investments Limited, Jubilee Ventures International Limited respectively at the total subscription price of HK\$32,600,000, HK\$20,000,000 and HK\$13,333,333 respectively;
- (f) a deed of call option (the “**Call Option Deed**”) dated 31 January 2018 entered into between the JV Company and Ms. Leung, pursuant to which the JV Company granted to Ms. Leung the right to acquire all but not part of the 18 oil paintings namely “Battlefield Realism: The Eighteen Arhats (Set of Eighteen)” created by Liu Xiaodong at the consideration of HK\$45,933,333 at the sole discretion of Ms. Leung during the period from the date of the Call Option Deed up to and including 31 December 2018; and
- (g) the sale and purchase agreement dated 17 August 2018 entered into between Elite Ascent Investments Limited as vendor and Jubilee Ventures Investments Limited as purchaser in relation to the sale and purchase of 300 shares of Eastation Gallery (HK) Limited at the consideration of HK\$18,000,000.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

10. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert whose letter, opinion or advice is contained or referred to in this Composite Document:

Name	Qualification
Grand Moore Capital Limited	Licensed Corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Grand Moore has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Grand Moore did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, Grand Moore did not have any shareholding in the Company or any of its subsidiaries 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.

11. MISCELLANEOUS

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is at 7/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this Composite Offer Document shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) at the principal office of the Company at 7/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. (on any weekdays, except public holidays); (ii) on the website of the SFC (<http://www.sfc.hk>); and (iii) on the website of the Company (<http://www.irasia.com/listco/hk/ascent/index.htm>) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2017 and 2018, the nine months ended 31 December 2016 and the year ended 31 March 2016;
- (c) the letter from the Board, the text of which is set out on pages 20 to 25 of this Composite Document;
- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 26 to 27 of this Composite Document;
- (e) the letter from the Independent Financial Adviser to the Independent Board Committee, the text of which is set out on pages 28 to 51 of this Composite Document;
- (f) the service agreement, letters of appointment, Ms. Wei's Letter of Employment referred to under the paragraph headed "7. Service Contracts of Directors" in this Appendix IV;
- (g) the written consent referred to under the paragraph headed "10. Qualification and consent of expert" in this Appendix IV; and
- (h) the material contracts referred to under the paragraph headed "8. Material contracts" in this Appendix IV.