



威發國際集團有限公司
PERFECTECH INTERNATIONAL HOLDINGS LIMITED

UNITS C & D, 9/F, SING TECK FACTORY BUILDING,
44 WONG CHUK HANG ROAD,
ABERDEEN, HONG KONG

香港黃竹坑道 44 號盛德工業大廈 9 字樓 C 及 D 室

Tel: (852) 3965 0088 Fax: (852) 3965 0003

24 October 2016

To the Independent Shareholders and the Independent Optionholders,

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS BY
YU MING INVESTMENT MANAGEMENT LIMITED
ON BEHALF OF
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
PERFECTECH INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED
TO BE ACQUIRED BY
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND
PARTIES ACTING IN CONCERT WITH THEM) AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

Reference is made to the Joint Announcement whereby the Offerors and the Company jointly announced that, on 3 October 2016, a voluntary conditional cash offers would be made by Yu Ming, on behalf of the Offerors, (i) to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offerors and their Concert Parties) and (ii) to cancel all outstanding Options in compliance with Rule 13 of the Takeovers Code.

The purpose of the Composite Document (of which this letter forms part) is to provide you with, among other things: (i) further information relating to the Group, the Offerors and the Offers; (ii) the “Letter from Yu Ming” containing details of the Offers; (iii) the “Letter from the Independent Board Committee” containing its recommendations to the Independent Shareholders and the Independent Optionholders in relations to the Offers; (iv) the “Letter from Astrum” containing its advice to the Independent Board Committee on whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders and Independent Optionholders are concerned and on acceptance in respect of the Share Offer and the Option Offer.

Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, has been established to give recommendations (i) as to whether the terms of the Offers are fair and reasonable and (ii) as to the acceptance of the Offers. Each member of the Independent Board Committee has confirmed to the Company that, save for their interests in Options as disclosed in Appendix III to this Composite Document, they have not involved in the Offers, and has no direct or indirect interest in the Offers.

As disclosed in the announcement of the Company dated 7 October 2016, Astrum has been appointed as the independent financial adviser to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders in respect of the Offers. Such appointment has been approved by the Independent Board Committee.

The full texts of the letter from the Independent Board Committee addressed to the Independent Shareholders and the Independent Optionholders and the letter from Astrum addressed to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offers.**

THE OFFERS

As disclosed in the “Letter from Yu Ming”, Yu Ming, on behalf of the Offerors, makes the voluntary conditional cash offers to all Independent Shareholders and the Independent Optionholders (i) to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offerors and their Concert Parties); and (ii) to cancel all outstanding Options on the following basis:

The Share Offer

For each Offer Share HK\$1.815 in cash

The Option Offer

For outstanding Options with an exercise prices of HK\$0.77 each

For the cancellation of each such Option HK\$1.045 in cash

For outstanding Options with an exercise prices of HK\$1.46 each

For the cancellation of each such Option HK\$0.355 in cash

Comparison of value

The Share Offer Price of HK\$1.815 per Offer Share represents:

- (i) a premium of approximately 8.04% over the closing price of HK\$1.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 7.40% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.69 per Share;
- (iii) a premium of approximately 6.76% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.70 per Share;
- (iv) a premium of approximately 12.04% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.62 per Share;
- (v) a premium of approximately 1.40% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at the Latest Practicable Date).

Highest and Lowest Share Prices

During the Relevant Period, the highest closing price per Share as quoted on the Stock Exchange was HK\$1.84 on 10 December 2015 and the lowest closing price per Share as quoted on the Stock Exchange was HK\$1.13 on 20 January 2016.

Conditions of the Offers

The Share Offer is subject to the fulfillment or waiver, as applicable, the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offerors may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offerors and their Concert Parties together holding not less than 70% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any temporary suspension(s) of trading in the Shares as a result of the Offers and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of the Offers; and
- (c) no events, up to the Closing Date, having occurred which would make the Offers or the acquisition of any of the Shares or cancellation of the Options under the Offers void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offers.

The Offerors reserve the right, acting jointly, to waive, in whole or in part, Condition (b). Conditions (a) and (c) cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offerors should not invoke Conditions (c) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offerors in the context of the Offers.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offerors reserve the right to revise the terms of the Offers in accordance with the Takeovers Code.

Further details of the Offers are set out in the "Letter from Yu Ming" and the additional information contained in the appendices to this Composite Document and the accompanying Forms of Acceptance.

The Offers may or may not become unconditional. Independent Shareholders, Independent Optionholders and potential investors should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

IRREVOCABLE UNDERTAKINGS

On 27 September 2016 (after trading hours), each of the Controlling Shareholders has executed the Poons Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Poon, Ms. Lau and Mime has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

On 30 September 2016, each of Mr. Leung and his Affiliates has executed the Leungs Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Leung and his Affiliates has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

As at the Latest Practicable Date, the Controlling Shareholders, namely, Mr. Poon, Ms. Lau and Mime are beneficial owners of 22,764,000 Shares, 16,404,000 Shares and 101,139,430 Shares, representing approximately 6.96%, 5.02% and 30.94% of the total issued Shares, respectively; Mr. Leung and his Affiliates are interested in 61,365,200 Shares, representing approximately 18.77% of the total issued Shares.

Prior to the closing, lapse or withdrawal of the Share Offer, each of Mr. Poon, Ms. Lau, Mime and Mr. Leung and his Affiliates has undertaken not to sell or transfer (or cause the same to be done) or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares beneficially owned by them and not to withdraw or procure the withdrawal of acceptance of the undertaking Shares.

The Poons Irrevocable Undertaking will remain effective unless the Offers lapse or are withdrawn. The Leungs Irrevocable Undertaking will remain effective unless the Offers lapse and will otherwise remain valid and effective for a period of 100 days from the date of the execution of each undertaking. Save for disclosed above, there are no other circumstances under which the Irrevocable Undertakings may cease to be binding.

INFORMATION ON THE GROUP

Principal activities

The Company is incorporated in Bermuda and is an investment holding company. Its subsidiaries are principally engaged in manufacturing and the sales of novelties, decoration and toy products.

Financial information

Set out below is a summary of the financial information of the Group extracted from the annual report for the year ended 31 December 2015 and interim report for the six months ended 30 June 2016 of the Group, which has been prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December	
	2015 (audited) HK\$'000	2014 (audited) HK\$'000
Revenue	198,088	225,549
(Loss)/profit before tax	(10,708)	13,840
(Loss)/profit for the year attributable to owners of the Company	(16,090)	7,677
	As at 30 June 2016 (unaudited) HK\$'000	As at 31 December 2015 (audited) HK\$'000
Total assets	268,887	253,041
Total liabilities	62,131	54,346
Net assets	206,756	198,695

Shareholding structure of the Company

As at the Latest Practicable Date, there were 326,923,607 Shares in issue and 16,452,000 Options outstanding, details of which are set out in the section headed "Share capital of the Company" in Appendix III to this Composite Document.

The shareholding structure of the Company as at the Latest Practicable Date was as follows:

Shareholder	As at the Latest Practicable Date	
	No. of Shares	%
<i>The Controlling Shareholders and their respective Concert Parties</i>		
– Mime (<i>Note 1</i>)	101,139,430	30.94%
– Mr. Poon	22,764,000	6.96%
– Ms. Lau	16,404,000	5.02%
Sub-total	140,307,430	42.92%
Mr. Leung, Nielsen Limited and its Concert Parties (<i>Note 2</i>)	61,365,200	18.77%
Pengana Asia Special Events Master Fund and its Concert Parties (<i>Note 3</i>)	17,662,000	5.40%
Public Shareholders	107,588,977	32.91%
Total	326,923,607	100.00%

Notes:

1. Mime Limited, a limited company incorporated in Hong Kong and was owned as to 55% by Mr. Poon and as to 45% by his spouse, Ms. Lau.
2. Mr. Leung was deemed to be interested in such Shares since he owned 100% interest in Hong Kong China Development Holdings Limited, which is the sole beneficial owner of all the issued share of Nielsen Limited.
3. Pengana Asia Special Events Master Fund is managed by its investment manager, Pengana Capital Limited which is an independent third party to the Company and the Controlling Shareholders.

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

INTENTIONS OF THE OFFERORS IN RELATION TO THE COMPANY

As stated in the “Letter from Yu Ming”, the Offerors intend to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offerors have no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

Immediately after the close of the Offers, the Offerors will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offerors have not identified such investment or business opportunities.

The Offerors have no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section headed “Proposed change of composition of the Board” below) or to dispose of or re-allocate the Group’s assets which are not in the ordinary and usual course of business of the Group.

Proposed change of composition of the Board

As stated in the “Letter from Yu Ming”, upon close of the Offers, save for Mr. Poon Wai Yip, Albert, all other existing Directors will resign with effect from the earliest time as permitted under the Takeovers Code which is the day immediately after the first closing date of the Offers or is declared unconditional or such later date.

The Offerors intend to nominate new directors to the Board upon the Offers becoming unconditional in all respects or such later date.

Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

Maintaining the listing status of the Company

As stated in the “Letter from Yu Ming”, the Offerors have no intention to privatise the Group and intend to maintain the listing of the Shares on the Stock Exchange. The remaining Director and directors of the Offerors have jointly and severally undertaken to the Stock Exchange that in the event that after the close of the Offers, the public float of the Company falls below 25%, they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible, to ensure that sufficient public float exists for the Shares. The directors of the Offerors will also procure the new directors to be appointed to the Board to undertake the same upon their appointments.

The Stock Exchange has stated that if, upon closing of the Offers, 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,

it will consider exercising its discretion to suspend dealings in the Shares.

The Board is aware of the Offerors’ intention regarding the Group and its employees and the proposed change of Board composition, and is willing to render co-operation with the Offerors and would continue to act in the best interests of the Group and the Shareholders as a whole.

Your attention is drawn to the section headed “Information on the Offerors” in the “Letter from Yu Ming” for information on the Offerors.

COMPULSORY ACQUISITION

As stated in the “Letter from Yu Ming”, the Offerors do not intend to exercise any right which may be available to them under the provisions of the laws of Bermuda to compulsorily acquire any outstanding Offer Shares not acquired pursuant to the Share Offer after the close of the Offers.

RECOMMENDATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” as set out on pages 26 to 27 of this Composite Document, which contains its recommendation to the Independent Shareholders and the Independent Optionholders in respect of the Offers, and (ii) the “Letter from Astrum” as set out on page 28 to 49 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders in relation to the Offers and the principal factors considered by it before arriving at its recommendation.

By order of the Board of
Perfectech International Holdings Limited



Poon Siu Chung
Chairman and Managing Director