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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Truly International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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TRULY[®]

TRULY INTERNATIONAL HOLDINGS LIMITED

信利國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00732)

**CONNECTED TRANSACTION
SUBSCRIPTION OF NEW SHARES BY A CONNECTED PERSON
UNDER SPECIFIC MANDATE
AND
NOTICE OF EGM**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A notice convening the extraordinary general meeting (the “**EGM**”) of Truly International Holdings Limited (the “**Company**”) to be held at 2/F Chung Shun Knitting Centre, 1–3 Wing Yip Street, Kwai Chung, N.T., Hong Kong on Monday, 23 October 2017 at 10 a.m., is set out on pages 38 to 39 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

4 October 2017

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Announcement”	the announcement of the Company dated 12 September 2017 in relation to, among other things, the Subscription
“acting in concert”	has the meaning as defined in the Hong Kong Codes on Takeovers and Mergers
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	any day (excluding Saturday and Sunday) on which commercial banks in Hong Kong are open for business during their normal business hours
“Company”	Truly International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board, comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the Subscription Agreement and transactions contemplated thereunder
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription

DEFINITIONS

“Independent Shareholders”	Shareholders other than (1) the Subscriber and its associates; and (2) those who have a material interest in the Subscription or are required by the Listing Rules to abstain from voting on the resolution approving the Subscription, the allotment and issue of the Subscription Shares and other transactions contemplated under the Subscription Agreement
“Last Trading Day”	11 September 2017, being the day immediately preceding the date of the Subscription Agreement
“Latest Practicable Date”	27 September 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2017 (or such later date as the Company and the Subscriber may agree in writing)
“Placees”	professional, institutional and other investors who took up the Placing Shares pursuant to the Placing
“Placing”	the placing of Placing Shares pursuant to the terms of the Placing Agreement
“Placing Agreement”	the placing agreement entered into by the Company dated 12 September 2017 as disclosed in the Announcement
“Placing Shares”	160,000,000 Shares placed pursuant to the terms of the Placing Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holder(s) of the Share(s)
“Shares”	ordinary shares of the Company
“Specific Mandate”	the specific mandate for the allotment and issue of the Subscription Shares, which is subject to approval by the Independent Shareholders voting by way of poll at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subscriber”	Mr. Lam Wai Wah, the Chairman and Managing Director of the Company, being the controlling shareholder of the Company
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 12 September 2017 entered into by the Subscriber and the Company in relation to the Subscription
“Subscription Price”	the subscription price of HK\$2.02 per Subscription Share which had been set by reference to the placing price as announced in the Announcement
“Subscription Shares”	53,330,000 Shares to be subscribed and allotted pursuant to the terms of the Subscription Agreement
“%”	per cent.

TRULY®

TRULY INTERNATIONAL HOLDINGS LIMITED

信利國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00732)

Executive Directors:

Mr. Lam Wai Wah (*Chairman*)
Mr. Wong Pong Chun, James
Mr. Cheung Tat Sang

Non-executive Director:

Mr. Li Jian Hua

Independent Non-executive Directors:

Mr. Chung Kam Kwong
Mr. Ip Cho Ting, Spencer
Mr. Heung Kai Sing

Registered Office:

P.O. Box 309
Grand Cayman
Cayman Islands
British West Indies

*Principal Place of Business in
Hong Kong*

2/F Chung Shun Knitting Centre
1-3 Wing Yip Street
Kwai Chung, N.T.
Hong Kong

4 October 2017

To: the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
SUBSCRIPTION OF NEW SHARES BY A CONNECTED PERSON
UNDER SPECIFIC MANDATE**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Placing and the Subscription.

The purpose of this circular is to provide you with, among others, (i) details of the Subscription Agreement; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

LETTER FROM THE BOARD

Following the Announcement, the conditions to the Placing Agreement have all been fulfilled and the Placing was completed on 20 September 2017. Pursuant to the Placing, 160,000,000 new ordinary Shares, representing 5.2% of the issued share capital of the Company as enlarged by the issue of the Placing Shares, were issued to the Placees at a price of HK\$2.02 per Share, ranking pari passu with all the other Shares in issue at that date. The net proceeds of the Placing, amounting to approximately HK\$319,700,000, have been received in cash by the Company, strengthening its equity capital base and liquid resources.

The Directors have confirmed that the Placees are independent third parties not connected to the Company and not acting, or presumed to be acting, in concert with the Subscriber.

THE SUBSCRIPTION

On 12 September 2017, the Company and the Subscriber entered into the Subscription Agreement. The principal terms are set out below:

Date

12 September 2017

Parties

- (a) the Company; and
- (b) the Subscriber.

Subscription Shares

Pursuant to the Subscription Agreement, the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, the 53,330,000 Subscription Shares at the Subscription Price.

The Subscription Shares represent (i) approximately 1.8% of the issued share capital of the Company as at the date of the Subscription Agreement; (ii) 1.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; and (iii) 1.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Placing Shares.

Subscription Price

The Subscription Price is HK\$2.02 per Subscription Share. The Subscription Price represents:

- (a) a discount of approximately 12.9% over the closing price of HK\$2.32 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 13.5% over the average closing price per Share of HK\$2.34 for the last five consecutive trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (c) a discount of approximately 14.6% over the average closing price per Share of HK\$2.37 for the last 10 consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 17.6% to the closing market price per Share of HK\$2.45 on the Latest Practicable Date; and
- (e) a discount of 19.2% to the unaudited tangible net assets of the Group as at 30 June 2017 of HK\$2.50 per Share.

The Subscription Price is the same as the Placing Price which was arrived at by reference to the Placing recently completed on 20 September 2017. Also, the Subscription Price was determined based on the trading performance of the Shares and the business prospects of the Group. The Directors considered the Subscription Price, which is at a discount to the Shares' closing price as stated above, fair and reasonable, on the basis that:

- (1) the Company's financial performance has suffered from its one-off provision for bad and doubtful debts and the significant share of loss from associates;
- (2) the degree of discount to the closing price of the Shares is comparable to and in line with other recent placings or subscriptions by public listed companies in Hong Kong; and
- (3) the Subscription Price has been set at the Placing Price, which was the subject of arm's length negotiations between the Company and the placing agents.

Payment terms

The Subscriber shall pay the total consideration of HK\$107,726,600 for the Subscription of the Subscription Shares through either bank wire transfer or cheque on the date of completion of the Subscription.

Conditions precedent to Completion

Completion is conditional upon the following conditions being fulfilled or waived (as the case may be):

- (a) the passing of the resolution(s) at the EGM by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate to the Directors to allot and issue the Subscription Shares;
- (b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares on the main board of the Stock Exchange and such permission not having been revoked or withdrawn;

LETTER FROM THE BOARD

- (c) the Company not having received written notice from the Stock Exchange indicating that the listing of the Shares on the Stock Exchange would be suspended, revoked or withdrawn immediately after completion due to the Subscription Agreement and/or the transactions contemplated thereunder;
- (d) in addition to condition (b) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated thereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn;
- (e) the representations, warranties and undertakings given by the Company under the Subscription Agreement remaining true and accurate in all material respects;
- (f) the Company having fulfilled its obligations under the Subscription Agreement in all material respects;
- (g) the representations, warranties and undertakings given by the Subscriber under the Subscription Agreement remaining true and accurate in all material respects; and
- (h) the Subscriber having fulfilled its obligations under the Subscription Agreement in all material respects.

If any of the conditions is not fulfilled or waived (as applicable) on or before the long stop date of 31 October 2017, the Subscription Agreement shall lapse and all the rights and obligations under the Subscription Agreement shall cease, save for any rights or obligations which may accrue prior to the date of such lapse.

Completion of the Subscription

Subject to the conditions having been fulfilled or waived (as applicable), completion of the Subscription will take place on the third (3rd) Business Day following the day on which the last of conditions has been fulfilled or waived (or such other date as may be agreed by the Company and the Subscriber in writing).

On the date of completion of the Subscription, the Subscriber shall pay to the Company the total consideration of HK\$107,726,000 for the subscription of the Subscription Shares and the Subscription Shares shall be allotted and issued to the Subscriber free from all encumbrances and ranking pari passu among themselves (and shall rank in full for dividends and other distributions declared or paid thereafter) and with the Shares then in issue. No fee or commission is payable to the Subscriber by the Company. After deducting professional fees and regulatory charges payable in respect of the Subscription, the Company will receive the net amount of approximately HK\$107.1 million in cash as net proceeds of the Subscription.

LETTER FROM THE BOARD

SPECIFIC MANDATE TO ISSUE THE SUBSCRIPTION SHARES

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

APPLICATION FOR LISTING

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the main board of the Stock Exchange.

REASONS FOR THE SUBSCRIPTION

The Subscriber, being the Chairman of the Company, would like, through the Subscription, to support the Company financially as well as demonstrate to the Company's lenders, other Shareholders and potential investors as a whole that the Subscriber is confident of the future prospects of the Group. For this purpose, the Subscriber has agreed with the Company to inject approximately HK\$107.7 million through subscription of the Subscription Shares and has further agreed to a lock-up of the Subscription Shares for 6 months after issue.

Reference is made to the interim results announcement of the Company dated 30 August 2017. Under a financial covenant of various loan agreements entered into by the Group, the Group is required to maintain a ratio of Consolidated Net Borrowings (including the Related Party Contingent Liabilities) to Consolidated Tangible Net Worth at not more than 1.2:1 as at each testing date on or before 31 December 2017. As at 30 June 2017, based on the Group's financial statements, its ratio of Consolidated Net Borrowings to Consolidated Tangible Net Worth was slightly higher than required, it therefore breached the financial covenant.

The Group has submitted, and obtained, waivers for the breach of the financial covenant, with no conditions attached to the waivers. Through the raising of new equity capital from the net proceeds of the Placing and the Subscription, which amounted to HK\$426.8 million, the Group is in the position to rectify its breach of the financial covenant on 30 June 2017 by lowering the aforementioned ratio to 1.11:1, conforming to the financial covenant and strengthening the Group's total equity capital.

The proceeds from the Subscription will be used for general working capital of the Group and also to enhance the Group's equity capital to reduce the risk of breaching of the financial covenant thereafter. The Group will utilise such proceeds as general working capital to meet various financial obligations from time to time and/or keep the proceeds as equity reserve for further improving the ratios to meet the financial covenants.

Save for unforeseeable events and any unforeseeable material deterioration in its cash flow position, the Group currently has no intention or plan to undertake any equity fundraising in the next 12 months.

The Company expects the Subscription will further strengthen the Group's financial position. The Subscription, combined with the proceeds received by the Company from the placing as disclosed in the Announcement, can also in effect compensate for the one-off provision for bad and doubtful debts (after deducting the expected insurance compensation)

LETTER FROM THE BOARD

owed by Lemobile Information Technology (Beijing) Co., Ltd. to the Company, which was announced in the Group's Interim Results for the six months ended 30 June 2017 on 30 August 2017.

In the circumstances, the Board considers that the Placing and the Subscription, compared to say a rights issue or open offer, are the preferred financing method for the Group taking into account the time and procedures needed for each of the financing options. Debts were not appropriate due to additional gearing.

CHANGES OF SHAREHOLDING STRUCTURE AS A RESULT OF THE SUBSCRIPTION

The shareholding structure of the Company (a) as at the Latest Practicable Date; and (b) immediately upon Completion are as follows:

Shareholders	As at the Latest Practicable Date		Immediately upon Completion	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Subscriber	1,219,722,000	39.77	1,273,052,000	40.80
Spouse of Subscriber ⁽¹⁾	74,844,000	2.44	74,844,000	2.40
Other Directors ⁽²⁾	37,997,500	1.24	37,997,500	1.22
Public shareholders ⁽³⁾	<u>1,734,535,898</u>	<u>56.55</u>	<u>1,734,535,898</u>	<u>55.58</u>
Total	<u><u>3,067,099,398</u></u>	<u><u>100</u></u>	<u><u>3,120,429,398</u></u>	<u><u>100</u></u>

- (1) The subscriber is deemed to be interested in 74,844,000 ordinary shares of the Company, being interests held beneficially by his spouse.
- (2) Please refer to the section headed "General Information — 3. Disclosure of interests" in Appendix I to this circular.
- (3) Including the Placees.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Reference is made to the announcement of the Company dated 20 September 2017, which announced that a total of 160,000,000 Placing Shares have been successfully placed by the Placing Agents to not less than six Placees at the Placing Price of HK\$2.02 per Placing Share pursuant to the terms and conditions of the Placing Agreement. The gross proceeds and net proceeds from the Placing amounted to HK\$323.2 million and approximately HK\$319.7 million respectively. The Company intends to apply the net proceeds from the Placing as general working capital of the Group and to enhance the Group's equity capital to rectify its breach of a financial covenant on 30 June 2017 under various loan agreements.

Save for the Placing, the Company has not carried out any capital raising activities in the twelve months immediately preceding the date of this circular.

LETTER FROM THE BOARD

PRINCIPAL ACTIVITIES OF THE GROUP

The principal business activities of the Company are the manufacture and sale of liquid crystal display products and electronic consumer products.

BACKGROUND OF THE SUBSCRIBER

The Subscriber is the controlling shareholder, Chairman and Managing Director of the Company. He is the founder of the Group and has over 40 years of experience in the electronics industry. He is primarily responsible for the formulation of the Group's overall strategic plans and business development.

Based on the information made available to the Company, prior to the completion of the Subscription, the Subscriber is interested in 39.77% of the issued capital of the Company and is deemed to be interested in 2.44% of the issued capital of the Company, being the interests held beneficially by his spouse, Chung King Yee, Cecilia.

IMPLICATIONS UNDER THE LISTING RULES

The Subscriber is a controlling shareholder and a director of the Company and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval at the EGM for the Subscription Agreement and the transactions contemplated thereunder. Save for the Subscriber and its associates, as far as the Directors are aware no Shareholder has a material interest in the Subscription. As such, save for the Subscriber and its associates, no Shareholder is expected to be required to abstain from voting on the resolution to approve the Subscription at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Subscription Agreement. The Company has appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

A notice convening the EGM to be held at 2/F Chung Shun Knitting Centre, 1-3 Wing Yip Street, Kwai Chung, N.T., Hong Kong, Hong Kong at 10 a.m. on 23 October 2017 is set out on pages 38 to 39 of this circular. Shareholders of the Company are advised to read the notice and complete and return the form of proxy for use at the EGM enclosed with this circular in accordance with the instructions printed thereon.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's

LETTER FROM THE BOARD

Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

The executive Directors are of the opinion that the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the executive Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

The Independent Board Committee have expressed their views set out in their letter on page 12 and 13 of this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Somerley and the additional information set out in the appendices to this circular and the notice of EGM.

By Order of the Board of
Truly International Holdings Limited
Lam Wai Wah
Chairman

TRULY[®]

TRULY INTERNATIONAL HOLDINGS LIMITED

信利國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00732)

4 October 2017

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
SUBSCRIPTION OF NEW SHARES BY A CONNECTED PERSON
UNDER SPECIFIC MANDATE**

We refer to the circular of the Company (the “**Circular**”) dated 4 October 2017 which this letter forms part.

Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether, the Subscription Agreement and the transactions contemplated thereunder the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter of advice from Somerley as set out in the Circular.

Having considered the Subscription Agreement, the transactions contemplated thereunder and the advice given by Somerley, we are of the opinion that the Subscription Agreement and transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions thereunder.

Yours faithfully
For and on behalf of
Independent Board Committee

Mr. Chung Kam Kwong

Mr. Ip Cho Ting, Spencer
Independent non-executive Directors

Mr. Heung Kai Sing

LETTER FROM SOMERLEY

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

4 October 2017

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES BY A CONNECTED PERSON UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the issue of new shares to the Subscriber pursuant to the Subscription Agreement entered into between the Company and the Subscriber. Details of the Subscription are set out in the circular of the Company dated 4 October 2017 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 12 September 2017, the Company and the Subscriber entered into the Subscription Agreement in relation to the subscription of 53,330,000 Subscription Shares at the Subscription Price of HK\$2.02 per Subscription Share. The Subscription Shares represent approximately (i) 1.74% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) 1.71% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Subscription Shares will be allotted and issued under the Specific Mandate to be sought at the EGM.

The Subscriber, Mr. Lam Wai Wah, is the controlling shareholder, chairman (the “**Chairman**”) and managing director of the Company and therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to, among others, the approval of the Independent Shareholders at the EGM.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Chung Kam Kwong, Mr. Ip Cho Ting, Spencer and Mr. Heung Kai Sing, has been established to advise the Independent Shareholders in respect of the

LETTER FROM SOMERLEY

Subscription and on how they should vote at the EGM. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have reviewed, among other things, the Subscription Agreement, the annual reports of the Company for the financial years ended 31 December 2015 (the “**2015 Annual Report**”), 31 December 2016 (the “**2016 Annual Report**”) and interim results and interim report of the Company for the six months ended 30 June 2017 (the “**Interim Results**” and “**Interim Report**” respectively), the loan agreements containing the relevant financial covenants, legal proceedings documents regarding the claim against Lemobile Information Technology (Beijing) Co., Ltd. (“**Lemobile**”), the Group’s working capital forecast up to 31 December 2018, and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, and have assumed that they were true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors, that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Somerley Capital Limited. In the last two years, there has been no engagement between the Group and Somerley Capital Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as independent financial adviser, no arrangement exists whereby we will receive any fees or benefits from the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the Group and the Subscriber

The Group is principally engaged in the manufacture and sale of liquid crystal display (“**LCD**”) products including touch panel products and electronic consumer products including compact camera modules and fingerprint identification modules. As disclosed in the 2016 Annual Report, approximately 77% of the Group’s revenue was generated from sales of LCD products with the rest was generated from sales of compact camera modules, fingerprint identification products and printed circuit boards. The Directors expect that LCD business will continue to be the core business of the Group in the next few years.

LETTER FROM SOMERLEY

The Subscriber, Mr. Lam Wai Wah, is the founder of the Group and has over 40 years of experience in the electronics industry. He is primarily responsible for the formulation of the Group's overall strategic planning and business development.

2. Background to and reasons for the Subscription Agreement

One of the major customers of the Group in 2016 was Lemobile, a subsidiary of the Leshi Holding (Beijing) Co., Ltd. ("**Leshi**") (together the "**Leshi Group**") producing high-end smartphones under the LeEco brand. It was noted by the Board that the Leshi Group had been experiencing significant financial problems in 2016.

Lemobile purchased smartphone products from the Group under a purchase framework agreement entered into between them in 2015. As the Leshi Group could not settle amounts due for such purchases, the Group applied for a freezing order against Lemobile with Beijing Municipal High People's Court (the "**Court**"), which was accepted by the Court on 31 July 2017. After discussion with the auditors, the management of the Company has made a provision of approximately HK\$554 million against amounts due from Lemobile. In order to mitigate its losses, the Group has lodged a compensation claim with a credit insurance company with which the Group has a policy, and expects to receive compensation of approximately HK\$140 million in 2017, resulting in a net effect of provision for bad and doubtful debt of approximately HK\$414 million. However, as a result of the provision made, under the Facility Agreement and Other Loan Agreements (as defined below), a financial covenant in relation to a net debt ratio (the "**Net Debt Ratio**") of the Group was breached based on the Group's statement of financial position as at 30 June 2017.

The financial covenant breached is contained in a facility agreement (the "**Facility Agreement**") entered into between the Group and ten lending banks on 20 June 2016 for a term loan facility of HK\$4.5 billion and other loan agreements entered into during 2013 to 2016 for term loan facility (the "**Other Loan Agreements**"). The financial covenant requires that the ratio of consolidated net borrowings to consolidated tangible net worth shall not be more than 1.2:1. As of 30 June 2017, the Net Debt Ratio was 1.24:1, which constituted a breach. According to the Facility Agreement and Other Loan Agreements, a breach of financial covenant constitutes an event of default if a waiver is not obtained. With respect to the Facility Agreement, in the event of default, the lending agent may, and on the instructions of the lenders whose commitments aggregate 66.67% or more of the total commitments shall, by notice to the Company, declare all or part of the loans, together with accrued interest, immediately due and payable or payable on demand. Reflecting the potential acceleration of loan repayment, the relevant bank borrowings were reclassified from non-current liabilities to current liabilities, resulting in a net current liabilities position of the Group as at 30 June 2017. As disclosed in the Interim Report, the Group obtained waivers for breaching the financial covenant of the Facility Agreement and Other Loan Agreements from the relevant lenders before 30 August 2017.

The next date at which the financial covenants will be calculated will be 31 December 2017. The Board wished to move proactively and quickly after the announcement of the Interim Results to increase the equity capital of the Group to restore the capital base of the Company to assure the Shareholders and the lenders that the risk of any further breach will be

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minimised. As advised by the management of the Company, they have considered different forms of equity fund raising methods. Debt would not be an option given additional debt would result in higher gearing and worsen the Net Debt Ratio.

The Placing Shares and the Subscription Shares, in aggregate, represent amounts of (i) approximately 7.3% of the issued share capital of the Company as at the date of the Announcement; and (ii) approximately 6.8% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and the Subscription Shares (assuming that there is no change in the issued share capital of the Company from the date of the Announcement and up to completion of the Placing and the Subscription). In the circumstances of the covenant breach and in view of the relatively modest size of the Placing and the Subscription, the Board did not consider the additional time and procedures needed for a rights issue or open offer to be advisable. As no shareholder consent was required for completion of the Placing, the Placing was completed on 20 September 2017 with aggregate gross proceeds of approximately HK\$323.2 million, and net proceeds of approximately HK\$319.7 million.

In this important period for the Company, the Chairman wishes to show his support for the Group financially as well as to demonstrate to the Company's lenders, Shareholders and potential investors as a whole that he is confident of the future prospects of the Group. For this purpose, the Chairman has agreed with the Company that he will inject a further HK\$107.7 million cash through subscription of the Subscription Shares. The Chairman has also agreed to a lock-up of such shares for six months after issue, and that no fees or commissions will be payable to him in respect of the Subscription.

The Placing and the Subscription are not inter-conditional and the Placing has already been completed. However, the Subscription is referred to in the recitals to the Placing Agreement. The Directors consider that the Chairman being willing to contribute (albeit subject to conditions) his own funds was likely to have been a positive factor for the Placing.

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3. Financial information of the Group

— Financial results

Set out below is a summary of the audited financial results of the Group for the years ended 31 December 2013, 2014, 2015 and 2016, and unaudited financial results of the Group for the six months ended 30 June 2016 and 2017 as extracted from the 2016 Annual Report and the Interim Report.

	For the year ended				For the six months	
	31 December				ended 30 June	
	2013	2014	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	20,681	21,416	19,427	22,072	9,725	10,834
Gross profit	2,892	2,486	2,122	2,196	1,104	914
Gross profit margin	13.98%	11.61%	10.92%	9.95%	11.35%	8.44%
Profit/(loss) for the year/period attributable to owners of the Company	<u>1,620</u>	<u>1,118</u>	<u>845</u>	<u>582</u>	<u>393</u>	<u>(227)</u>

Revenue

The Group's revenue remained broadly stable, ranging from approximately HK\$19.4 billion to HK\$22.1 billion through the years 2013 to 2016. Revenue for the six months ended 30 June 2017 increased by approximately 11.4% as compared to the same period of 2016. The increment was mainly due to growth in demand from the Group's major customers during the period.

Gross profit margin

The gross profit margin has shown a downward trend since 2013, dropping to a low of approximately 8.44% in the first half of 2017. The decline was mainly attributable to (i) depreciation of Renminbi in recent years; and (ii) decrease in average selling prices of the Group's smartphone related products due to keen competition. Given the recent trend of change of smartphone screen scale from 16:9 to 18:9, the Group's customers changed their orders from smartphones with 16:9 screens to those with 18:9 and resulted in potential excess raw material used in producing 16:9 screens. The Group has therefore provided discounts on some original 16:9 smartphone products in the first half of 2017 to accelerate the use of the relevant raw materials by the Group, leading to a lower gross profit margin during the period.

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Profit for the year and share of results of associates

The Group's profit attributable to owners of the Company has been dropping since 2013 from approximately HK\$1,620 million to HK\$582 million, before a loss of approximately HK\$227 million recorded for the six months ended 30 June 2017. The decrease in profit was mainly due to the share of losses of associates, which has been significantly increasing since 2014, with the highest amount of approximately HK\$368 million recorded for the year ended 31 December 2016. The loss resulted from one of the major associates, Truly (Huizhou) Smart Display Limited, which started production in late 2016. Owing to ramping up in the first year of production, the associate incurred a significant operating loss of approximately HK\$700 million in 2016.

— *Financial position*

Set out below is a summary of the unaudited consolidated financial position of the Company as at 30 June 2017 as extracted from the Interim Report and audited consolidated financial position of the Company as at 31 December 2016, as extracted from the 2016 Annual Report.

	As at 30 June 2017	As at 31 December 2016
	<i>HK\$ million</i> (unaudited)	<i>HK\$ million</i> (audited)
Total non-current assets	11,773	10,099
Total current assets	12,597	13,197
TOTAL ASSETS	24,370	23,296
Total current liabilities	16,039	11,669
Total non-current liabilities	1,059	4,333
TOTAL LIABILITIES	17,098	16,002
NET CURRENT (LIABILITIES)/ASSETS	(3,442)	1,528
NET ASSETS	7,272	7,294
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS	6,791	6,711
Net asset value (“NAV”) per Share (HKD)	2.34	2.31
Net tangible asset value per Share (HKD)	2.34	2.31

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As at 30 June 2017

As at 30 June 2017, total assets of the Group amounted to approximately HK\$24,370 million, mainly comprising property, plant and equipment, interest in associates, trade and other receivables and restricted bank deposits, bank balances and cash. Total assets increased by approximately HK\$1 billion as compared to that as at 31 December 2016, which was mainly contributed by an increase in property, plant and equipment of approximately HK\$1.4 billion. Total liabilities of the Group amounted to approximately HK\$17,098 million as at 30 June 2017, mainly comprising trade and other payables and unsecured bank and other borrowings. Total liabilities increased by approximately HK\$1 billion from 31 December 2016, which was mainly attributable to additional bank and other borrowings of approximately HK\$1.4 billion.

As at 30 June 2017, the Group's net current liabilities amounted to approximately HK\$3,442 million as compared to the net current assets of approximately HK\$1,528 million as at 31 December 2016. This was mainly due to a significant increase in the current portion of bank and other borrowings, as a result of the reclassification from the non-current portion after the breach of financial covenant referred to above.

As at 30 June 2017, the NAV per Share was approximately HK\$2.34, calculated by dividing the NAV of the Group attributable to the Shareholders of approximately HK\$6,791 million by the number of Shares in issue as at 30 June 2017. The net tangible asset value per Share, i.e. after deducting a small amount of goodwill, is approximately the same as the NAV per Share, after rounding.

As at 31 December 2016

As at 31 December 2016, total assets of the Group amounted to approximately HK\$23,296 million, representing an increase of approximately HK\$5 billion from 31 December 2015. The increase mainly stemmed from (i) an increase in property, plant and equipment by approximately HK\$1.3 billion; (ii) an increase in inventories by approximately HK\$1 billion; and (iii) a rise in trade and other receivables by approximately HK\$2.5 billion. Total liabilities of the Group amounted to approximately HK\$16,002 million as at 31 December 2016, representing an increase of approximately HK\$5.4 billion compared to 2015. The rise was mainly attributable to (i) an increase in bank and other borrowings by approximately HK\$2.3 billion; (ii) a rise in trade and other payables by approximately HK\$2 billion; and (iii) new bonds payable amounted to approximately HK\$800 million.

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4. Principal terms of the Subscription Agreement

Set out below is a summary of the principal terms of the Subscription Agreement. Further details of the Subscription Agreement are set out in the “Letter from the Board” contained in the Circular.

Date: 12 September 2017

Parties: (1) The Company as the issuer
(2) The Subscriber

— *The Subscription Shares*

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 53,330,000 Subscription Shares at a total consideration of HK\$107,726,600, at the Subscription Price of HK\$2.02 per Subscription Share. The total subscription price shall be payable in cash by the Subscriber to the Company at Completion. As no fees or commissions are payable to the Subscriber, the gross and net proceeds of the Subscription are substantially the same.

— *The Subscription Price*

The Subscription Price is HK\$2.02 per Subscription Share. As stated in the “Letter from the Board” contained in the Circular, the Subscription Price is the same as the Placing Price, which was negotiated on an arm’s length basis between the Company and the Placing Agents and was determined with regard to the trading performance of the Shares before the Announcement and the business prospects of the Group.

— *The size of the Subscription, ranking of the Subscription Shares and lock-up*

The Subscription Shares represent approximately (i) 1.74% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) 1.71% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Company will continue to be able to satisfy the public float requirement under the Listing Rules following the issue of the Subscription Shares. The Subscription Shares will be allotted and issued under the Specific Mandate to be sought at the EGM.

The Subscription Shares, when allotted and issued, shall rank pari passu in all respects among themselves and with all the Shares in issue as at the date of allotment and issue of the Subscription Shares.

The Subscriber has agreed that unless in compliance with the requirements of the Listing Rules, he shall not, within six months after the completion date of the Subscription, dispose of, nor enter into any agreement to dispose of, or otherwise create any encumbrances in respect of any of the Subscription Shares.

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— *Conditions precedent*

The Subscription is conditional upon the fulfilment (or waiver, if applicable) of the following main conditions (the “**Conditions Precedent**”):

- (a) the passing of the resolution at the EGM by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate to the Directors to allot and issue the Subscription Shares;
- (b) the granting of approval from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the main board of the Stock Exchange and such permission not having been revoked or withdrawn; and
- (c) in addition to condition (b) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated thereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn.

If any of the conditions is not fulfilled or waived (as applicable) on or before the long stop date of 31 October 2017, the Subscription Agreement shall lapse and all the rights and obligations under the Subscription Agreement shall cease, save for any rights or obligations which may accrue prior to the date of such lapse.

5. Evaluation of the Subscription Price

The Subscription Price of HK\$2.02 per Subscription Share represents:

- (a) a discount of approximately 12.9% to the closing price of the Shares of HK\$2.32 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 13.5% to the average of the closing prices per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK\$2.34 per Share;
- (c) a discount of approximately 14.6% to the average of the closing prices per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$2.37 per Share;
- (d) a discount of approximately 17.6% to the closing price of the Shares of HK\$2.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

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- (e) a discount of approximately 13.7% over the NAV per Share attributable to the shareholders of the Company as at 30 June 2017 of approximately HK\$2.34 per Share.

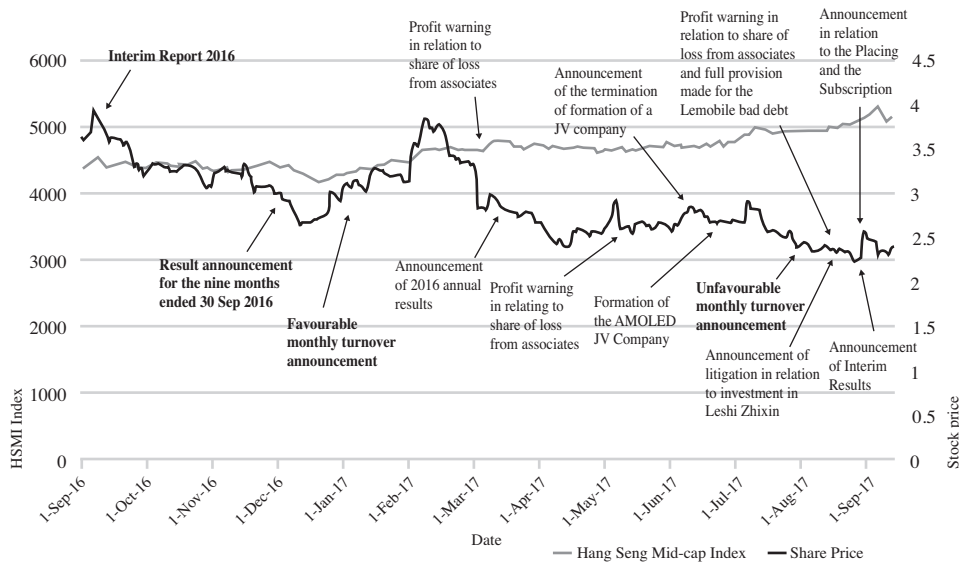
The Company entered into the Subscription Agreement on the same day as the Placing Agreement. The Subscription price is HK\$2.02 per new Share, which is the same as the Placing Price. As stated in the Announcement, the Placees are third parties independent of the Company and its connected persons and the Placing Price was negotiated on an arm's length basis between the Placing Agents and the Company. On this basis, we consider the Subscription Price is also an arm's length price.

As a further part of our assessment on the fairness and reasonableness of the Subscription Price, we have also performed the analyses set out below.

— *Historical Share price performance*

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 1 September 2016 up to and including the Latest Practicable Date (the “**Review Period**”), including a comparison to the Hang Seng Mid-cap Index.

Stock price chart of the Company



Source: website of the Stock Exchange

As illustrated in the chart above, the Share price closed in a range between HK\$2.28 and HK\$3.9 during the Review Period.

After the 2016 interim report was published on 19 September 2016, the Share price declined from HK\$3.57 to HK\$3.02 on 2 November 2016, before rising slightly to HK\$3.21 on 16 November 2016, the day of the result announcement for the nine months ended 30 September 2016. The Share price dropped from HK\$3.21 to HK\$2.70 on 20

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December 2016, before climbing from HK\$2.91 on 4 January 2017 to HK\$3.79 on 13 February 2017 after an announcement on 4 January 2017 showing a 31.1% increase in the Group's turnover as compared to the same period in the preceding year.

After a profit warning released on 9 March 2017 for the year ended 31 December 2016 in relation to a significant increase in share of loss from associates and the publication of 2016 annual results on 17 March 2017, the Share price fell from HK\$2.99 to HK\$2.44 on 24 April 2017. The Share price then remained relatively steady until 22 May 2017. On 23 May 2017, the Company published a profit warning for the 3 months ended 31 March 2017 in relation to a significant increase in share of loss from associates. The Share price fell further to HK\$2.57 on 25 May 2017. The Share price then remained steady until the announcement of the termination of the formation of a joint venture company on 16 June 2017. The Share price increased from HK\$2.70 to HK\$2.86 on 22 June 2017. The Share price increased further to HK\$2.92 on 19 July 2017 after the announcement of formation of the AMOLED JV Company published on 16 July 2017.

However, following an unfavourable monthly turnover announcement on 4 August 2017, the profit warning announcement on 22 August 2017 in relation to significant increase in share of loss from associates and one-off full provision of bad and doubtful debt of Lemobile and the announcement on 29 August 2017 regarding the litigation in relation to the investment in Leshi Zhixin, the Share price fell sharply to HK\$2.37 on 31 August 2017 (the first trading day after the Interim Results announcement). The Share price closed at HK\$2.32 on both the Last Trading Day and the date of signing of the Subscription Agreement on 12 September 2017.

After the publication of the Announcement in relation to the Placing and the Subscription on 13 September 2017, the closing price of the Shares increased from HK\$2.32 on the Last Trading Day to HK\$2.60 on 13 September 2017 (the first trading day after the publication of the Announcement), representing an increase of approximately 12% over the closing price on the Last Trading Day. In our view, the increase in the Share price was likely to be attributable to a favourable market reaction to the Placing and the Subscription following the Announcement. The Share price closed at HK\$2.45 on the Latest Practicable Date.

— *Comparable Issues*

We have also performed an analysis of comparable issues by searching the website of the Stock Exchange on a best effort basis for all share issues (the “**Comparable Issues**”) announced since 1 August 2017 and up to the date of the Announcement by companies listed on the Stock Exchange which involve placing/subscription/issue of new shares of listed companies to parties which are independent from the respective listed companies, without involving acquisition and/or restructuring of assets and/or business of listed companies. We have excluded (i) issues announced by listed companies, which, as at the date of announcement and/or currently, were/are under prolonged suspension; (ii) issues involving only convertible securities; and (iii) open offers or rights issues of new shares, as different pricing considerations apply for these types of issues.

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We consider that a review period from 1 August 2017 to the date of the Announcement is appropriate since the Comparable Issues are considered for the purpose of taking a general reference for the recent market practice in relation to the setting of subscription prices under similar market conditions. Comparable Issues further back in time may not be indicative of the current market sentiment. It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. However, as the Comparable Issues can provide a general understanding of the pricing for this type of transaction in Hong Kong under the current market environment, we consider them to be relevant in assessing the fairness and reasonableness of the Subscription Price.

For each of the Comparable Issues identified, we compared the premium or discount of its issue/subscription price to (a) the closing price on the last trading day; and (b) the average closing price for the five trading days prior to the release of the respective announcement, as summarised in the following table.

Date of announcement	Company name and stock code	Premium/(discount) of placing/subscription/issue price over/(to)	
		closing share price on the last trading day prior to the date of announcement % (approximate)	average closing share price for the 5 trading days prior to the date of announcement % (approximate)
4 August 2017	Future Bright Mining Holdings Ltd (stock code: 2212)	(3.7)	(4.4)
8 August 2017	Grand Field Group Holdings Ltd (stock code: 115)	0.5	(0.5)
11 August 2017	iOne Holdings Limited (stock code: 982)	(20.5)	(19.5)
14 August 2017	Ceneric (Holdings) Ltd (stock code: 542)	(3.6)	(7.1)
15 August 2017	Life Healthcare Group Ltd (stock code: 928)	(13.5)	(12.6)
17 August 2017	Millennium Pacific Group Holdings Ltd (stock code: 8147)	(16.7)	(16.7)
29 August 2017	Kong Shum Union Property Management (Holding) Ltd (stock code: 8181)	(14.7)	(17.7)
30 August 2017	Pine Technology Holdings Ltd (stock code: 1079)	(4.8)	0.3
30 August 2017	C&D International Investment Group Ltd (stock code: 1908)	(12.3)	(11.9)

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Date of announcement	Company name and stock code	Premium/(discount) of placing/subscription/issue price over/(to)	
		closing share price on the last trading day prior to the date of announcement % (approximate)	average closing share price for the 5 trading days prior to the date of announcement % (approximate)
31 August 2017	Future World Financial Holdings Ltd (stock code: 572)	(23.5)	(9.9)
31 August 2017	Landing International Development Ltd (stock code: 582)	(10.7)	(11.6)
1 September 2017	China SCE Property Holdings Ltd (stock code: 1966)	(7.1)	(6.6)
5 September 2017	Glory Flame Holdings Ltd (stock code: 8059)	2.0	4.8
5 September 2017	China Ocean Fishing Holdings Ltd (stock code: 8047)	(12.7)	(15.2)
5 September 2017	Get Nice Holdings Ltd (stock code: 64)	(17.5)	(14.5)
6 September 2017	Applied Development Holdings Ltd (stock code: 519)	(20.0)	(19.5)
6 September 2017	Amax International Holdings Ltd (stock code: 959)	(17.6)	(16.1)
7 September 2017	Yuzhou Properties Company Ltd (stock code: 1628)	(8.1)	(8.8)
7 September 2017	Ban Loong Holdings Ltd (stock code: 30)	(17.0)	(17.6)
7 September 2017	Yu Tak International Holdings Ltd (stock code: 8048)	(18.3)	(18.4)
11 September 2017	China Financial Leasing Group Ltd (stock code: 2312)	(18.4)	(18.4)
	Mean (simple average)	(12.3)	(11.5)
	Median	(13.5)	(12.6)
	Maximum	(23.5)	(19.5)
	Minimum	2.0	4.8
	The Subscription	(12.9)	(13.5)

Source: relevant announcements published on the website of the Stock Exchange

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The 21 Comparable Issues set out in the table above have generally involved a placing, subscription or issue of new shares at discounts to their respective closing prices on the last trading day and their respective historical trading prices. As set out in the table above, the Subscription Price represents (a) a discount of approximately 12.9% to the closing Share price on the Last Trading Day; and (b) a discount of approximately 13.5% to the average closing price for the five trading days immediately prior to and including the Last Trading Day. These discounts are:

- (1) close to the mean of discounts of the Comparable Issues for the closing share price as at the last trading day prior to the announcement and slightly higher than the mean of discounts of the Comparable Issues for the average closing share prices for the five trading days; and
- (2) close to the median of discounts of the Comparable Issues for the closing share price as at the last trading day prior to the announcement as well as for the average closing share prices for the five trading days.

— *Conclusion*

Given that (i) the Subscription Price is same as the Placing Price, which was negotiated on an arm's length basis with Placees independent of the Company and its connected persons; and (ii) the discounts of the Subscription Price are close to the mean and median of discounts of the Comparable Issues, we are of the view that the pricing of the Subscription is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. Financial effects of the Subscription

As set out in the "Letter from the Board" contained in the Circular, the gross and net proceeds of the Subscription are estimated to be approximately HK\$107.7 million and HK\$107.1 million respectively. No fee or commission is payable to the Subscriber by the Company.

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Based on the unaudited financial position of the Group set out in the Interim Report and adopting terms as defined in the Facility Agreement and Other Loan Agreements, immediately upon completion of the Placing and the Subscription, it is expected that the Net Debt Ratio will be enhanced from 1.24:1 to 1.11:1, as set out for illustrative purpose in the table below.

HK\$ million		As of 30 June 2017	As enhanced by the net proceeds of the Placing and the Subscription
Consolidated tangible net worth	A	7,311	7,738 (Note)
Consolidated total borrowings	B	12,577	12,577
Cash	C	3,526	3,953 (Note)
Consolidated net borrowings	D = B-C	9,051	8,624
Net Debt Ratio	E = D/A	1.24	1.11

Note: The amounts are estimated based on net proceeds of approximately HK\$427 million received from the Placing and the Subscription.

The estimated enhanced Net Debt Ratio of 1.11:1 conforms to the Net Debt Ratio limit as set out in the Facility Agreement and Other Loan Agreements of 1.2:1.

7. Effects of the Subscription on shareholdings in the Company

The Subscription Shares represent approximately 1.74% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.71% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the Latest Practicable Date and the Completion).

Shareholders	As at the Latest Practicable Date		Immediately after the Completion	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
The Subscriber	1,219,722,000	39.77	1,273,052,000	40.80
Spouse of the Subscriber	74,844,000	2.44	74,844,000	2.40
Other Directors	37,997,500	1.24	37,997,500	1.22
Public shareholders	<u>1,734,535,898</u>	<u>56.55</u>	<u>1,734,535,898</u>	<u>55.58</u>
Total	<u><u>3,067,099,398</u></u>	<u><u>100</u></u>	<u><u>3,120,429,398</u></u>	<u><u>100</u></u>

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As shown in from the table above, the existing public Shareholders' shareholdings will be diluted from approximately 56.55% as at the Latest Practicable Date to approximately 55.58% immediately after the Completion. We do not consider this dilution material.

Having considered (i) the benefits to be derived by the Group from the Subscription as set out in the section headed "2. Background to and reasons for the Subscription Agreement" of this letter; (ii) that the Subscription Price is considered to be fair and reasonable as discussed under the section headed "5. Evaluation of the Subscription Price" of this letter; and (iii) the financial position of the Group will be improved immediately upon the Completion as set out in the section headed "6. Financial effects of the Subscription" of this letter, we consider that the terms of the Subscription Agreement are fair and reasonable.

DISCUSSION

As announced by the Company, the decision to take a one-off full provision for bad and doubtful debt against a receivable from Lemobile with net effect of approximately HK\$414 million, after deducting the expected credit insurance compensation, led in turn to a breach of a Net Debt Ratio covenant in the Facility Agreement and Other Loan Agreements, based on the Group's balance sheet as at 30 June 2017.

The Group obtained waivers of this breach from the relevant bankers soon after it came to light but in the circumstances the Board wishes to move quickly to increase the equity capital of the Group and to minimise the risk of any further breach. To achieve this, the Board decided on the Placing and the Subscription. As a general mandate was available to them, the Board was able to issue new Shares to independent parties under the mandate through the Placing on 20 September 2017, raising net proceeds of approximately HK\$319.7 million. The Subscription, on the other hand, is subject to Independent Shareholders' approval which is now being sought, shortly after which it is also expected to be completed.

The net proceeds of the Placing and the Subscription (if completed) will amount to approximately HK\$426.8 million, i.e. slightly more than the net effect of the one-off full provision in relation to the Lemobile receivable after deducting the expected credit insurance compensation referred to above. The effect of the Placing and the Subscription combined is to compensate for the decrease in the Group's equity caused by the net effect of the one-off full provision for bad and doubtful debt. On the basis set out in the section headed "6. Financial effects of the Subscription" of this letter, the Net Debt Ratio would be enhanced from 1.24:1 to 1.11:1, conforming to the loan covenant of no more than 1.2:1.

The Placing and the Subscription are not inter-conditional and the Placing has already been completed. However, the Subscription is referred to in the recitals to the Placing Agreement. The Directors consider that the Chairman being willing to contribute (albeit subject to conditions) his own funds was likely to have been a positive factor for the Placing.

In this important period for the Company, the Chairman, as the founder and controlling shareholder of the Company, wishes to show his support financially and demonstrate his confidence in the future of the Group. 53,330,000 Subscription Shares are proposed to be issued, representing approximately 1.74% of the existing issued share capital of the Company and 1.71% of the enlarged share capital of the Company. The Subscription, if completed, will

LETTER FROM SOMERLEY

raise a further HK\$107.7 million, in cash in new equity for the Company. The Subscription Price of HK\$2.02 is the same as the Placing Price, which was in turn subject to an arm's length negotiation between the Company and the Placing Agents. Our research shows that the discount to market price of the price agreed for the Placing and the Subscription is broadly in the middle of the range for recent placings of shares by Hong Kong listed companies. The Share price increased after the Announcement and closed on the Latest Practicable Date at HK\$2.45.

The Chairman will not receive any fee or commission in respect of the Subscription and has agreed that the Subscription Shares will be locked up for six months from the date of their issue.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
M. N. Sabine **David Ching**
Chairman *Director*

Mr. M. N. Sabine is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years of experience in the corporate finance industry.

Mr. David Ching is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over fifteen years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon Completion of the Subscription (assuming there is no change to the issued share capital of the Company on or before Completion of the Subscription) were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>5,000,000,000</u> Shares	<u>100,000,000</u>

Assuming there is no change to the issued share capital of the Company and none of the outstanding Options are being exercised on or before the completion of the Subscription:

<i>Shares in issue and to be issued:</i>	<i>HK\$</i>
3,067,099,398 Shares in issue as at the Latest Practicable Date	61,341,987.96
<u>53,330,000</u> Subscription Shares to be issued	<u>1,066,600.00</u>
<u>3,120,429,398</u> Shares in issue and fully paid immediately upon Completion	<u>62,408,587.96</u>

As at the Latest Practicable Date, the Company has no other derivatives, outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Other than pursuant to the Subscription Agreement, no capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

As at the Latest Practicable Date, there were no arrangement under which future dividends are waived or agreed to be waived.

The Subscription Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Subscription Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. DISCLOSURE OF INTERESTS

(i) Directors

(a) Directors' interests in the Company and associated corporations

Save as the Subscription, as at the Latest Practicable Date, the interests of the Directors in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers of the Listing Rules were as follows:

Ordinary shares of HK\$0.02 each of the Company

Name of Director	Nature of interest	Number of ordinary shares held ⁽¹⁾	Approximate of percentage of shareholding
Lam Wai Wah ⁽²⁾	Beneficial owner and interest held by spouse	1,294,566,000(L)	42.21%
Wong Pong Chun, James ⁽³⁾	Beneficial owner and interest held by spouse	17,299,000(L)	0.56%
Cheung Tat Sang	Beneficial owner	6,129,000(L)	0.20%
Li Jian Hua ⁽⁴⁾	Beneficial owner and interest held by spouse	14,569,500(L)	0.48%

Registered capital of the associated corporation of the Company

Truly Opto-Electronics Limited (“*Truly Shanwei*”)

Name of director	Capacity	Registered capital contributed (RMB)	Percentage of paid up registered capital of Truly Shanwei %
Lam Wai Wah	Beneficial owner	647,360	0.1904
Wong Pong Chun, James	Beneficial owner	2,590,120	0.7618
Cheung Tat Sang	Beneficial owner	647,360	0.1904
Li Jian Hua ⁽⁵⁾	Interest of corporation controlled by the director	647,360	0.1904

Notes:

- (1) The letter “L” denotes the person’s long position in such securities.
- (2) Lam Wai Wah holds 39.77% of the issued share capital of the Company beneficially whereas his spouse holds 2.44% of the issued share capital of the Company beneficially, therefore Lam Wai Wah is deemed to be interested in 42.21% of the Company’s issued share capital.
- (3) Wong Pong Chun, James holds 0.51% of the issued share capital of the Company beneficially whereas his spouse holds 0.05% of the issued share capital of the Company beneficially, therefore Wong Pong Chun, James is deemed to be interested in 0.56% of the Company’s issued share capital.
- (4) Li Jian Hua holds 0.48% of the issued share capital of the Company beneficially whereas his spouse holds 0.00% of the issued share capital of the Company beneficially, therefore Li Jian Hua is deemed to be interested in 0.48% of the Company’s issued share capital.
- (5) Registered capital contributed through Lhasa Development Zone Jianyuan Investment Management Co., Ltd, a company wholly-owned by him.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange.

(b) Directors' interests in assets and contracts of the Company

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

None of the Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

(c) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

(d) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(ii) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were as follows:

Name of shareholders	Nature of interest	Number of shares held ⁽¹⁾	Approximate percentage in the Company's issued share capital
Chan Kin Sun ⁽²⁾	Beneficial owner and interest held by spouse	213,158,000(L)	6.95%

Notes:

- (1) The letter "L" denotes the person's long position in such securities.
- (2) Chan Kin Sun holds 5.18% of the issued share capital of the Company beneficially whereas his spouse holds 1.77% of the issued share capital of the Company beneficially, therefore Chan Kin Sun is deemed to be interested in 6.95% of the Company's issued share capital.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

4. LITIGATION

Save as announced in the Company's Interim Results for the six months ended 30 June 2017 on 30 August 2017, as at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that there are no material adverse changes in the financial or trading position of the Group since the date to which the latest published audited and unaudited accounts of the Company have been made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

Name	Qualification
Somerley Capital Limited	a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription

As at the Latest Practicable Date, the expert named above does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2016 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The expert named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they are included.

7. MISCELLANEOUS

- (i) The Company secretary of the Company is Mr. Ma Wai Tong, who is the chief financial officer of the Group and a member of the Hong Kong Institute of Certified Public Accountants.
- (ii) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at 2/F Chung Shun Knitting Centre, 1-3 Wing Yip Street, Kwai Chung, N.T., Hong Kong during normal business hours on any weekday other than public holidays from the date of this circular, up to and including the date of the EGM:

- (a) the Subscription Agreement;
- (b) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix;
- (c) the letter of recommendation from the Independent Board Committee;
- (d) the letter of advice from Somerley; and
- (e) this circular.

TRULY[®]

TRULY INTERNATIONAL HOLDINGS LIMITED

信利國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00732)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“**Meeting**”) of Truly International Holdings Limited (the “**Company**”) will be held at 2/F Chung Shun Knitting Centre, 1-3 Wing Yip Street, Kwai Chung, N.T., Hong Kong, Hong Kong on 23 October 2017 at 10 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolution which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the subscription agreement dated 12 September 2017 (the “**Subscription Agreement**”) (a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company as issuer and Mr. Lam Wai Wah as subscriber (the “**Subscriber**”) in respect of the issue of a total of 53,330,000 new shares (the “**Subscription Shares**”) of the Company and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to fulfilment of the conditions precedent set out in the Subscription Agreement, the allotment and issue of the Subscription Shares in accordance with the terms and conditions of the Subscription Agreement be and is hereby approved;
- (c) the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to exercise the powers of the Company to allot and issue the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement, whereby such Subscription Shares shall rank equally in all respects among themselves and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue. The Specific Mandate is in addition to, and shall not prejudice nor revoke, any general or specific mandate(s) which has/ have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and
- (d) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps as he/ she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement or any transactions contemplated

NOTICE OF EGM

thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

By Order of the Board
Truly International Holdings Limited
Lam Wai Wah
Chairman

Hong Kong, 4 October 2017

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by this notice is entitled to appoint one or, if he/she/it is the holder of two or more Shares, more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company, but must be present in person at the Meeting to represent the member.
2. In the case of joint holders of Shares, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members of the Company.
3. In order to be valid, the form of proxy of the Company together with original or certified copy of the power of attorney or other authority (if any) under which it is signed must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Meeting or adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting or any adjournment thereof should you so wish. In such event, the form of proxy previously submitted shall be deemed to be revoked.

As at the date of this notice, the executive directors of the Company are Mr. Lam Wai Wah, Mr. Wong Pong Chun, James, Mr. Cheung Tat Sang; the non-executive director of the Company is Mr. Li Jian Hua and the independent non-executive directors of the Company are Mr. Chung Kam Kwong, Mr. Ip Cho Ting, Spencer and Mr. Heung Kai Sing.