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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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## **DREAM INTERNATIONAL LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1126)**

**(I) DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RESPECT OF ACQUISITION OF  
TARPAULIN BUSINESS;  
AND  
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders*



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 4 to 23 of this circular. A letter from the IBC is set out on pages 24 to 25 of this circular. A letter from Halcyon Capital containing its advice and recommendation to the IBC and the Independent Shareholders is set out on pages 26 to 55 of this circular.

A notice convening the Extraordinary General Meeting to be held at 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 23 March 2020 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the Extraordinary General Meeting is also enclosed. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Share Registrar of the Company, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not prevent the Shareholders from attending and voting in person at the Extraordinary General Meeting if they so wish.

3 March 2020

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## DEFINITIONS

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

|   |  |
|---|--|
| “Acquisitions”  | the acquisitions of the entire issued share capital of the Target Companies by the Company from the Vendors  |
| “associate(s)”,<br>“connected person(s)” and<br>“controlling shareholder” | have the meanings ascribed to them in the Listing Rules  |
| “Board”   | the board of Directors   |
| “C & H”   | C & H Co., Ltd., a limited liability company incorporated in the Republic of Korea, of which approximately 88.22% of the issued share capital were held by Mr. Kyoo Yoon Choi, his wife and children, being one of the Vendors under the Share Transfer Agreement and the vendor under the Capital Contribution Transfer Agreement |
| “C & H Group”   | C & H and its subsidiaries   |
| “C & H Tarps”   | C & H Tarps Co., Ltd., a company incorporated in Vietnam with limited liability and a wholly-owned subsidiary of C & H, being the target company under the Capital Contribution Transfer Agreement   |
| “C & H Vina”  | C & H Vina Joint Stock Company (formerly known as C & H Vina Co., Ltd.), a company incorporated in Vietnam with limited liability and a 99.8% owned subsidiary of C & H, being the target company under the Share Transfer Agreement. It is owned as to 0.1% by each of Mr. Tae Sub Choi and Mr. Jae Dong Shin                     |
| “Capital Contribution Transfer Agreement”                                 | the capital contribution transfer agreement entered into by the Company and C & H in relation to the acquisition of the entire issued share capital of C & H Tarps on 29 November 2019   |
| “Company”   | Dream International Limited, a company incorporated in Hong Kong with limited liability whose Shares are listed on the Main Board of the Stock Exchange, being the purchaser under the Share Transfer Agreement and the Capital Contribution Transfer Agreement  |

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## DEFINITIONS

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|--|---|
| “Director(s)”                          | the director(s) of the Company  |
| “Extraordinary General Meeting”        | the extraordinary general meeting of the Company to be held on 23 March 2020 at 10:30 a.m. at 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong, or any adjournment thereof   |
| “Group”                                | the Company and its subsidiaries  |
| “Halcyon Capital”                      | Halcyon Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed for the purposes of advising the IBC and the Independent Shareholders in respect of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder |
| “HK\$”                                 | Hong Kong dollars, the lawful currency of Hong Kong   |
| “Hong Kong”                            | the Hong Kong Special Administrative Region of the People’s Republic of China   |
| “IBC” or “Independent Board Committee” | an independent committee of the Board comprising all of the independent non-executive Directors, established to provide recommendation to the Independent Shareholders, in respect of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder   |
| “Independent Shareholders”             | Shareholders other than Mr. Kyoo Yoon Choi, Mr. Sung Sick Kim, Ms. Shin Hee Cha, Mr. Tae Sub Choi and their associates  |
| “Latest Practicable Date”              | 27 February 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein   |
| “Listing Rules”                        | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “MOU”                                  | the memorandum of understanding entered into by the Company and the Vendors in relation to the proposed Acquisitions on 13 September 2019   |

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## DEFINITIONS

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|----------------------------|--|
| “SFO”                      | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, modified and supplemented from time to time  |
| “Share Transfer Agreement” | the share transfer agreement entered into by the Company and the Vendors in relation to the acquisition of the entire issued share capital of C & H Vina on 29 November 2019 |
| “Shareholder(s)”           | holder(s) of the Share(s)  |
| “Share(s)”                 | the ordinary share(s) in the capital of the Company  |
| “Stock Exchange”           | The Stock Exchange of Hong Kong Limited  |
| “Target Companies”         | C & H Vina and C & H Tarps   |
| “US\$” or “USD”            | US dollars, the lawful currency of United States   |
| “Vendors”                  | C & H, Mr. Tae Sub Choi and Mr. Jae Dong Shin  |
| “VND”                      | Vietnamese Dong, the lawful currency of the Socialist Republic of Vietnam  |
| “%”                        | per cent   |

*Unless otherwise stated, the exchange rates adopted in this circular for reference only are HK\$7.83 to US\$1.00, HK\$0.000337 to VND1 and VND1.00 to US\$0.0000435.*

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## LETTER FROM THE BOARD

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# DREAM INTERNATIONAL LIMITED

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1126)**

*Executive Directors:*

Mr. Kyoo Yoon Choi (*Chairman*)

Mr. Young M. Lee

Mr. Hyun Ho Kim

Mr. Sung Sick Kim

*Registered office:*

6/F, Tower 1,  
South Seas Centre,  
75 Mody Road,  
Tsim Sha Tsui,  
Kowloon, Hong Kong

*Independent non-executive Directors:*

Professor Cheong Heon Yi

Mr. Tae Woong Kang

Dr. Chan Yoo

3 March 2020

*To the Independent Shareholders*

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTIONS  
IN RESPECT OF ACQUISITION OF  
TARPAULIN BUSINESS;  
AND  
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

### INTRODUCTION

Reference is made to the announcement of the Company dated 13 September 2019 regarding the MOU in respect of the proposed Acquisitions, the announcement dated 29 November 2019 in relation to the Acquisitions (the “**Announcement**”), the supplemental and clarification announcement dated 10 December 2019 (the “**First Supplemental Announcement**”), the 2nd supplemental announcement dated 17 December 2019 (“**Second Supplemental Announcement**”) and the 3rd supplemental announcement dated 6 January 2020 (“**Third Supplemental Announcement**”) in relation to the discloseable and connected transactions in respect of acquisition of tarpaulin business. The purpose of this circular is to provide you with information regarding the Acquisitions and transactions contemplated thereunder and a notice of the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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### THE ACQUISITIONS

Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital of C & H Vina at a consideration of US\$11,000,000 (equivalent to approximately HK\$86,130,000).

Pursuant to the Capital Contribution Transfer Agreement, the Company has conditionally agreed to acquire and C & H has conditionally agreed to sell the entire issued share capital of C & H Tarps at a consideration of US\$5,000,000 (equivalent to approximately HK\$39,150,000). The completion of the Share Transfer Agreement and the Capital Contribution Transfer Agreement is not inter-conditional.

### SHARE TRANSFER AGREEMENT

The principal terms of the Share Transfer Agreement are set out below:

#### Date

29 November 2019

#### Parties

|                 |   |
|-----------------|---|
| Purchaser:      | The Company                                   |
| Vendors:        | C & H, Mr. Tae Sub Choi and Mr. Jae Dong Shin |
| Target company: | C & H Vina                                    |

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Tae Sub Choi and Mr. Jae Dong Shin are third party independent of and not connected with the Company and its connected persons.

C & H is an associate of Mr. Kyoo Yoon Choi and thus a connected person of the Company under the Listing Rules. The principal business activities of the C & H Group are property investment in Seoul, Korea, leather goods and accessories agency, garments, fabrics and textiles manufacturing and investment holding in Vietnam.

#### Subject matter

Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital of C & H Vina at a consideration of US\$11,000,000 (equivalent to approximately HK\$86,130,000).

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## LETTER FROM THE BOARD

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### Consideration

As disclosed in the Announcement, the consideration is US\$11,000,000 (equivalent to approximately HK\$86,130,000), which will be financed by internal resources of the Company and unsecured revolving bank loans and payable by the Company in cash in the following manner:

1. 1st installment: US\$2,000,000 (equivalent to approximately HK\$15,660,000) shall be paid to the Vendors within five (5) business days from the effective date of the Share Transfer Agreement, i.e. 29 November 2019.
2. 2nd installment: US\$9,000,000 (equivalent to approximately HK\$70,470,000) shall be paid to the Vendors within twenty (20) business days from the payment date of the 1st installment or on 27 December 2019, whichever is earlier.

Pursuant to the Second Supplemental Announcement, the parties have agreed to postpone the payment of the aforesaid consideration until after Independent Shareholders' approval has been obtained. For details, please refer to the section headed "STATUS ON THE PAYMENT OF CONSIDERATION" in this circular.

The consideration of US\$11,000,000 (equivalent to approximately HK\$86,130,000) was determined by the Company and the Vendors after arm's length negotiations with reference to, among other things the historical rate of return on investments and the pay-back period analysis while taking into consideration, the indicative valuation of C & H Vina as at 31 December 2018, which ranges from approximately US\$10,700,000 (equivalent to approximately HK\$83,781,000) to approximately US\$12,800,000 (equivalent to approximately HK\$100,224,000), as indicated by PwC (Vietnam) Limited (the "Valuer" or "PwC"), an independent professional valuer in Vietnam. For further details on the valuations, please refer to the section headed "VALUATION" in this letter and Appendix I – "SUMMARY OF THE VALUATION REPORTS ON THE TARPAULIN BUSINESS" in this circular. The valuation reports with respect to C & H Vina and C & H Tarps dated 24 September 2019 and updated on 24 February 2020 (the "Valuation Reports") have been prepared based on certain key assumptions and are solely for the purposes of assisting the Company for its internal discussion in its evaluation of C & H Vina and C & H Tarps, which should not be relied upon for any other purposes.

### Conditions precedent

The major conditions precedent under the Share Transfer Agreement include (i) obtaining all necessary regulatory approvals and completion of relevant filings or registrations with the relevant authorities in Vietnam; and (ii) each of the representations and warranties given by the Company and the Vendors under the Share Transfer Agreement shall be true, accurate and not misleading in all respects. Such conditions precedent cannot be waived.



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## LETTER FROM THE BOARD

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### **Validity and termination**

As disclosed in the Announcement, the Share Transfer Agreement shall be in full force and effect from the effective date of 29 November 2019 and shall terminate in the following cases, provided that termination shall only be permitted prior to the completion of sale and purchase of the entire issued share capital of C & H Vina:

1. By either party if the conditions precedent are not satisfied within three (3) months from the effective date of the Share Transfer Agreement of 29 November 2019, i.e. 29 February 2020; or
2. The parties agree in writing to terminate the Share Transfer Agreement prior to its expiry (i.e. 31 December 2019); or
3. If a party breaches the Share Transfer Agreement, the other party shall give a notice in writing to cure such default or breach; and terminate the Share Transfer Agreement by issuing termination letters if the breaching party cannot cure such default or breach within thirty (30) days from the date of receiving such notice.

By reasons stated in the First Supplemental Announcement, the Share Transfer Agreement is subject to, amongst others, Independent Shareholders' approval at the Extraordinary General Meeting. To allow sufficient time for completion, the parties have agreed to extend the original dates stated for the aforesaid circumstances no. 1 and 2 to 31 March 2020.

Unless otherwise agreed, upon the termination of the Share Transfer Agreement, the parties shall liquidate the Share Transfer Agreement in accordance with the provisions of law on basis of protection of mutual interest and right of the parties. Neither party shall have any claim against the other under it save for any antecedent breach of the Share Transfer Agreement.

Termination of the Share Transfer Agreement for any reason shall not release any party from any liability which at the time of termination has already accrued to the other party or which thereafter may accrue in respect of any act or omission prior to such termination.

### **Completion**

Completion shall be no later than three (3) business days from the date on which the Company confirms its satisfaction to the conditions precedent set out in the Share Transfer Agreement. Upon completion, C & H Vina will become a wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group. All continuing connected transactions of the Group with C & H Vina, if any, will be terminated.

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## LETTER FROM THE BOARD

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### CAPITAL CONTRIBUTION TRANSFER AGREEMENT

The principal terms of the Capital Contribution Transfer Agreement are set out below:

#### Date

29 November 2019

#### Parties

|                 |             |
|-----------------|-------------|
| Purchaser:      | The Company |
| Vendor:         | C & H       |
| Target company: | C & H Tarps |

#### Subject matter

Pursuant to the Capital Contribution Transfer Agreement, the Company has conditionally agreed to acquire and C & H has conditionally agreed to sell the entire issued share capital of C & H Tarps at a consideration of US\$5,000,000 (equivalent to approximately HK\$39,150,000).

#### Consideration

As disclosed in the Announcement, the consideration is US\$5,000,000 (equivalent to approximately HK\$39,150,000), which will be financed by internal resources of the Company and unsecured revolving bank loans and payable by the Company in cash in the following manner:

1. 1st installment: US\$1,000,000 (equivalent to approximately HK\$7,830,000) shall be paid to C & H within five (5) business days from the effective date of the Capital Contribution Transfer Agreement, i.e. 29 November 2019.
2. 2nd installment: US\$4,000,000 (equivalent to approximately HK\$31,320,000) shall be paid to C & H within twenty (20) business days from the payment date of the 1st installment or on 27 December 2019, whichever is earlier.

Pursuant to the Second Supplemental Announcement, the parties have agreed to postpone the payment of the aforesaid consideration until after Independent Shareholders' approval has been obtained. For details, please refer to the section headed "STATUS ON THE PAYMENT OF CONSIDERATION" in this circular.

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## LETTER FROM THE BOARD

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The consideration of US\$5,000,000 (equivalent to approximately HK\$39,150,000) was determined by the Company and C & H after arm's length negotiations with reference to, among other things the historical rate of return on investments and the pay-back period analysis while taking into consideration, the valuation of C & H Tarps as at 31 December 2018, which ranges from approximately US\$5,010,000 (equivalent to approximately HK\$39,228,000) to approximately US\$5,470,000 (equivalent to approximately HK\$42,830,000), as indicated by PwC. For further details on the valuations, please refer to the section headed "VALUATION" in this letter and Appendix I – "SUMMARY OF THE VALUATION REPORTS ON THE TARPAULIN BUSINESS" in this circular.

### **Conditions precedent**

The major conditions precedent under the Capital Contribution Transfer Agreement include (i) obtaining all necessary regulatory approvals and completion of relevant filings or registrations with the relevant authorities in Vietnam; and (ii) each of the representations and warranties given by the Company and the C & H under the Capital Contribution Transfer Agreement shall be true, accurate and not misleading in all respects. Such conditions precedent cannot be waived.

### **Validity and termination**

As disclosed in the Announcement, the Capital Contribution Transfer Agreement shall be in full force and effect from the effective date of 29 November 2019 and shall terminate in the following cases, provided that termination shall only be permitted prior to the completion of sale and purchase of the entire issued share capital of C & H Tarps:

1. By either party if the conditions precedent are not satisfied by within three (3) months from the effective date of the Capital Contribution Transfer Agreement of 29 November 2019 (i.e. 29 February 2020); or
2. The parties agree in writing to terminate the Capital Contribution Transfer Agreement prior to its expiry (i.e. 31 December 2019); or
3. If a party breaches the Capital Contribution Transfer Agreement, the other party shall give a notice in writing to cure such default or breach; and terminate the Capital Contribution Transfer Agreement by issuing termination letters if the breaching party cannot cure such default or breach within thirty (30) days from the date of receiving such notice.

By reasons stated in the First Supplemental Announcement, the Capital Contribution Transfer Agreement is subject to, amongst others, Independent Shareholders' approval at the Extraordinary General Meeting. To allow sufficient time for completion, the parties have agreed to extend the original dates stated for the aforesaid circumstances no. 1 and 2 to 31 March 2020.

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## LETTER FROM THE BOARD

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Unless otherwise agreed, upon the termination of the Capital Contribution Transfer Agreement, the parties shall liquidate the Capital Contribution Transfer Agreement in accordance with the provisions of law on basis of protection of mutual interest and right of the parties. Neither party shall have any claim against the other under it save for any antecedent breach of the Capital Contribution Transfer Agreement.

Termination of the Capital Contribution Transfer Agreement for any reason shall not release any party from any liability which at the time of termination has already accrued to the other party or which thereafter may accrue in respect of any act or omission prior to such termination.

### **Completion**

Completion shall be no later than three (3) business days from the date on which the Company confirms its satisfaction to the conditions precedent set out in the Capital Contribution Transfer Agreement.

Upon completion, C & H Tarps will become a wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group. All continuing connected transactions of the Group with C & H Tarps, if any, will be terminated.

### **STATUS ON THE PAYMENT OF CONSIDERATION**

In order to comply with the requirements under Chapter 14A of the Listing Rules including but not limited to obtaining Independent Shareholders' approval on the transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement, the Company and the respective vendor(s) have agreed to postpone the payment of the consideration in relation to the transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement until after the approval from the Independent Shareholders has been obtained.

The payment terms for the Share Transfer Agreement are as follows:-

1. 1st installment: US\$2,000,000 (equivalent to approximately HK\$15,660,000) shall be paid to the Vendors within five (5) business days from the date of obtaining Independent Shareholders' approval.
2. 2nd installment: US\$9,000,000 (equivalent to approximately HK\$70,470,000) shall be paid to the Vendors within twenty (20) business days from the payment date of the 1st installment.

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## LETTER FROM THE BOARD

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The payment terms for the Capital Contribution Transfer Agreement are as follows:-

1. 1st installment: US\$1,000,000 (equivalent to approximately HK\$7,830,000) shall be paid to C & H within five (5) business days from the date of obtaining Independent Shareholders' approval.
2. 2nd installment: US\$4,000,000 (equivalent to approximately HK\$31,320,000) shall be paid to C & H within twenty (20) business days from the payment date of the 1st installment.

### VALUATION

As stated in the First Supplemental Announcement, (i) the consideration for the acquisition of the entire share capital of C & H Vina pursuant to the Share Transfer Agreement; and (ii) the consideration for the acquisition of the entire share capital of C & H Tarps pursuant to the Capital Contribution Transfer Agreement, were both determined with reference to the historical rate of return on investments and the pay-back period analysis while taking into consideration the indicative valuation prepared by the Valuer, the indicative valuation is based on discounted cash flow which constitutes a profit forecast under Rule 14.61 of the Listing Rules (the “**Profit Forecast**”).

### Indicative Valuation of C & H Vina

Pursuant to Rule 14A.68(7) of the Listing Rules, the indicative valuation contained in the valuation report issued by the Valuer dated 24 February 2020 in relation to C & H Vina has been prepared on the following principal basis and assumptions, including commercial assumptions. The valuation report has been prepared solely for the purposes of assisting the Company for its internal discussion in its evaluation of C & H Vina, and should not be relied upon for any other purposes.

### *General Assumptions*

1. The legally interested party in the entire equity interest in C & H Vina (the “**C & H Vina Asset**”) has free and uninterrupted rights to assign the C & H Vina Asset (a part of or the whole of) for the whole of the unexpired terms as granted under the relevant approvals and any premiums/administrative costs payable have already been fully paid.
2. C & H Vina fully complies with all applicable regulations and laws. All the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can be obtained or renewed on which the valuation is based.
3. C & H Vina will continue with its current operations on a stand-alone basis, as a going concern, under the same management on an “as-is-where-is” basis.

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## LETTER FROM THE BOARD

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4. Valuations are reliable insofar as the forecasts and projections as well as other information provided by the management of C & H Vina are reliable.
5. There will be no significant changes in the present legislation, government regulations, inflation rates, foreign currency exchange, the bases and rates of taxation and other lending guidelines which will affect the activities of C & H Vina or the markets in which it operates.
6. There will be no significant changes in the current market conditions and the prevailing economic and political climate in Vietnam and elsewhere which will directly or indirectly affect the activities of C & H Vina.
7. There will be no major changes in the key personnel and management of C & H Vina.
8. There will be no material changes in the present structure or principal activities of C & H Vina.
9. There will be no major industrial disputes or any other abnormal factors or changes, either domestic or overseas, which will seriously affect the operations of C & H Vina.
10. There will be no significant changes in the accounting, management and operating policies currently adopted by the management of C & H Vina.
11. There will be no material acquisition or disposal of fixed assets other than those planned.
12. Capital replacement and maintenance costs will not differ materially from current levels, except for expansion plan mentioned in the indicative valuation.

### ***Specific Assumptions***

13. The revenue of C & H Vina for the year ended 31 December 2018 was approximately US\$46.6 million. From 2019 to 2023, the Compound Annual Growth Rate (“**CAGR**”) of C & H Vina’s revenue is estimated to be at approximately 6.2%. The adoption of the growth rates has been made with reference to a number of factors, including but not limited to (i) historical performance of C & H Vina (i.e. sale revenue CAGR of approximately 21.8%, in which sale volume increasing by approximately 27.3%p.a. while average sale price decreasing by approximately 2.0%p.a., during 2016 to 2018); (ii) sales to key existing customers are forecast to remain stable in the next five (5) years; and (iii) expected growth of sale volume (at a CAGR of 63.9% during 2019 to 2023) and relatively higher charges (from 10% to 11.6%) to prospective new customers based on the target group’s management expectation over their negotiation influence and purchasing acceptance with those customers from the middle of 2019 to early 2020.

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## LETTER FROM THE BOARD

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14. The discount rate adopted for C & H Vina is 12.5% to 13.5%, derived from the weighted average cost of capital (“WACC”) range of 9.5% to 10.5%, plus a considered risk premium of 3.0%. The WACC has been determined using the Capital Assets Pricing Model (“CAPM”). A number of factors have been considered in CAPM based on market data and PwC’s experience for similar valuations, including but not limited to (i) risk free rate; (ii) equity risk premium; (iii) beta, a measure of non-diversifiable risk, of the comparable companies; and (iv) applicable cost of debt of C & H Vina.
15. There was no marketability discount applied on the indicative valuation of C & H Vina, because as an unlisted company, it is arguable that such a discount should be applied to its equity where such equity has been valued on a marketable, controlling basis under the DCF Approach. The level of marketability discount is, however, highly subjective, even in developed capital markets. While the Valuer has not sought to estimate such a discount given the difficulty of doing so in a market such as Vietnam, the Valuer would like to bring this factor to the attention of the Company.
16. C & H Vina will be able to achieve the projected performance for the financial years from 2019 to 2023, based on the assumptions prepared by the management.
17. The indicative valuation of C & H Vina was performed on an “as-is-where-is” basis as at a predetermined valuation date with no material changes foreseen in the current business strategy and direction of the company.
18. The Discounted Cash Flow (“DCF”) method used in the valuation assumes a lifespan of the business into perpetuity, and the typical year free cash flow has been estimated based on the assumptions relating to: (i) the typical year’s Earnings Before Interest and Tax (“EBIT”); (ii) tax rate for the typical year; (iii) annual capital expenditure, depreciation and changes in working capital in the long run; and (iv) the terminal growth rate of 1.5% which was estimated based on the weighted average real Gross Domestic Product (“GDP”) growth rate of ten major export markets of C & H Vina (i.e. the US, EU, etc.) as projected by FitchConnect (which is an online credit analytics and macro intelligence platform designed by Fitch Group, a global leader in financial information services).

### **Indicative Valuation of C & H Tarps**

Pursuant to Rule 14A.68(7) of the Listing Rules, the indicative valuation contained in the valuation report issued by the Valuer in relation to C & H Tarps dated 24 February 2020 has been prepared on the following principal basis and assumptions, including commercial assumptions. The valuation report has been prepared solely for the purposes of assisting the Company for its internal discussion in its evaluation of C & H Tarps, and should not be relied upon for any other purposes.

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## LETTER FROM THE BOARD

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### *General Assumptions*

1. The legally interested party in the entire equity interest in C & H Tarps (the “**C & H Tarps Asset**”) has free and uninterrupted rights to assign the C & H Tarps Asset (a part of or the whole of) for the whole of the unexpired terms as granted under the relevant approvals and any premiums/administrative costs payable have already been fully paid.
2. C & H Tarps fully complies with all applicable regulations and laws. All the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can be obtained or renewed on which the valuation is based.
3. C & H Tarps will continue with its current operations on a stand-alone basis, as a going concern, under the same management on an “as-is-where-is” basis.
4. Valuations are reliable insofar as the forecasts and projections as well as other information provided by the management of C & H Tarps are reliable.
5. There will be no significant changes in the present legislation, government regulations, inflation rates, foreign currency exchange, the bases and rates of taxation and other lending guidelines which will affect the activities of C & H Tarps or the markets in which it operates.
6. There will be no significant changes in the current market conditions and the prevailing economic and political climate in Vietnam and elsewhere which will directly or indirectly affect the activities of C & H Tarps.
7. There will be no major changes in the key personnel and management of C & H Tarps.
8. There will be no material changes in the present structure or principal activities of C & H Tarps.
9. There will be no major industrial disputes or any other abnormal factors or changes, either domestic or overseas, which will seriously affect the operations of C & H Tarps.
10. There will be no significant changes in the accounting, management and operating policies currently adopted by the management of C & H Tarps.
11. There will be no material acquisition or disposal of fixed assets other than those planned.
12. Capital replacement and maintenance costs will not differ materially from current levels.



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## LETTER FROM THE BOARD

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### *Specific Assumptions*

13. The revenue of C & H Tarps for the year ended 31 December 2018 was approximately VND71,335 million. From 2019 to 2023, the CAGR of C & H Tarps' revenue is estimated to be 0%. The adoption of the 0% growth rate has been made with reference to a number of factors, including but not limited to: (i) historical performance of C & H Tarps (i.e. sale revenue CAGR of 25% during 2016 to 2018, mainly thanks to the company's efforts to switch to high processing fee jobs in relation to jumbo roll (<60gsm) and jumbo roll (Leno)); (ii) processing fees remaining unchanged in the next five (5) years; and (iii) production volume expected to remain the same as that of 2018 as C & H Tarps achieved maximum capacity from 2017.
14. The discount rate adopted for C & H Tarps relates to the WACC range of 10.5% to 11.5%. The WACC has been determined using the CAPM. A number of factors have been considered in CAPM based on market data and PwC's experience for similar valuations, including but not limited to, (i) risk free rate; (ii) equity risk premium; (iii) beta, a measure of non-diversifiable risk, of the comparable companies; and (iv) applicable cost of debt of C & H Tarps.
15. There was no marketability discount applied on the indicative valuation of C & H Tarps, because as an unlisted company, it is arguable that such a discount should be applied to its equity where such equity has been valued on a marketable, controlling basis under the DCF Approach. The level of marketability discount is, however, highly subjective, even in developed capital markets. While the Valuer has not sought to estimate such a discount given the difficulty of doing so in a market such as Vietnam, the Valuer would like to bring this factor to the attention of the Company.
16. C & H Tarps will be able to achieve the projected performance for the financial years from 2019 to 2023 based on the assumptions prepared by the management.
17. The indicative valuation of C & H Tarps was performed on an "as-is-where-is" basis as at a predetermined valuation date with no material changes foreseen in the current business strategy and direction of the company.

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## LETTER FROM THE BOARD

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18. The DCF method used in the valuation assumes a lifespan of the business into perpetuity, and the typical year free cash flow has been estimated based on the assumptions relating to: (i) the typical year's EBIT; (ii) tax rate for the typical year; (iii) annual capital expenditure, depreciation and changes in working capital in the long run; and (iv) the terminal growth rate of 1.5%, which was estimated based on the weighted average real GDP growth rates of the key markets where C & H Vina exposes to since C & H Tarps only provides processing services to C & H Vina (i.e. the US, EU, etc.), as forecast by FitchConnect (FitchConnect to which PwC subscribes is an online credit analytics and macro intelligence platform designed by Fitch Group, a global leader in financial information services). The management of the target group expects that the processing fee per unit in each category will remain unchanged during the projection period for financial years from 2019 to 2023, despite the fact that manufacturing costs such as direct labour, utilities, consumables, etc. are assumed to escalate annually. On the other hand, according to the management of the target group, in the financial year 2016, C & H Tarps did increase its processing fees to match the fair market rates. Therefore, in the long term, C & H Tarps is assumed to grow at 1.5% p.a. as the DCF method assumes the lifespan of the target business into perpetuity.

KPMG has examined the calculations of the discounted future estimated cash flows on which the indicative valuation is based, which do not involve the adoption of accounting policies. The Board confirms that the assumptions and forecasts of discounted future estimated cash flows in the Valuation Reports prepared by the Valuer were made after due and careful enquiry.

A letter from the Board and a report from KPMG have been submitted to the Stock Exchange according to Rule 14.62 of the Listing Rules, and are set out as Appendix II and Appendix III to this circular, respectively.

### INFORMATION ON THE GROUP

The principal business of the Group is the design, development, manufacture and sale of plush stuffed toys, plastic figures, die-casting products and investment holding.

### INFORMATION ON THE VENDORS

#### C & H

The principal business activity of C & H Group are property investment in Seoul, Korea, leather goods and accessories agency, garments, fabrics and textiles manufacturing and investment holdings in Vietnam. So far as the Company is aware, as at 16 January 2020, C & H is owned by Mr. Kyoo Yoon Choi, Ms. Woul Hee Cha, Mr. Woo Jin Choi (son of Mr. Kyoo Yoon Choi), Ms. You Jin Choi (daughter of Mr. Kyoo Yoon Choi), Ms. Soo Jin Choi (daughter of Mr. Kyoo Yoon Choi), Ms. Shin Hee Cha, Mr. Sung Sick Kim (executive director of the Company), Mr. Tae Sub Choi and C & H (as treasury stock) as to approximately 37.47%, 24.48%, 8.72%, 8.78%, 8.78%, 4.21%, 3.09%, 0.56% and 3.93% respectively. Ms. Shin Hee Cha and Mr. Tae Sub Choi are third party independent of and not connected with the Company and its connected persons.

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## LETTER FROM THE BOARD

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### Mr. Tae Sub Choi

Mr. Choi is a businessman who is a South Korean citizen.

### Mr. Jae Dong Shin

Mr. Shin is a businessman who is a South Korean citizen.

## INFORMATION OF THE TARGET COMPANIES

### C & H Vina

C & H Vina, incorporated in Vietnam with limited liability, is principally engaged in the manufacture and sales of tarpaulin. C & H Vina has issued share capital of VND46,480,000,000.

In particular, C & H holds 99.8% of the share capital of C & H Vina; Mr. Tae Sub Choi holds 0.1% of the share capital of C & H Vina; and Mr. Jae Dong Shin holds 0.1% of the share capital of C & H Vina. Mr. Tae Sub Choi and Mr. Jae Dong Shin are the president and managing director of C & H Vina respectively.

Set forth below is the audited financial information of C & H Vina for the two years ended 31 December 2018:

|                        | 2017            |                 |                 | 2018             |                 |                 |
|------------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|
|                        | VND<br>million  | US\$<br>million | HK\$<br>million | VND<br>million   | US\$<br>million | HK\$<br>million |
| Revenue                | <u>872,850</u>  | <u>38.0</u>     | <u>294.2</u>    | <u>1,071,019</u> | <u>46.6</u>     | <u>360.9</u>    |
| Profit before taxation | 46,084          | 2.0             | 15.5            | 31,172           | 1.4             | 10.5            |
| Income tax             | <u>(10,077)</u> | <u>(0.4)</u>    | <u>(3.4)</u>    | <u>(6,464)</u>   | <u>(0.3)</u>    | <u>(2.2)</u>    |
| Profit after taxation  | <u>36,007</u>   | <u>1.6</u>      | <u>12.1</u>     | <u>24,708</u>    | <u>1.1</u>      | <u>8.3</u>      |

The unaudited net assets of C & H Vina as at 30 June 2019 was approximately VND237,680 million (equivalent to approximately US\$10.3 million and approximately HK\$80.1 million).

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## LETTER FROM THE BOARD

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### C & H Tarps

C & H Tarps, incorporated in Vietnam with limited liability, is principally engaged in the manufacture and sales of tarpaulin. C & H Tarps is a wholly-owned subsidiary of C & H with issued share capital of VND67,908,000,000.

Set forth below is the audited financial information of C & H Tarps for the two years ended 31 December 2018:

|                        | 2017           |                 | 2018           |                 |
|------------------------|----------------|-----------------|----------------|-----------------|
|                        | VND<br>million | HK\$<br>million | VND<br>million | HK\$<br>million |
| Revenue                | <u>63,949</u>  | <u>21.6</u>     | <u>71,335</u>  | <u>24.0</u>     |
| Profit before taxation | 20,710         | 7.0             | 21,615         | 7.3             |
| Income tax             | <u>(4,165)</u> | <u>(1.4)</u>    | <u>(4,334)</u> | <u>(1.5)</u>    |
| Profit after taxation  | <u>16,545</u>  | <u>5.6</u>      | <u>17,281</u>  | <u>5.8</u>      |

The unaudited net assets of C & H Tarps as at 30 June 2019 was approximately VND62,004 million (equivalent to approximately HK\$20.9 million).

### REASONS FOR THE ACQUISITIONS

As disclosed in the Company's interim report for the six months ended 30 June 2019, the Group will consider investment opportunities for acquisition of suitable companies with growth potential to boost revenue and profit. The Company has considered that the Acquisitions represent a good opportunity in that (1) the Acquisitions, upon incorporation of the Target Companies' financial results to be consolidated into the financial statements of the Group, will expand the operation scale of the Company and enhance the financial performance of the Company; and (2) the Group has considered various business opportunities in the past few years and had decided that the Acquisitions will be a good opportunity for the Company to diversify the Group's reliable source of revenue. The Company has decided to diversify into tarpaulin business instead of other business/industry as its management team was familiar with and had good knowledge and confidence in conducting tarpaulin business and operations in Vietnam for the reasons set out below.

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## LETTER FROM THE BOARD

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Having considered the increasing volatility of global economy, in particular the uncertainty brought by the US-China trade war, and the recent performance of the Target Companies operating in Vietnam, the Group is of the view that the Acquisitions provide an attractive investment opportunity which will accelerate the growth of the Group's revenue and profit. Indeed, the current situation triggered by Sino-US trade war has prompted more customers from the United States to look for alternative sources of manufacturing outside of China. In this regard, the operations of C & H Tarps and C & H Vina are benefitting from the aforesaid opportunities. Having said that, the Target Companies might also be subject to negative impact on its business if trade conflicts occurs between Vietnam and United States. Furthermore, the business of the Target Companies will also be affected by the volatility of oil price as the company's main material is Polyethylene resins, which is a by-product of crude oil.

Mr. Kyoo Yoon Choi, being the Director and one of the shareholders of C & H (which holds C & H Vina and C & H Tarps), has more than 10 years of experience in overseeing the management of tarpaulin business. Further, to the best knowledge of the Company, there will be no material changes to the management team of the Target Companies (in particular, Mr. Tae Sub Choi and Mr. Jae Dong Shin, both of whom are key personnel of the Target Companies) as a result of the Acquisitions. Details of Mr. Tae Sub Choi and Mr. Jae Dong Shin are as follows:-

- 1) Mr. Tae Sub Choi is the president of C & H Vina and he has been managing the Group's various companies various operations for more than 10 years prior to join C & H Vina in 2010. He is specialised in the area of sales and marketing and company management and has previously worked for Daewoo Corporation and its overseas subsidiaries for 15 years. Mr. Tae Sub Choi has been responsible in building business relationships with customers such as Wal-mart, Lowes, Ace etc and has been crucial in the development of the Target Companies.
- 2) Mr. Jae Dong Shin is the managing director of C & H Vina. He has been working for the C & H Vina since 2000 involved in the area of PVC, PE Tarpaulin manufacturing and production management. Prior to joining the C & H Vina, he gained experience from Tarpaulin manufacturing companies in Korea and Indonesia for more than 10 years. Mr. Shin is currently responsible for supervising the production line of the tarpaulin products and ensure its production are up to standard.

Given that there are no material changes to the management team of the Target Companies, the Company believes that it has the skills and experience in managing the business of the Target Companies.

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## LETTER FROM THE BOARD

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Moreover, the Group has been providing processing services to C & H Vina, which constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Upon completion of the Acquisitions, each of C & H Vina and C & H Tarps will become a wholly owned subsidiary of the Company and the provision of processing services to C & H Vina will cease to be continuing connected transactions of the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement are entered into on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

Mr. Kyoo Yoon Choi, the Chairman, Executive Director, Chief Executive Officer and the controlling shareholder of the Company, together with his wife, Ms. Woul Hee Cha, his son Mr. Woo Jin Choi and his daughters Ms. You Jin Choi and Ms. Soo Jin Choi and Mr. Sung Sick Kim, hold approximately 88.22% of the issued share capital of C & H. According to the Listing Rules, C & H is an associate of Mr. Kyoo Yoon Choi and thus a connected person of the Company. Mr. Sung Sick Kim is an executive Director holding approximately 3.09% of the issued share capital of C & H. The transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, as the Share Transfer Agreement and the Capital Contribution Transfer Agreement were entered into on the same date with C & H as one of the Vendors and vendor respectively under the Share Transfer Agreement and the Capital Contribution Transfer Agreement, the Acquisitions are required to be aggregated for the calculation of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) to determine the classification of the transactions. Upon aggregation of the relevant percentage ratios in respect of the transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement, one or more of the relevant percentage ratios exceeds 5% but all relevant percentage ratios are less than 25%. Accordingly, the Acquisitions constitute (i) connected transactions of the Company subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules; and (ii) discloseable transactions of the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Except for Mr. Kyoo Yoon Choi, a director of C & H, and Mr. Sung Sick Kim, a shareholder of C & H, none of the Directors have any material interest in the transactions. Mr. Kyoo Yoon Choi and Mr. Sung Sick Kim have abstained from voting on the Board resolutions approving the Share Transfer Agreement and the Capital Contribution Transfer Agreement.

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## LETTER FROM THE BOARD

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The IBC, comprising all the independent non-executive Directors, namely Professor Cheong Heon Yi, Mr. Tae Woong Kang and Dr. Chan Yoo, has been established to consider the terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder. Halcyon Capital has been appointed to advise the IBC and the Independent Shareholders in this regard.

None of the members of the IBC has any interest or involvement in the transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement. The IBC will form its view in respect of the terms of the Acquisitions after obtaining and considering the advice from Halcyon Capital, the independent financial adviser of the Company.

### **Independent Board Committee**

In compliance with the Listing Rules, the IBC has been established to consider the terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolutions to be proposed at the Extraordinary General Meeting for approving the Acquisitions, after taking into account the recommendation of the independent financial adviser of the Company. In this connection, Halcyon Capital has been appointed to advise the IBC and the Independent Shareholders regarding the terms of the Acquisitions. The text of the letter from the IBC is set out on pages 24 to 25 of this circular and the text of the letter from Halcyon Capital containing its advice is set out on pages 26 to 55 of this circular.

Pursuant to 14A.36 of the Listing Rules, any Shareholder who has a material interest in the Share Transfer Agreement and the Capital Contribution Transfer Agreement shall abstain from voting to approve the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the Acquisitions at the Extraordinary General Meeting. As at the Latest Practicable Date, Mr. Kyoo Yoon Choi, the controlling shareholder of the Company, holds approximately 67.76% of the issued Shares of the Company, Ms. Su Jin Choi, Ms. Shin Hee Cha, Mr. Sung Sick Kim and Mr. Tae Sub Choi hold approximately 3.32%, 0.29%, 0.52% and 0.06% of the issued Shares of the Company respectively, will all be required to abstain from voting on the relevant resolutions at the Extraordinary General Meeting accordingly. Save for the above, as at the Latest Practicable Date, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting thereat as no other Shareholder has any interest in the Share Transfer Agreement and the Capital Contribution Transfer Agreement.

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## LETTER FROM THE BOARD

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### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 18 March 2020 to 23 March 2020, both dates inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 17 March 2020.

### **EXTRAORDINARY GENERAL MEETING**

Set out on pages EGM-1 to EGM-2 to this circular is the notice of the Extraordinary General Meeting, a form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you intend to be present at the Extraordinary General Meeting, you are requested to complete the form of proxy and return it to the registered office of Company in accordance with the instruction printed thereon not less than 48 hours before the time fixed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not prevent the Independent Shareholders from attending and voting in person at the Extraordinary General Meeting if they so wish.

### **VOTING BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by a poll.

The chairman of the Extraordinary General Meeting shall therefore demand voting on all resolutions set out in the notice of the Extraordinary General Meeting be taken by way of poll pursuant to Article 73 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each share registered in his/her name in the register. A Shareholder entitled to more than one vote needs not use all his/her votes or cast all the votes he/she uses in the same way.

The results of the poll will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.dream-i.com.hk](http://www.dream-i.com.hk) on the same day after the Extraordinary General Meeting.



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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the proposed ordinary resolutions for the approval of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder are in the interests of the Group and the Shareholders as a whole. The Directors therefore recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the Extraordinary General Meeting.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**Dream International Limited**  
**Young M. Lee**  
*Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the IBC setting out its recommendation to the Independent Shareholders in respect of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder.*



## **DREAM INTERNATIONAL LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1126)**

3 March 2020

*To the Independent Shareholders*

Dear Sir/Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RESPECT OF ACQUISITION OF TARPAULIN BUSINESS**

We refer to the circular issued by the Company dated 3 March 2020 (the “**Circular**”) of which this letter forms part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the members of the IBC to provide recommendations to the Independent Shareholders in respect of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder.

Halcyon Capital has been appointed as the independent financial adviser to advise us in relation to the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in its letter set out on pages 26 to 55 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 23 of the Circular and the additional information set out in the appendices to the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered, among others, the factors and reasons considered by, and the opinion of Halcyon Capital as stated in its letter of advice, we are of the view that the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and while not in the ordinary and usual course of business of the Group, are nonetheless in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Professor Cheong Heon Yi      Mr. Tae Woong Kang      Dr. Chan Yoo**

*Independent non-executive Directors*

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## LETTER FROM HALCYON CAPITAL

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*The following is the full text of the letter of advice from Halcyon Capital Limited to the IBC and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.*



11/F, 8 Wyndham Street  
Central  
Hong Kong

3 March 2020

*To: the IBC and the Independent Shareholders*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RESPECT OF ACQUISITION OF TARPAULIN BUSINESS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the IBC and the Independent Shareholders in respect of the terms of the Share Transfer Agreement, the Capital Contribution Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in a circular of the Company (the “**Circular**”) to the Shareholders dated 3 March 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to acquire and the Vendors (i.e. C & H, Mr. Tae Sub Choi and Mr. Jae Dong Shin) have conditionally agreed to sell the entire issued share capital of C & H Vina at a consideration of US\$11,000,000 (equivalent to approximately HK\$86,130,000) (the “**Vina Consideration**”).

Pursuant to the Capital Contribution Transfer Agreement, the Company has conditionally agreed to acquire and C & H has conditionally agreed to sell the entire issued share capital of C & H Tarps at a consideration of US\$5,000,000 (equivalent to approximately HK\$39,150,000) (the “**Tarps Consideration**”, together with the Vina Consideration, the “**Considerations**”). The completion of the Share Transfer Agreement and the Capital Contribution Transfer Agreement is not inter-conditional.

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## LETTER FROM HALCYON CAPITAL

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Mr. Kyoo Yoon Choi, the Chairman, Executive Director, Chief Executive Officer and the controlling Shareholder, together with his wife, Ms. Woul Hee Cha, his son, Mr. Woo Jin Choi and his daughters, Ms. You Jin Choi and Ms. Soo Jin Choi, hold approximately 88.22% of the issued share capital of C & H. According to the Listing Rules, C & H is an associate of Mr. Kyoo Yoon Choi and thus a connected person of the Company. Mr. Sung Sick Kim is an executive Director holding approximately 3.09% of the issued share capital of C & H. The transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, as the Share Transfer Agreement and the Capital Contribution Transfer Agreement were entered into on the same date with C & H as one of the Vendors and vendor respectively under the Share Transfer Agreement and the Capital Contribution Transfer Agreement, the Acquisitions are required to be aggregated for the calculation of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) to determine the classification of the transactions. Upon aggregation of the relevant percentage ratios in respect of the transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement, one or more of the relevant percentage ratios exceeds 5% but all relevant percentage ratios are less than 25%. Accordingly, the Acquisitions constitute (i) connected transactions of the Company subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules; and (ii) discloseable transactions of the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The IBC, comprising all the independent non-executive Directors, namely Professor Cheong Heon Yi, Mr. Tae Woong Kang and Dr. Chan Yoo, has been formed to advise the Independent Shareholders as to whether the terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned, whether the Acquisitions are in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote at the Extraordinary General Meeting.

Our role, as the Independent Financial Adviser to the IBC and the Independent Shareholders in relation to the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the relevant transactions contemplated thereunder, is to (i) provide the IBC and the Independent Shareholders an independent opinion and recommendation as to whether the Share Transfer Agreement and the Capital Contribution Transfer Agreement are entered into on normal and commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and whether the terms thereof are fair and reasonable so far as the Company and the Shareholders are concerned; and (ii) advise the Independent Shareholders on how to vote at the Extraordinary General Meeting.

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## LETTER FROM HALCYON CAPITAL

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We are not associated with the Company, the Vendors including C & H or their respective core connected persons, close associates or associates and accordingly are considered eligible to give independent advice on the terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement. Apart from the normal professional fees paid to us in connection with our appointments, no arrangements exists whereby we will receive any fees or benefits from the Company, the Vendors including C & H or their respective core connected persons, close associates or associates. Meanwhile, there was no past engagement between the Group and Halcyon Capital in last two years from the date of this letter, and, hence, we are therefore independent from the Company pursuant to Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation to the IBC and the Independent Shareholders, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the Share Transfer Agreement and the Capital Contribution Transfer Agreement, the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), the interim report of the Company for the six months ended 30 June 2019 (the “**2019 Interim Report**”), the audited consolidated financial statements of C & H Vina for the two years ended 31 December 2017 and 2018 (the “**Vina Audited Financial Statements**”), the audited financial statements of C & H Tarps for the two years ended 31 December 2017 and 2018 (the “**Tarps Audited Financial Statements**”), the unaudited consolidated financial statements of C & H Vina for the six months ended 30 June 2018 and 2019 (the “**Vina Unaudited Financial Statements**”), the unaudited consolidated financial statements of C & H Tarps for the six months ended 30 June 2018 and 2019 (the “**Tarps Unaudited Financial Statements**”), the independent valuations reports dated 24 September 2019 and updated on 24 February 2020 in relation to C & H Vina (the “**Vina Valuation Report**”) and C & H Tarps (the “**Tarps Valuation Report**”, together with the Vina Valuation Report, the “**Valuation Reports**”), the Circular, and certain published information from the public domain.

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## LETTER FROM HALCYON CAPITAL

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We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Share Transfer Agreement and the Capital Contribution Transfer Agreement and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, C & H, the Target Companies or any of their respective subsidiaries or associates. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions for the Share Transfer Agreement and the Capital Contribution Transfer Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

#### 1. Information on the Group

##### *1.1 Principal business*

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, development, manufacture and sale of plush stuffed toys, plastic figures, die-casting products and investment holding.

As referred to in the 2019 Interim Report, the business of the Group can be broadly divided into three on-going business segments, namely plush stuffed toys segment, plastic figures segment and die-casting products segment. Die-casting products segment was newly introduced towards the end of 2018 resulted from the restructuring process of die-casting products from the ride-on toys segment. According to the 2019 Interim Report, even though the global economy has become more volatile with the US-China trade war, the Group has managed to achieve continued revenue growth. This was accomplished by implementing its effective business strategies of strengthening ties with existing top-tier customers while continuing diversification of its product portfolio, as well as ongoing efforts in expanding its production capacity in Vietnam in order to capture the emerging opportunities in the market.

Due to the ongoing US-China trade war, the Group noticed there is an increasing number of customers exploring manufacturers based outside China. As a toy manufacturer with a strong production capacity especially in Vietnam (as at 30 June 2019, the Group operated 19 plants in total, 15 of which were in Vietnam and 4 in China), the Group is able to secure more new customers. For the six months ended 30 June 2019, North America continued to be the largest geographic market of the Group, accounting for approximately 59.8% of its total revenue. Japan was second, accounting for approximately 21.7%, followed by China at approximately 6.5%, Europe at approximately 5.0%, Vietnam at 4.1%, Hong Kong at approximately 1.5% and others at approximately 1.4%.

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## LETTER FROM HALCYON CAPITAL

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### 1.2 Financial highlights

#### 1.2.1 Financial performance

Set out below is the summary of key financial information of the Group for each of the six months ended 30 June 2018 and 2019 and the two years ended 31 December 2017 and 2018 as extracted from the 2019 Interim Report and the 2018 Annual Report:

|   | For the year ended    |                       | For the six months    |                      |
|---|-----------------------|-----------------------|-----------------------|----------------------|
|   | 31 December           |                       | ended 30 June         |                      |
|   | 2018                  | 2017                  | 2019                  | 2018                 |
|   | HK\$'000              | HK\$'000              | HK\$'000              | HK\$'000             |
|   | (audited)             | (audited)             | (unaudited)           | (unaudited)          |
| Revenue from continuing operations <sup>(note)</sup>  | 3,536,936             | 2,896,435             | 1,591,075             | 1,372,591            |
| Cost of sales   | <u>(2,793,931)</u>    | <u>(2,063,667)</u>    | <u>(1,277,344)</u>    | <u>(1,076,182)</u>   |
| Gross profit  | <u>743,005</u>        | <u>832,768</u>        | <u>313,731</u>        | <u>296,409</u>       |
| Profit before taxation  | 385,052               | 487,331               | 147,158               | 128,689              |
| Income tax  | <u>(64,527)</u>       | <u>(85,120)</u>       | <u>(18,707)</u>       | <u>(29,922)</u>      |
| <b>Profit for the year/period from continuing operations <sup>(note)</sup></b>                                | <b><u>320,525</u></b> | <b><u>402,211</u></b> | <b><u>128,451</u></b> | <b><u>98,767</u></b> |
| <b>Profit attributable to equity shareholders of the Company from continuing operations <sup>(note)</sup></b> | <b><u>332,498</u></b> | <b><u>406,338</u></b> | <b><u>125,945</u></b> | <b><u>98,703</u></b> |

*Note:* The results of ride-on toys segment have been classified as discontinued operations for the period ended 30 June 2019. In this regard, the Group has restated the comparative information for the period ended 30 June 2018. For the six months ended 30 June 2018 and 2019, (i) revenue generated from ride-on toys segment were approximately HK\$25.6 million and HK\$18.4 million, respectively; (ii) loss for the period from ride-on toy segment was approximately HK\$20.3 million and HK\$18.2 million, respectively; and (iii) loss attributable to equity shareholders of the Group from ride-on toy segment was approximately HK\$15.1 million and HK\$13.5 million, respectively.



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## LETTER FROM HALCYON CAPITAL

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*For the year ended 31 December 2018*

As illustrated in the table above, revenue of the Group amounted to approximately HK\$3,536.9 million for the year ended 31 December 2018, representing an increase of approximately 22.1% as compared to that of approximately HK\$2,896.4 million for the last year. According to the 2018 Annual Report, such increase was mainly attributable to the revenue generated from (i) the plush stuffed toys segment of approximately HK\$1,692.2 million, representing an increase of approximately 13.0% over that of the last year resulted from the increases in revenue from (a) the Original Equipment Manufacturing business under this segment by approximately 9.9% year-on-year to approximately HK\$1,518.0 million (accounted for approximately 89.7% of segment sales); and (b) the Original Design Manufacturing business under this segment by 49.9% year-on-year to approximately HK\$174.2 million (accounted for approximately 10.3% of segment sales); (ii) the plastic figures segment of approximately HK\$1,774.0 million, representing an increase of approximately 32.8% over that of the last year due to (a) the increased orders from a unique-feature plastic figures licensor and an international theme park; and (b) the Group continued to broaden its customer mix during the year; and (iii) the ride-on toys segment of approximately HK\$70.7 million, accounting for only around 2.0% of the Group's total revenue. Taking into account the deteriorating performance of the segment, the Group had ceased to produce ride-on toys products during the first quarter of 2019.

During the year ended 31 December 2018, the gross profit of the Group decreased by approximately 10.8% to approximately HK\$743.0 million while the gross profit margin of the Group decreased to approximately 21.0% from approximately 28.8% for that of the last year, mainly attributable to (i) the competitive package offered to internationally leading toy brands as part of the business strategy to secure top-tier global customers for facilitating strong and stable order inflow in the mid- to long-term; and (ii) the impact from the ride-on toys segment. Profit attributable to equity shareholders of the Company decreased from approximately HK\$406.3 million for the year ended 31 December 2017 to approximately HK\$332.5 million for the year ended 31 December 2018, representing a decrease of approximately 18.2%, mainly as a result of the above.

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## LETTER FROM HALCYON CAPITAL

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*For the six months ended 30 June 2019*

As illustrated in the table above, revenue from continuing operations of the Group amounted to approximately HK\$1,591.1 million for the six months ended 30 June 2019, representing an increase of approximately 15.9% as compared to that of approximately HK\$1,372.6 million for the last period. According to the 2019 Interim Report, such increase was mainly attributable to the revenue generated from (i) the plush stuffed toys segment of approximately HK\$775.4 million, representing an increase of approximately 15.1% over that of the last period resulted from the increase in revenue from the Original Equipment Manufacturing business under this segment by approximately 19.4% period-on-period to approximately HK\$722.1 million (accounted for approximately 93.1% of segment sales). Such increase was slightly offset by the decrease in revenue from the Original Design Manufacturing business under this segment by approximately 22.6% period-on-period to approximately HK\$53.3 million (accounted for approximately 6.9% of segment sales); (ii) the plastic figures segment of approximately HK\$770.2 million, representing an increase of approximately 10.2% over that of the last period mainly due to increase in sales orders in relation to an addendum to master sourcing agreement between the Group and a licensor of plastic figures with unique features effective in 2019; and (iii) the die-casting products segment of approximately HK\$45.5 million. The die-casting products segment is newly introduced towards the end of 2018 and is conversion from the ride-on toys segment.

During the six months ended 30 June 2019, the gross profit increased by approximately 5.8% to HK\$313.7 million while gross profit margin of the Group slightly decreased to approximately 19.7% from approximately 21.6% for that of the last period. Together with continuous cost control strategy, profit attributable to equity shareholders of the Company from continuing operations increased from approximately HK\$98.7 million for the six months ended 30 June 2018 to approximately HK\$125.9 million for the six months ended 30 June 2019, representing an increase of approximately 27.6%, mainly as a result of the above.

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## LETTER FROM HALCYON CAPITAL

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### 1.2.2 Financial position

Set out below is the highlight of financial position of the Group as at 30 June 2019 and 31 December 2018 as extracted from the 2019 Interim Report and 2018 Annual Report:

|  | <b>As at<br/>30 June<br/>2019<br/>HK\$'000<br/>(unaudited)</b> | <b>As at<br/>31 December<br/>2018<br/>HK\$'000<br/>(audited)</b> |
|--|--|--|
| Non-current assets   | 1,265,456  | 1,212,370  |
| Current assets   | 1,582,226  | 1,524,745  |
| <b>Total assets</b>  | 2,847,682  | 2,737,115  |
| Current liabilities  | 794,764  | 753,065  |
| Non-current liabilities  | 27,141   | 8,627  |
| <b>Total liabilities</b>   | 821,905  | 761,692  |
| <b>Net assets</b>  | <b>2,025,777</b>   | <b>1,975,423</b>   |
| <b>Total equity attributable to equity<br/>shareholders of the Company</b> | <b>2,051,441</b>   | <b>1,998,599</b>   |

The total assets of the Group amounted to approximately HK\$2,847.7 million as at 30 June 2019, which mainly consisted of other property, plant and equipment of approximately HK\$1,208.1 million, trade and other receivables of approximately HK\$598.8 million, inventories of approximately HK\$552.9 million and cash and cash equivalents of approximately HK\$372.9 million. Total liabilities of the Group amounted to approximately HK\$821.9 million as at 30 June 2019, which mainly consisted of trade and other payables and contract liabilities of approximately HK\$596.9 million and bank loans of approximately HK\$150.0 million. Net asset value attributable to Shareholders amounted to approximately HK\$2,051.4 million, representing a slight increase of approximately 2.64% as compared to that as at 31 December 2018.

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## LETTER FROM HALCYON CAPITAL

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### ***1.3 Business strategy and outlook***

With reference to the 2019 Interim Report, despite the uncertainty surrounding the global economy, being a toy manufacturer with a strong production capacity especially in Vietnam, the Group is able to secure more new customers, of those whose were exploring manufacturers based outside China due to the ongoing US-China trade war. Going forward, the Group will continue to employ its parallel development strategy of developing the core plastic figures and plush stuffed toys businesses while seeking product diversification. As for production diversification, the Group will consider investment opportunities for acquisitions of suitable companies with growth potential to boost revenue and profit. Capitalising on its leadership in the toy manufacturing industry which is currently undergoing consolidation and its timely capacity expansion plan in Vietnam to meet the strengthening market demand, the Group is prepared to grasp the opportunities in order to strive for long-term and steady growth and, ultimately, bring promising returns to the Shareholders.

### ***1.4 Reasons for the Acquisitions***

According to the 2019 Interim Report, it has been the Group's strategy to parallel develop the Group's core plastic figures and plush stuffed toys businesses while seeking product diversification. In addition to the baby dolls business which has been added to its product division since 2016, the restructuring process of die-casting products from the ride-on toys segment was successful, which will consequently result in an expansion of the Group's revenue stream and record an increase in volume of orders received for the second half of 2019.

With the success in expanding into the baby dolls and die-casting products, the Group has been considering other investment opportunities for acquisitions of suitable companies with growth potential to boost revenue and profit. Capitalising on its leadership in the toy manufacturing industry which is currently undergoing consolidation and its timely capacity expansion plan in Vietnam to meet the strengthening market demand, the Group had also been considering upstream or downstream expansion to acquire suitable business from the Group's customers or suppliers and to expand its production capacity in Vietnam in order to capture the emerging opportunities in the market and to strive for long-term and steady growth and, ultimately, bring promising returns to its Shareholders.

The Group has been providing processing services such as extruding resin in the form of yarns, weaving tape yarn in the forms of woven cloth, heat welding, slitting, hole punching and eyelet installation at the edge of the fabrics and packaging to C & H Vina (which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules) and is familiar with the business of C & H Vina.

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## LETTER FROM HALCYON CAPITAL

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We understand from the management of the Group that the production plants of the Target Companies are in Vietnam, where majority of the Group's production plants are located at and it is the current intention of the Group to continue to provide fabric processing services to C & H Vina following the completion of the Acquisitions. Therefore, leveraging the Group's experiences in providing fabric processing services to C & H Vina and managing large-scale production in Vietnam, the Group may also enhance the production efficiency and management efficiency of the operations of the Group and the Target Companies in Vietnam.

According to the management of the Group, C & H Vina had an extensive customer base across different countries in different parts of the world. Based on information provided by the management of the Group, the United States, the largest revenue-contributing market of C & H Vina, together with European Union and Japan are the three largest revenue-contributing markets of C & H Vina which aggregately accounted for approximately 72.7% to 83.8% of the revenue of C & H Vina driven from sales of products for each of the two years ended 31 December 2018 and the six months ended 30 June 2019. As a toy manufacturer with a strong production capacity especially in Vietnam, the Group is able to secure customers around the world. For each of the two years ended 31 December 2018 and the six months ended 30 June 2019, North America continued to be the largest geographic market of the Group, accounting for approximately 59.3% to 64.5% of its total revenue from continuing operations. Japan was second, accounting for approximately 20.6% to 24.8%, followed by China at approximately 1.6% to 6.6%, Europe at 5.1% to 5.2% and others at approximately 5.2% to 7.1%. Given that some of the customers' geographic locations and the location of the manufacturing base of both the Target Companies and the Group are the same, potential synergy may be created, including cross-selling, bulk export shipment and logistic arrangements for customers in same geographic locations, combine warehousing in Vietnam, which the management of the Group expects may enhance the economy of scale of both the operations of the Target Companies and the Group and may be beneficial to the Group and the Target Companies' future development as a whole.

The Group considered that (i) having the increasing volatility of global economy, in particular the uncertainty brought by the US-China trade war which has prompted more customers from the United States to look for alternative sources of manufacturing outside of China of which the operations of C & H Tarps and C & H Vina are benefitting from the aforesaid opportunities; and (ii) the record of improving financial performance of the Target Companies of which upon completion of the Acquisitions, the financial results of the Target Companies will be consolidated into the financial statements of the Group and will thus enhance the financial performance of the Group by providing the Group with reliable source of revenue given that the management of the Group is familiar to the tarpaulin business, the Acquisitions provide an attractive investment opportunity which will accelerate the growth of the Group's revenue and profit.

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## LETTER FROM HALCYON CAPITAL

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Taking into account of the above and the fact that geographical mix of the revenue of the Target Companies' businesses may potentially be complementary to the Group's existing operation, we concur with the Directors that the Acquisitions will enhance the product portfolio of the Group, is in line with the business strategy of the Group and will enable the Group to enhance market coverage and diversification of its products and may facilitate synergy creation within the Group.

### **2. Information on the Target Companies**

#### ***2.1 Principal business***

C & H Vina, incorporated in Vietnam with limited liability, is principally engaged in the manufacture and sales of tarpaulin. According to the management of the Group, C & H Vina owned a finishing factory in Binh Duong Province, Vietnam with aggregate maximum production capacity of 24,000 metric tons per year, while outsourcing the fabric section to C & H Tarps and the Group. C & H Vina has issued share capital of VND46,480,000,000 (equivalent to approximately HK\$15,664,000). In particular, C & H holds 99.8% of the share capital of C & H Vina; Mr. Tae Sub Choi holds 0.1% of the share capital of C & H Vina; and Mr. Jae Dong Shin holds 0.1% of the share capital of C & H Vina. Mr. Tae Sub Choi and Mr. Jae Dong Shin are the president and managing director of C & H Vina respectively. While C & H Tarps is a wholly-owned subsidiary of C & H with issued share capital of VND67,908,000,000 (equivalent to approximately HK\$22,885,000).

C & H Tarps, incorporated in Vietnam with limited liability, is principally engaged in the processing of tarpaulin, from raw materials to semi-finished for C & H Vina.

A tarpaulin or tarp, is a large sheet of strong, flexible, water-resistant or waterproof material, often cloth such as canvas or polyester coated with polyurethane, or made of plastics such as polyethylene.

Tarpaulins are used in many ways for shading from wind, rain, and sunlight. Tarpaulins are also used during construction or after disasters to protect partially built or damaged structures, often tarpaulins are used to protect items loaded on open trucks and wagons and for shelters such as tents or other temporary structures.

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## LETTER FROM HALCYON CAPITAL

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### 2.2 Financial information

#### 2.2.1 Financial performance of C & H Vina

Set out below is the summary of key financial information of C & H Vina for each of the six months ended 30 June 2018 and 2019 and the two years ended 31 December 2017 and 2018 as extracted from the Vina Unaudited Financial Statements and Vina Audited Financial Statements:

|                        | For the year ended 31 December |             |                |             | For the six months ended 30 June |             |               |             |
|------------------------|--------------------------------|-------------|----------------|-------------|----------------------------------|-------------|---------------|-------------|
|                        | 2018                           | 2018        | 2017           | 2017        | 2019                             | 2019        | 2018          | 2018        |
|                        | VND                            | HK\$        | VND            | HK\$        | VND                              | HK\$        | VND           | HK\$        |
|                        | million                        | million     | million        | million     | million                          | million     | million       | million     |
|                        | (audited)                      | (audited)   | (audited)      | (audited)   | (unaudited)                      | (unaudited) | (unaudited)   | (unaudited) |
| Revenue                | 1,071,019                      | 360.9       | 872,850        | 294.2       | 526,633                          | 177.5       | 508,299       | 171.3       |
| Cost of sales          | (975,748)                      | (328.8)     | (768,735)      | (259.1)     | (456,576)                        | (153.9)     | (469,480)     | (158.2)     |
| Gross profit           | <u>95,271</u>                  | <u>32.1</u> | <u>104,115</u> | <u>35.1</u> | <u>70,057</u>                    | <u>23.6</u> | <u>38,819</u> | <u>13.1</u> |
| Profit before taxation | 31,172                         | 10.5        | 46,084         | 15.5        | 38,776                           | 13.1        | 4,997         | 1.7         |
| Income tax expense     | (6,464)                        | (2.2)       | (10,077)       | (3.4)       | (7,755)                          | (2.6)       | (999)         | (0.4)       |
| Profit after taxation  | <u>24,708</u>                  | <u>8.3</u>  | <u>36,007</u>  | <u>12.1</u> | <u>31,021</u>                    | <u>10.5</u> | <u>3,998</u>  | <u>1.3</u>  |

#### For the year ended 31 December 2018

As illustrated in the table above, revenue of C & H Vina amounted to approximately VND1,071,019 million (equivalent to approximately HK\$360.9 million) for the year ended 31 December 2018, representing an increase of approximately 22.7% as compared to that of approximately VND872,850 million (equivalent to approximately HK\$294.2 million) for the last year. While the selling price of C & H Vina's products remained stable, the increase was mainly attributable to the strong demand from its key offshore customers.

During the year ended 31 December 2018, the gross profit of C & H Vina decreased by approximately 8.5% to approximately VND95,271 million (equivalent to approximately HK\$32.1 million) and the gross profit margin of C & H Vina decreased to approximately 8.9% from approximately 11.9% for that of the last year, mainly attributable to a rise in global resin (one of the major raw material to produce tarpaulin) price while selling price of C & H Vina's products to key customers remained competitive. Net profit after taxation of C & H Vina decreased from approximately VND36,007 million (equivalent to approximately HK\$12.1 million) for the year ended 31 December 2017 to approximately VND24,708 million (equivalent to approximately HK\$8.3 million) for the year ended 31 December 2018, representing a decrease of approximately 31.4%, mainly as a result of the decrease in profit margin.

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## LETTER FROM HALCYON CAPITAL

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*For the six months ended 30 June 2019*

As illustrated in the table above, revenue of C & H Vina amounted to approximately VND526,633 million (equivalent to approximately HK\$177.5 million) for the six months ended 30 June 2019, representing an increase of approximately 3.6% as compared to that of approximately VND508,299 million (equivalent to approximately HK\$171.3 million) for the last period. Such increase was mainly attributable to the increase in demand from its offshore customers.

During the six months ended 30 June 2019, the gross profit of C & H Vina increased by approximately 80.5% to approximately VND70,057 million (equivalent to approximately HK\$23.6 million) while the gross profit margin of C & H Vina increased to approximately 13.3% from approximately 7.6% for that of the last period, mainly attributable to better pricing of its products sold to its customers while prices of resin (one of the major raw material to produce tarpaulin) declined. Net profit after taxation of C & H Vina increased from approximately VND3,998 million (equivalent to approximately HK\$1.3 million) for the six months ended 30 June 2018 to approximately VND31,021 million (equivalent to approximately HK\$10.5 million) for the six months ended 30 June 2019, representing an increase of approximately 675.9%, mainly as a result of (i) the above; (ii) the reduction of administration expenses from approximately VND10,040 million (equivalent to approximately HK\$3.4 million) for the six months ended 30 June 2018 to approximately VND8,604 million (equivalent to approximately HK\$2.9 million) for the six months ended 30 June 2019; and (iii) the increase in bank interest income from approximately VND6 million (equivalent to approximately HK\$2,000) to VND2,310 million (equivalent to approximately HK\$0.8 million).



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## LETTER FROM HALCYON CAPITAL

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### 2.2.2 Financial position of C & H Vina

Set out below is the highlight of financial position of C & H Vina as at 30 June 2019 and 31 December 2018 as extracted from the Vina Unaudited Financial Statements and Vina Audited Financial Statements:

|                         | As at<br>30 June 2019<br>VND million<br>(unaudited) | As at<br>30 June 2019<br>HK\$ million<br>(unaudited) | As at<br>31 December<br>2018<br>VND million<br>(audited) | As at<br>31 December<br>2018<br>HK\$ million<br>(audited) |
|-------------------------|---|--|--|---|
| Non-current assets      | 59,145  | 19.9   | 60,657   | 20.4  |
| Current assets          | <u>570,488</u>                                      | <u>192.3</u>   | <u>568,016</u>   | <u>191.4</u>  |
| Total assets            | 629,633   | 212.2  | 628,673  | 211.8   |
| Current liabilities     | 391,953   | 132.1  | 429,769  | 144.8   |
| Non-current liabilities | <u>–</u>  | <u>–</u>   | <u>–</u>   | <u>–</u>  |
| Total liabilities       | 391,953   | 132.1  | 429,769  | 144.8   |
| <b>Net assets</b>       | <b><u>237,680</u></b>                               | <b><u>80.1</u></b>                                   | <b><u>198,904</u></b>                                    | <b><u>67.0</u></b>  |

The total assets of C & H Vina amounted to approximately VND629,633 million (equivalent to approximately HK\$212.2 million) as at 30 June 2019, which mainly consisted of inventories of approximately VND207,782 million (equivalent to approximately HK\$70.0 million), trade receivables of approximately VND189,901 million (equivalent to approximately HK\$64.0 million), held to maturity investments of approximately VND104,019 million (equivalent to approximately HK\$35.1 million) and fixed assets of VND55,627 million (equivalent to approximately HK\$18.7 million). Total liabilities of C & H Vina amounted to approximately VND391,953 million (equivalent to approximately HK\$132.1 million) as at 30 June 2019, which mainly consisted of short-term borrowings of approximately VND259,881 million (equivalent to approximately HK\$87.6 million) and trade payables of approximately VND112,368 million (equivalent to approximately HK\$37.9 million). Net assets of C & H Vina amounted to approximately VND237,680 million (equivalent to approximately HK\$80.1 million), representing an increase of approximately 19.5% as compared to that as at 31 December 2018.

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## LETTER FROM HALCYON CAPITAL

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### 2.2.3 Financial performance of C & H Tarps

Set out below is the summary of key financial information of C & H Tarps for each of the six months ended 30 June 2018 and 2019 and the two years ended 31 December 2017 and 2018 as extracted from the Tarps Unaudited Financial Statements and Tarps Audited Financial Statements:

|                        | For the year ended 31 December      |                                      |                                     |                                      | For the six months ended 30 June      |  |                                       |  |
|------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|--|---------------------------------------|--|
|                        | 2018<br>VND<br>million<br>(audited) | 2018<br>HK\$<br>million<br>(audited) | 2017<br>VND<br>million<br>(audited) | 2017<br>HK\$<br>million<br>(audited) | 2019<br>VND<br>million<br>(unaudited) | 2019<br>HK\$<br>million<br>(unaudited) | 2018<br>VND<br>million<br>(unaudited) | 2018<br>HK\$<br>million<br>(unaudited) |
| Revenue                | 71,335                              | 24.0                                 | 63,949                              | 21.6                                 | 33,347                                | 11.2                                   | 33,063                                | 11.1                                   |
| Cost of sales          | (44,095)                            | (14.8)                               | (39,372)                            | (13.3)                               | (23,672)                              | (7.9)                                  | (20,743)                              | (6.9)                                  |
| Gross profit           | <u>27,240</u>                       | <u>9.2</u>                           | <u>24,577</u>                       | <u>8.3</u>                           | <u>9,675</u>                          | <u>3.3</u>                             | <u>12,320</u>                         | <u>4.2</u>                             |
| Profit before taxation | 21,615                              | 7.3                                  | 20,710                              | 7.0                                  | 6,410                                 | 2.1                                    | 9,654                                 | 3.3                                    |
| Income tax expense     | (4,334)                             | (1.5)                                | (4,165)                             | (1.4)                                | (1,282)                               | (0.4)                                  | (1,931)                               | (0.7)                                  |
| Profit after taxation  | <u>17,281</u>                       | <u>5.8</u>                           | <u>16,545</u>                       | <u>5.6</u>                           | <u>5,128</u>                          | <u>1.7</u>                             | <u>7,723</u>                          | <u>2.6</u>                             |

#### For the year ended 31 December 2018

As illustrated in the table above, revenue of C & H Tarps amounted to approximately VND71,335 million (equivalent to approximately HK\$24.0 million) for the year ended 31 December 2018, representing an increase of approximately 11.6% as compared to that of approximately VND63,949 million (equivalent to approximately HK\$21.6 million) for the last year. Such increase was mainly attributable to the increase in demand from C & H Vina for processing services while the processing fee remained stable.

During the year ended 31 December 2018, the gross profit of C & H Tarps increased by approximately 10.8% to approximately VND27,240 million (equivalent to approximately HK\$9.2 million) while the gross profit margin of C & H Tarps remained stable at approximately 38.4% and 38.2% for the two years ended 31 December 2017 and 2018, respectively, mainly attributable to stable cost of sales structure over those two financial years. Net profit after taxation of C & H Tarps increased from approximately VND16,545 million (equivalent to approximately HK\$5.6 million) for the year ended 31 December 2017 to approximately VND17,281 million (equivalent to approximately HK\$5.8 million) for the year ended 31 December 2018, representing an increase of approximately 4.4%, mainly as a result of the above.

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## LETTER FROM HALCYON CAPITAL

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*For the six months ended 30 June 2019*

As illustrated in the table above, revenue of C & H Tarps amounted to approximately VND33,347 million (equivalent to approximately HK\$11.2 million) for the six months ended 30 June 2019, remained stable as compared to that of approximately VND33,063 million (equivalent to approximately HK\$11.1 million) for the last period, mainly due to both the demand from and processing fee payable by C & H Vina for processing services remained stable during the two periods.

During the six months ended 30 June 2019, the gross profit of C & H Tarps decreased by approximately 21.5% to approximately VND9,675 million (equivalent to approximately HK\$3.3 million) while the gross profit margin of C & H Vina decreased to approximately 29.0% from approximately 37.3% for that of the last period, mainly attributable to the increase in cost of sales for the six months ended 30 June 2019 resulted from (i) higher consumable expenses to replace spare parts in old machineries; (ii) higher electricity expenses because of new updated tariff; and higher labour salary, while the processing fee remained stable. Net profit after taxation of C & H Tarps decreased from approximately VND7,723 million (equivalent to approximately HK\$2.6 million) for the six months ended 30 June 2018 to approximately VND5,128 million (equivalent to approximately HK\$1.7 million) for the six months ended 30 June 2019, representing a decrease of approximately 33.6%, mainly as a result of the above.

### *2.2.4 Financial position of C & H Tarps*

Set out below is the highlight of financial position of C & H Tarps as at 30 June 2019 and 31 December 2018 as extracted from the Tarps Unaudited Financial Statements and Tarps Audited Financial Statements:

|                         | As at<br>30 June 2019<br>VND million<br>(unaudited) | As at<br>30 June 2019<br>HK\$ million<br>(unaudited) | As at<br>31 December<br>2018<br>VND million<br>(audited) | As at<br>31 December<br>2018<br>HK\$ million<br>(audited) |
|-------------------------|---|--|--|---|
| Non-current assets      | 13,578  | 4.5  | 14,079   | 4.7   |
| Current assets          | <u>52,423</u>                                       | <u>17.7</u>  | <u>49,302</u>  | <u>16.6</u>   |
| Total assets            | 66,001  | 22.2   | 63,381   | 21.3  |
| Current liabilities     | 3,997   | 1.3  | 7,788  | 2.6   |
| Non-current liabilities | <u>–</u>  | <u>–</u>   | <u>–</u>   | <u>–</u>  |
| Total liabilities       | 3,997   | 1.3  | 7,788  | 2.6   |
| Net assets              | <u><b>62,004</b></u>                                | <u><b>20.9</b></u>                                   | <u><b>55,593</b></u>                                     | <u><b>18.7</b></u>  |

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## LETTER FROM HALCYON CAPITAL

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The total assets of C & H Tarps amounted to approximately VND66,001 million (equivalent to approximately HK\$22.2 million) as at 30 June 2019, which mainly consisted of trade receivable of approximately VND49,179 million (equivalent to approximately HK\$16.6 million), fixed assets of approximately VND7,675 million (equivalent to approximately HK\$2.6 million) and long-term prepaid expenses of approximately VND5,902 million (equivalent to approximately HK\$2.0 million). Total liabilities of C & H Tarps amounted to approximately VND3,997 million (equivalent to approximately HK\$1.3 million) as at 30 June 2019, which consisted of payables to employees of approximately VND1,430 million (equivalent to approximately HK\$0.5 million) and trade payables of approximately VND1,242 million (equivalent to approximately HK\$0.4) million. Net assets of C & H Tarps amounted to approximately VND62,004 million (equivalent to approximately HK\$20.9 million), representing a decrease of approximately 11.5% as compared to that as at 31 December 2018.

### ***2.3 Management of the Target Companies***

Mr. Kyoo Yoon Choi, being the Director and one of the shareholder of C & H (which holds C & H Vina and C & H Tarps), has more than 10 years of experience in overseeing the management of the tarpaulin business. Furthermore, to the best knowledge of the Company and it is the intention of the Directors as at the Latest Practicable Date that there will be no material changes to the management team of the Target Companies (in particular, Mr. Tae Sub Choi and Mr. Jae Dong Shin, both of whom are key personnel of the Target Companies) after completion of the Acquisitions.

Details of Mr. Tae Sub Choi and Mr. Jae Dong Shin are disclosed under the section headed “REASONS FOR THE ACQUISITIONS” in the Letter from the Board.

Given the Group’s management experience in operating production line in Vietnam and that there are no material changes to the management team of the Target Companies, the Company believes and we concur that the Group has the skills and experience in managing the business of the Target Companies.

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## LETTER FROM HALCYON CAPITAL

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### ***2.4 Outlook and risk in association with the Target Companies***

According to the section headed “REASONS FOR THE ACQUISITIONS” in the Letter from the Board, the current situation triggered by US-China trade war has prompted more customers from the United States to look for alternative sources of manufacturing outside of China. In this regard, the operations of C & H Tarps and C & H Vina are benefitting from the aforesaid opportunities. Having said that, the Target Companies might also be subject to negative impact on its business if trade conflicts occurs between Vietnam and United States or outbreak of any major public health concerns in Vietnam. Furthermore, the business of the Target Companies will also be affected by the volatility of oil price as the company’s main material is Polyethylene resins, which is a by-product of crude oil.

### **3. Principal terms of the Share Transfer Agreement and Capital Contribution Transfer Agreement**

On 29 November 2019, the Company entered into (i) the Share Transfer Agreement with the Vendors; and (ii) the Capital Contribution Transfer Agreement with C & H. The principal terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement are set out in the Letter from the Board and include the following:

#### ***3.1 Subject matter***

Pursuant to the Share Transfer Agreement, the Company has conditionally agreed to acquire and the Vendors (i.e. C & H, Mr. Tae Sub Choi and Mr. Jae Dong Shin) have conditionally agreed to sell the entire issued share capital of C & H Vina at the Vina Consideration of US\$11,000,000 (equivalent to approximately HK\$86,130,000).

Pursuant to the Capital Contribution Transfer Agreement, the Company has conditionally agreed to acquire and C & H has conditionally agreed to sell the entire issued share capital of C & H Tarps at the Tarps Consideration of US\$5,000,000 (equivalent to approximately HK\$39,150,000).

#### ***3.2 Considerations***

As stated in the Letter from the Board, the Vina Consideration is US\$11,000,000 (equivalent to approximately HK\$86,130,000), which will be financed by internal resources of the Company and unsecured revolving bank loans and payable by the Company in cash in the following manner:

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## LETTER FROM HALCYON CAPITAL

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1. 1st installment: US\$2,000,000 (equivalent to approximately HK\$15,660,000) shall be paid to the Vendors within five (5) business days from the effective date of the Share Transfer Agreement, i.e. 29 November 2019.
2. 2nd installment: US\$9,000,000 (equivalent to approximately HK\$70,470,000) shall be paid to the Vendors within twenty (20) business days from the payment date of the 1st installment or on 27 December 2019, whichever is earlier.

Pursuant to the Second Supplemental Announcement, the parties have agreed to postpone the payment of the Vina Consideration until after Independent Shareholders' approval has been obtained. For details, please refer to the section headed "STATUS ON THE PAYMENT OF CONSIDERATION" in the Letter from the Board.

The Vina Consideration of US\$11,000,000 (equivalent to approximately HK\$86,130,000) was determined by the Company and the Vendors after arm's length negotiations with reference to, among other things, the historical rate of return on investments and the pay-back period analysis while taking into consideration, the indicative valuation of C & H Vina as at 31 December 2018, which ranges from approximately US\$10,700,000 (equivalent to approximately HK\$83,781,000) to approximately US\$12,800,000 (equivalent to approximately HK\$100,224,000), as indicated by PwC (Vietnam) Limited, an independent professional valuer in Vietnam (the "**Independent Valuer**").

As stated in the Letter from the Board, the Tarps Consideration is US\$5,000,000 (equivalent to approximately HK\$39,150,000), which will be financed by internal resources of the Company and unsecured revolving bank loans and payable by the Company in cash in the following manner:

1. 1st installment: US\$1,000,000 (equivalent to approximately HK\$7,830,000) shall be paid to C & H within five (5) business days from the effective date of the Capital Contribution Transfer Agreement, i.e. 29 November 2019.
2. 2nd installment: US\$4,000,000 (equivalent to approximately HK\$31,320,000) shall be paid to C & H within twenty (20) business days from the payment date of the 1st installment or on 27 December 2019, whichever is earlier.

Pursuant to the Second Supplemental Announcement, the parties have agreed to postpone the payment of the Tarps Consideration until after Independent Shareholders' approval has been obtained. For details, please refer to the section headed "STATUS ON THE PAYMENT OF CONSIDERATION" in the Letter from the Board.

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## LETTER FROM HALCYON CAPITAL

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The Tarps Consideration of US\$5,000,000 (equivalent to approximately HK\$39,150,000) was determined by the Company and C & H after arm's length negotiations with reference to, among other things, the historical rate of return on investments and the pay-back period analysis while taking into consideration, the indicative valuation of C & H Tarps as at 31 December 2018, which ranges from approximately US\$5,010,000 (equivalent to approximately HK\$39,228,000) to approximately US\$5,470,000 (equivalent to approximately HK\$42,830,000), as indicated by the Independent Valuer.

### ***3.3 Our analysis on the Considerations***

In assessing the Considerations, we have considered the independent Valuation Reports prepared by the Independent Valuer, of which summary of the Valuation Reports is set out in Appendix I to the Circular, and discussed with the Independent Valuer regarding the methodology and the principal bases and assumptions adopted for the valuations of C & H Vina (the “**Vina Valuation**”) and C & H Tarps (the “**Tarps Valuation**”, together with the Vina Valuation, the “**Valuations**”).

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Valuation Reports; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuations. From the engagement letter and relevant information provided by the Independent Valuer and based on our interview with them, we are satisfied with the terms of engagement of the Independent Valuer as well as its experience for preparation of the Valuation Reports. We noted that the Valuations were conducted by an execution team of professionals led by Mr. Johnathan Ooi, Mr. Phan Lam Binh and Mr. Pham Truong Loc, which has extensive deal experiences in valuing companies in Vietnam. Mr. Johnathan Ooi is a Partner in the Independent Valuer's advisory division and has more than 20 years of professional experience in valuation and corporate finance projects in a number of industries, especially healthcare and pharmaceuticals, hospitality, oil and gas, energy, logistics, retail, infrastructure, manufacturing, etc.. Mr. Phan Lam Binh is a senior manager in the Independent Valuer's advisory division specialising in valuation services. He has eight years of professional experience in valuation, financial modelling, capital projects and infrastructure analysis. Mr. Pham Truong Loc is a manager in the Independent Valuer's advisory division specialising in business valuation, financial modelling, corporate finance and internal control. The Independent Valuer has also confirmed that they are independent to the Group, C & H Vina, C & H Tarps, the Vendors including C & H and their respective associates.

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## LETTER FROM HALCYON CAPITAL

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We have reviewed the Valuation Reports and discussed with the Independent Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the Valuations. Based on the Valuation Reports, we noted that the Independent Valuer, after considering various valuation methods (including market approach and asset-based approach), has adopted income approach as the primary valuation method and thereafter cross-checked against the Valuations using the market approach for comparison purposes.

As informed by the Independent Valuer, market approach is used for comparison purposes only, because (i) it does not reflect the power of control in a business enterprise; and (ii) the representative industry multiples ignore the capital structures and other non-operating items of the individual companies. We also understand from the Independent Valuer that the asset-based approach, which involves the assessment of assets and liabilities to appraise the value of the Target Companies, is not ideal for these Valuations as it only takes into account the Target Companies' worth as at the valuation date and forgoes the positive growth prospect of the Target Companies. Having considered the respective Target Companies' business growth, the level of sales growth and earnings potential going forward, the Independent Valuer considers that the income approach is the most appropriate method in determining the opinion of value as reasonable future projections could be estimated on the basis of historical financial results and potential future benefits. According to the management of the Group, although the Target Companies operated in two separate entities and they have separate production plants in Vietnam, but they shared the same management team and worked side by side in the production of tarpaulins. C & H Tarps' revenue is wholly derived from providing processing services to C & H Vina, thus both businesses should be seen as one operation. Furthermore, upon completion of the Acquisitions, both C & H Vina and C & H Tarps will become indirect wholly-owned subsidiaries of the Company and their financial results will likely be consolidated into one new business segment of the Group, hence it would be more appropriate to apply the same valuation approach to both Target Companies. Taking into account the historical and growth potential of C & H Vina, despite that the revenue of C & H Tarps is expected to remain stable in 2019 to 2023 as the processing fee and production volume of C & H Tarps are both expected to remain unchanged in 2019 to 2023, the Independent Valuer considered and we concur that both the Target Companies should apply the same valuation approach and therefore the income approach is an appropriate method in arriving at the Valuations of the Target Companies.

Under the income approach, the discounted cash flow method is adopted to derive the market value of the Target Companies, whereby the future cash flows to be generated by the Target Companies are discounted at a discount rate (the cost of capital) that reflects the time value of money and the risks associated with the cash flow to arrive at its present value.



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## LETTER FROM HALCYON CAPITAL

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### *3.3.1 Financial projections of C & H Vina*

Estimates on the future operation and revenue of C & H Vina are conducted through analysis over revenue, costs and growth movements. We noted that the Independent Valuer has considered and relied to a considerable extent on the financial projections of C & H Vina from 1 January 2019 to 31 December 2023 as prepared by the management of C & H Vina when preparing the Vina Valuation Report. Accordingly, we have discussed with the management of C & H Vina and the Independent Valuer in relation to the basis and assumptions used when preparing the Vina Valuation and noted that the management of C & H Vina has considered the historical and estimated performance of C & H Vina. In connection to the basis of projecting the revenue of C & H Vina, we noted that it is expected to grow on account of increasing customers. In particular, we noted that the management of C & H Vina expects that C & H Vina's revenue will achieve a compound annual growth rate (“CAGR”) of approximately 6.2% from 2019 to 2023, primarily with reference to (i) the historical performance of C & H Vina; (ii) sales to key existing customers, which are forecasted to remain stable in 2019 to 2023; and (iii) growth of sales volume and relatively higher charges to prospective new customers.

We noted that from the Vina Valuation Report that C & H Vina's revenue recorded a CAGR of approximately 21.8% from 2016 to 2018 with revenue contributed by (i) key offshore customers accounted for approximately 74.1% to 85.7%; (ii) non-recurring offshore clients by approximately 9.2% to 22.1%; and (iii) local customers by approximately 3.8% to 5.0% during 2016 to 2018. According to the Vina Valuation Report, key offshore customers are expected to continue to account for a large portion of C & H Vina's total revenue in 2019 to 2023. Total revenue from key offshore customers of C & H Vina is forecasted to reach between US\$44.0 million (equivalent to approximately HK\$344.5 million) to US\$45.5 million (equivalent to approximately HK\$356.2 million) per annum in 2019 to 2023. We have discussed with the management of C & H Vina and understand that as most of the key customers of C & H Vina are top-tier global customers, in order to secure stable order inflow in 2019 to 2023, the selling prices offered to them by C & H Vina are expected to remain competitive. Whereas prospective new offshore customers are expected to be a key driver of C & H Vina's growth. Sales from new offshore customers will contribute to approximately US\$16.0 million (equivalent to approximately HK\$125.3 million), representing over 25% of total revenue of C & H Vina by the year ending 31 December 2023, while the average selling prices is also expected to be more favourable compared to the selling prices of existing key customers. According to the management of C & H Vina, C & H Vina has commenced business relationship with two new offshore customers from the United States and Japan since the second half of 2019 with committed annual purchase orders of approximately US\$9.0 million (equivalent to approximately HK\$70.5 million) in

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aggregate. Furthermore, based on the separate discussion between C & H Vina and two additional offshore customers from Canada and Europe, C & H Vina is expected to commence business relationship with them during the first half of 2020 upon completion of C & H Vina's new finishing factory and those two additional offshore customers had indicated that their orders size maybe in aggregate amounting to US\$6 million (equivalent to approximately HK\$47.0 million) for 2021 onward. C & H Vina therefore forecasted revenue of approximately US\$15.0 million (equivalent to approximately HK\$117.5 million) for the year ending 31 December 2023 for the abovementioned four new offshore customers.

After considering the above and C & H Vina's historical revenue recorded a CAGR of approximately 21.8% from 2016 to 2018, we concur with the Directors that the estimated growth in revenue by a CAGR of approximately 6.2% from 2019 to 2023 to be reasonable.

Furthermore, we have also (i) discussed with the Independent Valuer and understand their view on the major expenses items of the Vina Valuation; (ii) reviewed the related breakdowns; (iii) reviewed the Vina Audited Financial Statements and Vina Unaudited Financial Statements. Set out below is the information of major expenses items of C & H Vina for each of the six months ended 30 June 2019 and the two years ended 31 December 2017 and 2018 as extracted from the Vina Unaudited Financial Statements and Vina Audited Financial Statements:

|                                     | For the year ended<br>31 December   |                                      |                                     |                                      | For the six months<br>ended 30 June   |  |
|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|--|
|                                     | 2018<br>VND<br>million<br>(audited) | 2018<br>HK\$<br>million<br>(audited) | 2017<br>VND<br>million<br>(audited) | 2017<br>HK\$<br>million<br>(audited) | 2019<br>VND<br>million<br>(unaudited) | 2019<br>HK\$<br>million<br>(unaudited) |
| Cost of sales                       | 975,748                             | 328.8                                | 768,735                             | 259.1                                | 456,576                               | 153.9                                  |
| Percentage to revenue               | 91.1%                               | 91.1%                                | 80.1%                               | 80.1%                                | 86.7%                                 | 86.7%                                  |
| Selling expenses                    | 36,391                              | 12.3                                 | 29,306                              | 9.9                                  | 19,457                                | 6.6                                    |
| Percentage to revenue               | 3.4%                                | 3.4%                                 | 3.4%                                | 3.4%                                 | 3.7%                                  | 3.7%                                   |
| General and administration expenses | 19,620                              | 6.6                                  | 22,274                              | 7.5                                  | 8,604                                 | 2.9                                    |
| Percentage to revenue               | 1.8%                                | 1.8%                                 | 2.6%                                | 2.6%                                 | 1.6%                                  | 1.6%                                   |

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According to the Vina Valuation Report, raw material were the largest component of C & H Vina's cost of sales, represented approximately 72.0% to 83.3% of C & H Vina's cost of sales during 2016 to 2018. Followed by processing fees, which accounted for approximately 13.7% to 14.8% of C & H Vina's cost of sales during 2016 to 2018; and direct labour cost and other overheads, which together accounted for approximately 2.1% to 14.4% of C & H Vina's cost of sales during 2016 to 2018.

As discussed with the Independent Valuer, we understand that when estimating the cost of sales of C & H Vina, the management of the C & H Vina and the Independent Valuer applied the percentage of cost of sales to revenue of approximately 88.7% to 88.9% during 2019 to 2023. Raw materials expenses continued to be the largest component of C & H Vina's cost of sales, representing approximately 77.5% to 78.2% of C & H Vina's cost of sales during 2019 to 2023. Followed by processing fees, which accounted for approximately 14.2% to 14.8% of C & H Vina's cost of sales during 2019 to 2023; and direct labour cost and other overheads, which together accounted for approximately 7.1% to 8.2% of C & H Vina's cost of sales during 2019 to 2023.

Selling expenses mainly included commission fees and customs, freight and transport expenses. Selling expenses is expected to account for approximately 2.4% to 2.7% of C & H Vina's revenue from 2019 to 2023, which is mainly because of the commission fees expected to be paid to one top-tier retailers.

General and administration expenses mainly included labour cost, bank charges and other general and administration expenses such as tax and duty, depreciation, repair and maintenance expenses. General and administration expenses is expected to remain stable and account for approximately 1.7% to 1.8% of C & H Vina's revenue from 2019 to 2023.

Based on our review of the historical and estimated financial information provided by the management of C & H Vina, we note that the historical and estimated growth rate of revenue as well as the historical cost structure and growth trend of cost supported the projection of revenue and operation expenses of the Vina Valuation. Based on the above, we are not aware of any factors which would cause us to doubt the fairness and reasonableness of the assumptions used in the Vina Valuation.

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## LETTER FROM HALCYON CAPITAL

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### *3.3.2 Discount rate of C & H Vina*

When applying the discounted cash flow method to estimate the present value of the above financial projections, it is necessary to determine an appropriate discount rate for C & H Vina. We noted that the Independent Valuer has used weighted average cost of capital (“WACC”) of 9.5% to 10.5% to estimate the required rate of return of C & H Vina, which we understand from our discussion with the Independent Valuer, is widely adopted for the purpose of estimating the required rate of return of a company in Vietnam. In deriving the discounted rate of 12.5% to 13.5%, the Independent Valuer has taken into account various factors including, among others (i) risk free rate; (ii) equity risk premium; (iii) beta, a measure of non-diversifiable risk of the comparable companies; (iv) cost of debt and (v) a considered risk premium of 3.0%. Accordingly, we have discussed with the Independent Valuer regarding the major factors taken into consideration in deriving the discount rate, and noted that these factors are commonly used parameters in the industry when preparing valuation reports. In this regard, we have (i) reviewed the relevant source of information and calculations; (ii) discussed with the Independent Valuer the basis and assumptions of the major factors considered in deriving the discount rate, which is in line with common industry practice; (iii) noted that the considered risk premium of 3% was determined with reference to a suggested range of alpha adjustments for developing countries in South East Asia, sourced from International Valuation Standards Council; and (iv) conducted our independent research on parameters including the risk free rate, considered risk premium and cost of debt from public information and noted that the risk free rate, considered risk premium and cost of debt adopted in the Vina Valuation are in line with market. Having considered the above selection criteria used by the Independent Valuer when determining the discount rate, we consider that the criteria adopted are appropriate.

### *3.3.3 General and specific assumptions of C & H Vina*

A number of general and specific assumptions have been applied in determining the Vina Valuation pursuant to the Vina Valuation Report, for details of the basis and assumptions please refer to paragraphs headed “VALUATION – Indicative Valuation of C & H Vina – General Assumptions” and “VALUATION – Indicative Valuation of C & H Vina – Specific Assumptions” in the Letter from the Board. We have discussed with the Independent Valuer and the Independent Valuer has confirmed that the relevant underlying assumptions adopted in the Vina Valuation are normally used and fair and reasonable. Based on the review and discussion with the Independent Valuer, we consider that the general and specific used in the Vina Valuation are fair and reasonable.

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## LETTER FROM HALCYON CAPITAL

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### 3.3.4 Financial projections of C & H Tarps

Estimates on the future operation and revenue of C & H Tarps are conducted through analysis over revenue, costs and growth movements. We noted that the Independent Valuer has considered and relied to a considerable extent on the financial projections of C & H Tarps from 1 January 2019 to 31 December 2023 as prepared by the management of C & H Tarps when preparing the Tarps Valuation Report. Accordingly, we have discussed with the management of C & H Tarps and Independent Valuer in relation to the basis and assumptions used when preparing the Tarps Valuation and noted that the management of C & H Tarps has considered the historical and estimated performance of C & H Tarps. In connection to the basis of projecting the revenue of C & H Tarps, we noted that the CAGR of C & H Tarps' revenue is estimated to be 0% for 2019 to 2023 as the management of C & H Tarps has taken into account the historical performance of C & H Tarps and expected that (i) the processing fee remaining unchanged in 2019 to 2023; and (ii) production volume to remain the same as that of 2018 as C & H Tarps achieved maximum capacity from 2017.

Furthermore, we have also (i) discussed with the Independent Valuer and understand their view on the major expenses items of the Tarps Valuation; (ii) reviewed the related breakdowns; (iii) reviewed the Tarps Audited Financial Statements and Tarps Unaudited Financial Statements. Set out below is the information of major expenses items of C & H Tarps for each of the six months ended 30 June 2019 and the two years ended 31 December 2017 and 2018 as extracted from the Tarps Unaudited Financial Statements and Tarps Audited Financial Statements:

|                                     | For the year ended<br>31 December   |                                      |                                     |                                      | For the six months<br>ended 30 June   |  |
|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|--|
|                                     | 2018<br>VND<br>million<br>(audited) | 2018<br>HK\$<br>million<br>(audited) | 2017<br>VND<br>million<br>(audited) | 2017<br>HK\$<br>million<br>(audited) | 2019<br>VND<br>million<br>(unaudited) | 2019<br>HK\$<br>million<br>(unaudited) |
| Cost of sales                       | 44,095                              | 14.8                                 | 39,372                              | 13.3                                 | 23,672                                | 7.9                                    |
| Percentage to revenue               | 61.8%                               | 61.8%                                | 61.6%                               | 61.6%                                | 71.0%                                 | 71.0%                                  |
| General and administration expenses | 5,639                               | 1.9                                  | 3,935                               | 1.3                                  | 3,289                                 | 1.1                                    |
| Percentage to revenue               | 7.9%                                | 7.9%                                 | 6.2%                                | 6.2%                                 | 9.9%                                  | 9.9%                                   |

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According to the Tarps Valuation Report, direct labour were the largest component of C & H Tarps' cost of sales, represented approximately 31.4% to 35.7% of C & H Tarps' cost of sales during 2016 to 2018. Followed by utilities expenses, which accounted for approximately 24.7% to 26.9% of C & H Tarps' cost of sales during 2016 to 2018. Other cost of sales items such as indirect labour, consumables and depreciation, which together accounted for approximately 37.4% to 44.0% of C & H Tarps' cost of sales during 2016 to 2018.

As discussed with the Independent Valuer, we understand that when estimating the cost of sales of C & H Tarps, the management of the C & H Tarps and the Independent Valuer applied the percentage of cost of sales to revenue of approximately 67.8% to 72.2% during 2019 to 2023. Direct labour continued to be the largest component of C & H Tarps' cost of sales, representing approximately 34.2% to 39.9% of C & H Tarps' cost of sales during 2019 to 2023. Followed by utilities expenses, which accounted for approximately 24.6% to 26.2% of C & H Tarps' cost of sales during 2019 to 2023; and the other cost of sales items such as indirect labour, consumables and depreciation, which together accounted for approximately 35.5% to 39.6% of C & H Tarps' cost of sales during 2019 to 2023.

General and administration expenses mainly included salaries and compulsory social, health and unemployment insurance of employees. General and administration expenses is expected to account for approximately 8.2% to 9.3% of C & H Tarps' revenue from 2019 to 2023, which the annual salaries of employees are expected increase, while the number of employees is expected to remain unchanged.

Based on our review of the historical and estimated financial information provided by the management of C & H Tarps, we note that the historical and estimated growth rate of revenue as well as the historical cost structure and growth trend of cost supported the projection of revenue and operation expenses of the Tarps Valuation. Based on the above, we are not aware of any factors which would cause us to doubt the fairness and reasonableness of the assumptions used in the Tarps Valuation.

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## LETTER FROM HALCYON CAPITAL

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### *3.3.5 Discount rate of C & H Tarps*

When applying the discounted cash flow method to estimate the present value of the above financial projections, it is necessary to determine an appropriate discount rate for C & H Tarps. We noted that the Independent Valuer has used WACC of 10.5% to 11.5% to estimate the required rate of return of C & H Tarps, which we understand from our discussion with the Independent Valuer, is widely adopted for the purpose of estimating the required rate of return of a company in Vietnam. In deriving the discounted rate of 10.5% to 11.5%, the Independent Valuer has taken into account various factors including, among others (i) risk free rate; (ii) equity risk premium; (iii) beta, a measure of non-diversifiable risk of the comparable companies; and (iv) cost of debt. Accordingly, we have discussed with the Independent Valuer regarding the major factors taken into consideration in deriving the discount rate, and noted that these factors are commonly used parameters in the industry when preparing valuation reports. In this regard, we have (i) reviewed the relevant source of information and calculations; (ii) discussed with the Independent Valuer the basis and assumptions of the major factors considered in deriving the discount rate, which is in line with common industry practice; (iii) noted that although C & H Tarps is also subject to specific risks such as forecast risk and customer concentration risk, but given its forecasted revenue is expected to be remained stable in 2019 to 2023, therefore no considered risk premium was included to the discount rate; and (iv) conducted our independent research on parameters including the risk free rate and cost of debt from public information and noted that the risk free rate and cost of debt adopted in the Tarps Valuation are in line with market. Having considered the above selection criteria used by the Independent Valuer when determining the discount rate, we consider that the criteria adopted are appropriate.

### *3.3.6 General and specific assumptions of C & H Tarps*

A number of general and specific assumptions have been applied in determining the Tarps Valuation pursuant to the Tarps Valuation Report, for details of the basis and assumptions please refer to paragraphs headed “VALUATION – Indicative Valuation of C & H Tarps – General Assumptions” and “VALUATION – Indicative Valuation of C & H Tarps – Specific Assumptions” in the Letter from the Board. We have discussed with the Independent Valuer and the Independent Valuer has confirmed that the relevant underlying assumptions adopted in the Tarps Valuation are normally used and fair and reasonable. Based on the review and discussion with the Independent Valuer, we consider that the general and specific assumptions used in the Tarps Valuation are fair and reasonable.

#### **4. Effects on financial effect of the Acquisition**

##### **4.1 Earnings**

Upon completion of the Acquisitions, the results of the Target Companies will be consolidated into the income statement of the Group. Given the Target Companies was profit-making for the year ended 31 December 2018, if the completion of the Acquisitions had taken place on 1 January 2018, the Group would have taken up the profit of the Target Companies.

##### **4.2 Net asset value**

Upon completion of the Acquisitions, the Target Companies' assets and liabilities will be consolidated into consolidated statement of financial position of the Group.

As disclosed in the 2019 Interim Report, the unaudited consolidated net assets value attributable to the Shareholders was approximately HK\$2,051.4 million as at 30 June 2019, given the Considerations would be settled by way of internal resources and unsecured revolving bank loans of the Group, the net assets value attributable to the Shareholders would not be affected by the Acquisitions.

##### **4.3 Gearing**

As the Group intended to finance the Acquisitions by way of internal resources and unsecured revolving bank loans of the Group, any additional unsecured revolving bank loans to be draw down by the Group will increase the gearing ratio of the Group. Furthermore, any bank loans of the Target Companies will also be consolidated to the consolidated finance position of the Group and hence will also increase the gearing of the Group.

It should be noted that the aforementioned analyses are for illustration purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Acquisitions.



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## LETTER FROM HALCYON CAPITAL

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### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, which, in particular, include (i) the Acquisitions will enhance the product portfolio of the Group, which is in line with the business strategy of the Group and will enable the Group to diversify its products and enhance revenue sources and business coverage; (ii) the Considerations are with reference to the Valuations of the Target Companies; and (iii) the positive historical financial performance of the Target Companies with which the Target Companies were profit making during the three years ended 31 December 2019, we consider that the Acquisitions are on normal and commercial terms and the terms of the Share Transfer Agreement and the Capital Contribution Transfer Agreement are fair and reasonable and the Acquisitions are in the interest of the Company and the Shareholders as a whole.

Accordingly, we advise (i) the IBC to recommend the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Acquisitions and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Halcyon Capital Limited**  
**Terry Chu**  
*Managing Director*

*Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 19 years of experience in corporate finance industry.*

*The following is a summary of the valuation reports prepared by PwC (Vietnam) Limited an independent valuer, in connection with C & H Vina and C & H Tarps, which are to be acquired by the Group, as at the valuation date of 31 December 2018. The valuation reports with respect to C & H Vina and C & H Tarps have been prepared solely for the purposes of assisting the Company for its internal discussion in its evaluation of C & H Vina and C & H Tarps, and should not be relied upon for any other purposes. Terms defined in this appendix applies to this appendix only.*

#### **I. SUMMARY OF VALUATION REPORT OF C & H VINA JOINT STOCK COMPANY (“C & H VINA”)**

The following is a summary of valuation report of C & H Vina which is extracted from the Executive Summary of the same. This Executive Summary should be read in conjunction with the detailed Report, which sets out our scope of work, the detailed assumptions, limitations, restrictions, risk factors and other relevant matters of which the Company should be aware. Any party to whom the Valuation Report is made available to for detailed review shall sign and return to PwC (Vietnam) Limited either a letter holding PwC (Vietnam) Limited harmless or a letter from PwC (Vietnam) Limited assuming duty of care to that party. This indicative valuation has been conducted as at the Valuation Date of 31 December 2018, while the Company determined the transaction consideration in 2019. Therefore, there is a time gap between these two dates, where the Directors are responsible for in their determination of the transaction consideration.

##### **Summary of the indicative values range**

- We have adopted the Income Approach (Discounted Cash Flow method (“**DCF**”)) as our primary approach, having taken into account C & H Vina business operations and earnings potential. The choice of valuation methods was on the basis that Income Approach takes into consideration of the respective companies’ business growth, the level of sales growth and earnings potential going forward. Our findings were cross checked using the market approach.

In general, there are several methods which can be applied to value a company.

Asset-based approach has not been considered as appropriate valuation method as it takes into account neither the business expansion plan nor expected earnings growth of C & H Vina.

While Income approach and Market approach are the most commonly used valuation methods, Market approach would typically be considered as the main valuation method where financial projections are not readily available, and when a company is in a stable business environment and has a mature business model. This method is appropriate for the valuation of a minority ownership interest using the valuation premise of a going concern business.

On the other hand, Income approach (DCF) recognises the controlling perspective of the potential transaction, as well as facts and circumstances of C & H Vina's businesses, including its business growth, the level of sales growth, as well as its earnings potential going forward.

Therefore, Income approach (DCF) has been considered as the primary valuation method, while Market approach has been used to cross check the results derived from Income approach.

- We have applied a range of discount rates from 12.5% to 13.5% to the Free Cash Flow to Firm ("FCFF") of C & H Vina generated from its business. The indicative values of the entire equity of C & H Vina using the DCF model are shown in the table below:

|  | Low case      | Base case     | High case     |
|--|---------------|---------------|---------------|
| <b>Discount rate</b>                             | <b>13.5%</b>  | <b>13.0%</b>  | <b>12.5%</b>  |
| Present value of FCFF in projection period       | 3,139         | 3,189         | 3,240         |
| Present value of terminal value                  | 14,244        | 15,198        | 16,247        |
| <b>NPV of FCFF/Enterprise value (USD'000)</b>    | <b>17,384</b> | <b>18,387</b> | <b>19,487</b> |
| Add: Cash and cash equivalents                   | 2,648         | 2,648         | 2,648         |
| Add: Surplus assets                              | 2,567         | 2,567         | 2,567         |
| Less: Borrowings                                 | (11,868)      | (11,868)      | (11,868)      |
| <b>Equity value (marketable basis) (USD'000)</b> | <b>10,731</b> | <b>11,734</b> | <b>12,834</b> |
| <b>Implied EV/EBITDA (times)</b>                 | <b>7.9x</b>   | <b>8.3x</b>   | <b>8.8x</b>   |

*Note: The implied EV/EBITDA is calculated based on C & H Vina's average EBITDA in FY2017 to FY2018.*

Source: Management information and PwC analysis

- Based on the valuation analysis performed and premised on the underlying bases and assumptions, the indicative fair market value of C & H Vina as at 31 December 2018 (“**Valuation Date**”) ranges from an equity value of **USD10.7 million to USD12.8 million**. In estimating the equity value, we have subtracted the net debt from the enterprise value of **USD17.4 million to USD19.5 million**.
- We have relied on the following key assumptions in estimating the indicative value of C & H Vina as at the Valuation Date:
  - C & H Vina will be able to achieve the projected performance for the period from the financial year (“**FY**”) 2019 to FY2023 based on the assumptions provided by management of C & H Vina; and
  - The fair value of C & H Vina was assessed on an “as-is-where-is” basis at the Valuation Date, with no material changes foreseen in the current business strategy and direction of C & H Vina.
- For the purposes of cross-checking to the valuation of C & H Vina using DCF Approach, we have considered the EV/EBITDA multiples of the comparable companies and calculated a set of multiples as at 31 December 2018 for eight (8) comparable peer entities with similar business operations to C & H Vina. Those comparable peer entities represent an exhaustive list which are derived from Bloomberg Terminal database (Bloomberg Terminal which PwC (Vietnam) Limited subscribed is a computer software system provided by Bloomberg L.P., a financial data vendor to provide real-time data, news, research, analytics for financial professionals) as at 31 December 2018 based on the following selection criteria and PwC (Vietnam) Limited’s judgment as follows. By its very nature, valuation work cannot be regarded as an exact science and the comparable peer entities arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement.
  - Identical or similar industry: Tarpaulin/plastic woven-fabric manufacturing business
  - Business territory: in both developing and developed countries
  - Appropriate business scale with C & H Vina, based on market capitalization, revenue, earnings, etc.
  - Appropriate profitability range consideration including but not limited to revenue growth, gross profit margin, EBITDA, return on equity (“**ROE**”), etc.

- Comparing C & H Vina's implied EV/EBITDA multiple range of **7.9x to 8.8x** to the range of trading multiples of **5.4x to 7.2x**, we note that: (i) C & H Vina has the advantage of leveraging on the working capital cash flows payable to C & H Tarps: In practice C & H Vina enjoys a credit term of up to six (6) months for the processing fees payable to its related parties, including C & H Tarps and Dream Vina Company Limited. Accordingly, the respective days payable outstanding was assumed at 185 days in the projections, which provides significant working capital financing to C & H Vina and helps to improve its enterprise value; and (ii) the comparable companies in the region are publicly traded companies and their multiples do not reflect a control premium.
- On the other hand, the multiples derived from precedent transactions ranges from **5.7x to 6.7x**. We would like to highlight that each transaction has its own characteristics, negotiation position, specific transaction terms, and the multiples indicated may include factors specific to the transactions/companies or the respective markets that the companies operate in.
- There was no marketability discount applied on the indicative valuation of C & H Vina, because as an unlisted company, it is arguable that such a discount should be applied to its equity where such equity has been valued on a marketable, controlling basis under the DCF Approach. The level of marketability discount is, however, highly subjective, even in developed capital markets. While the Valuer has not sought to estimate such a discount given the difficulty of doing so in a market such as Vietnam, the Valuer would like to bring this factor to the attention of the Company.
- The indicative valuation of C & H Vina is inevitably subject to several risk factors that could materially affect the business, financial condition and operational results of C & H Vina. These risks include, among others, the following:

***Other Risk Factors to Consider:***

*Risks associated with the capacity expansion plan*

- Management forecasts revenue growth at a CAGR of approximately 6.2% p.a. during FY2019 to FY2023 period which mainly derives from the increase in sales volume to prospective new offshore customers. As at the date this valuation was conducted, management asserts that such growth would be the purchasing acceptance via correspondences and secured purchase orders with major Japanese customers from the middle of FY2019 to the early of FY2020. Nevertheless, the achievability of such growth is uncertain and subject to the progress of C & H Vina's production expansion plan.

- Specifically, C & H Vina expects to build an additional finishing factory in FY2019 to FY2020 and a new fabric factory in FY2020 to FY2021, which have been incorporated in the financial projections adopted for this valuation analysis. Management states that they were looking for land to build the new finishing factory; while as of today, construction has already started and is expected to complete by the end of the first quarter of 2020. Nonetheless, any delay to the construction works (due to issues with land use right and clearance procedures with local authority during 2019) may lead to their failure to meet growing customer demands and ultimately jeopardise earnings growth in both projection and terminal period.

*Risks associated with high customer concentration*

- In FY2018, the revenue contribution from the top five key customers was approximately 62.7% of C & H Vina's total sales and this percentage increased to 71.7% in early 6 months of FY2019. Management of C & H Vina expects the revenue contribution from key offshore customers will continue to be significant during the projection period, especially from prospective customers.
- We wish to emphasise that a high customer concentration may carry substantial risks that can outweigh the benefits to C & H Vina in the long term. In such circumstances, C & H Vina's business may become very sensitive to its major customers' business risks and financial risks.
- Also, without long-term formal sales contracts with key customers, should they decide to switch to other suppliers (i.e. in China), the anticipated cash flows as well as financial performance of C & H Vina could be impacted as a consequence of losing substantial sales.

*Risk associated with resin price movement*

- Costs of finished goods manufactured comprises mainly of High Density Poly Ethylene, Low Density Poly Ethylene, and Linear Low Density Poly Ethylene resin costs (i.e. more than 70%). Any unexpected fluctuations in resin price will jeopardise C & H Vina's gross profit, and future cash inflow, given that C & H Vina usually agrees a fixed price with key wholesalers and retailers at the beginning of each fiscal year.
- Considering the above, we would like to highlight that, in the event that C & H Vina is unable to meet its financial forecasts, there would be a negative impact on C & H Vina's earnings on which the valuation is based.

**II. SUMMARY OF VALUATION REPORT OF C & H TARPS CO., LTD. (“C & H TARPS”)**

The following is a summary of valuation report of C & H Tarps which is extracted from the Executive Summary of the same. This Executive Summary should be read in conjunction with the detailed Report, which sets out the scope of work, detailed assumptions, limitations, restrictions, risk factors and other relevant matters of which the Company should be aware. Any party to whom the Valuation Report is made available to for detailed review shall sign and return to PwC (Vietnam) Limited either a letter holding PwC (Vietnam) Limited harmless or a letter from PwC (Vietnam) Limited assuming duty of care to that party. This indicative valuation has been conducted as at the Valuation Date of 31 December 2018, while the Company determined the transaction consideration in 2019. Therefore, there is a time gap between these two dates, where the Directors are responsible for in their determination of the transaction consideration.

**Summary of the indicative value range**

- We have adopted the Income Approach (or DCF Approach) as our primary approach, having taken into account the business operations and earnings potential of C & H Tarps. The choice of valuation methods was on the basis that Income Approach takes into consideration of the respective companies’ business growth, the level of sales growth and earnings potential going forward. Our findings were cross checked using the Market Approach.

In general, there are several methods which can be applied to value a company.

Asset-based approach has not been considered as appropriate valuation method as it takes into account neither the business expansion plan nor expected earnings growth of C & H Tarps.

While Income approach and Market approach are the most commonly used valuation methods, Market approach would typically be considered as the main valuation method where financial projections are not readily available, and when a company is in a stable business environment and has a mature business model. This method is appropriate for the valuation of a minority ownership interest using the valuation premise of a going concern business.

On the other hand, Income approach (DCF) recognises the controlling perspective of the potential transaction, as well as facts and circumstances of C & H Tarps’ businesses, including its business growth, the level of sales growth, as well as its earnings potential going forward.

Therefore, Income approach (DCF) has been considered as the primary valuation method, while Market approach has been used to cross check the results derived from Income approach.

- We have applied a range of discount rates from **10.5% to 11.5%** to the FCFF of C & H Tarps generated from its business. The indicative values of the entire equity of C & H Tarps using the DCF model are shown in the table below:

|  | Low case       | Base case      | High case      |
|--|----------------|----------------|----------------|
| <b>Discount rate</b>                                 | <b>11.5%</b>   | <b>11.0%</b>   | <b>10.5%</b>   |
| Present value of FCFF in projection period           | 56,328         | 56,916         | 57,515         |
| Present value of terminal value                      | 59,248         | 63,788         | 68,874         |
| <b>NPV of FCFF/Enterprise value (VND million)</b>    | <b>115,576</b> | <b>120,704</b> | <b>126,389</b> |
| Add: Cash and cash equivalents                       | 835            | 835            | 835            |
| Less: Borrowings                                     | –              | –              | –              |
| <b>Equity value (marketable basis) (VND million)</b> | <b>116,411</b> | <b>121,539</b> | <b>127,224</b> |
| <b>Enterprise value (USD'000)</b>                    | <b>4,972</b>   | <b>5,193</b>   | <b>5,437</b>   |
| <b>Equity value (USD'000)</b>                        | <b>5,008</b>   | <b>5,229</b>   | <b>5,473</b>   |
| <b>Implied EV/EBITDA (times)</b>                     | <b>5.0x</b>    | <b>5.2x</b>    | <b>5.5x</b>    |

*Note: The implied EV/EBITDA is calculated based on C & H Tarps's average EBITDA in FY2017 to FY2018*

*(Vietcombank exchange rate as at Valuation Date: USD/VND = 23,245)*

Source: Management information and PwC analysis

- Based on the valuation analysis performed and premised on the underlying bases and assumptions, the indicative fair market value of C & H Tarps as at Valuation Date ranges from an equity value of **USD5.01 million to USD5.47 million**. In estimating the equity value, we have added the net cash to the enterprise value of **USD4.97 million to USD5.44 million**.
- We have relied on the following key assumptions in estimating the indicative value of C & H Tarps as at the Valuation Date:
  - C & H Tarps will be able to achieve the projected performance for the period from the FY2019 to FY2023 based on the assumptions provided by Management of C & H Tarps; and



- The preliminary assessment of C & H Tarps’s fair value was performed on an “as-is-where-is” basis as at the Valuation Date, with no material changes foreseen in the current business strategy and direction of C & H Tarps.
  
- For the purposes of cross-checking to the valuation of C & H Tarps using DCF Approach, we have considered the EV/EBITDA multiples of the comparable companies and calculated a set of multiples as at 31 December 2018 for eight (8) comparable peer entities with similar business operations to C & H Tarps. Those comparable peer entities represent an exhaustive list which are derived from Bloomberg Terminal database (Bloomberg Terminal which PwC (Vietnam) Limited subscribed is a computer software system provided by Bloomberg L.P., a financial data vendor to provide real-time data, news, research, analytics for financial professionals) as at 31 December 2018 based on the following selection criteria and PwC (Vietnam) Limited’s judgment as follows. By its very nature, valuation work cannot be regarded as an exact science and the comparable peer entities arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement.
  - Identical or similar industry: Tarpaulin/plastic woven-fabric manufacturing business
  - Business territory: in both developing and developed countries
  - Appropriate business scale with C & H Tarps, based on market capitalization, revenue, earnings, etc.
  - Appropriate profitability range consideration including but not limited to revenue growth, gross profit margin, EBITDA, ROE, etc.
  
- Comparing C & H Tarps’s implied EV/EBITDA multiple range of 5.0x to 5.5x to the range of trading multiples from 4.2x to 5.4x, we would like to highlight that:
  - (i) C & H Tarps has the disadvantage of working capital cash flows. In practice, C & H Vina enjoys a credit term of up to nine (9) months for the processing fee owed to CHT in early 6 month of FY2019. The long days payable outstanding assumed at 209 days in the projection adversely affects C & H Tarps’s working capital, so declines the company’s enterprise value);
  - (ii) while C & H Tarps profitability margin is superior to comparable business which operates widely within woven fabric, PE Tarpaulin supply chain, resulting the in-line multiple range.

- Meanwhile, the multiple derived from precedent transactions ranges from **3.4x** to **5.7x**. We would like to highlight that each transaction has its own characteristics, negotiation position, specific transaction terms and the multiples indicated may include factors which are specific to the companies or the respective markets that the companies operate in.
- There was no marketability discount applied on the indicative valuation of C & H Tarps, because as an unlisted company, it is arguable that such a discount should be applied to its equity where such equity has been valued on a marketable, controlling basis under the DCF Approach. The level of marketability discount is, however, highly subjective, even in developed capital markets. While the Valuer has not sought to estimate such a discount given the difficulty of doing so in a market such as Vietnam, the Valuer would like to bring this factor to the attention of the Company.

The indicative valuation of C & H Tarps is inevitably subject to several risk factors that could materially affect the business, financial condition and operational results of C & H Tarps. These risks include, among others, the following:

***Other Risk Factors to Consider:***

*Risks associated with high customer concentration*

- C & H Tarps's revenue is wholly derived from providing processing service for C & H Vina. We wish to emphasise that high customer concentration may carry substantial risks that can outweigh any benefits to C & H Tarps in the long term. In such circumstances, C & H Tarps's business may become very sensitive to C & H Vina's business risks and financial risks; and the anticipated cash flows of C & H Tarps can be adversely impacted as a consequence of losing sales to or being unable to collect any outstanding receivables from them.

*Risk associated with unexpected movement of production costs*

- Utility: Utility expenses, specifically electricity and water, are one of the primary components of cost of goods sold structure, making up roughly 27% of production costs in FY2018. On average, average CAGR of utility expense during FY2016 to FY2018 was 6.6%. According to the Ministry of Industrial and Trade statistic, electricity price was adjusted drastically on average every two to three years, historically in March 2015, December 2017, March 2019. Hence, a prospective up-lift in electricity tariff, imposed by the Ministry of Industry and Trade similar to the early FY2019 will deteriorate C & H Tarps's profitability, and future cash flow up to 3% annually.

- Consumables: Consumables, which mainly relate to machine spare parts, can be significant in case the equipment malfunctions and requires upgrading or replacement to meet production plan. Currently, consumables made up from 14% to 16% of total cost of products manufactured during FY2016 to FY2018. Since most of C & H Tarps's fixed assets are fully depreciated, unexpected exceeding consumable expenses to repair the old equipment may affect the C & H Tarps's financial performance during the projection period.
- Considering the above exposures, we would like to highlight that, in the event that C & H Tarps is unable to meet its financial forecasts, there would be a negative affect on C & H Tarps's earnings on which the valuation is based.



## DREAM INTERNATIONAL LIMITED

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 1126)

3 March 2020

The Stock Exchange of Hong Kong Limited  
12/F, Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong

Dear Sirs/Madams,

**Company:** Dream International Limited (Stock Code: 1126)

**Subject:** Letter from the Board (Re: Profit Forecast – Confirmation Letter under the Requirements of Rule 14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”))

Reference is made to the circular of Dream International Limited (the “**Company**”) dated 3 March 2020 on the Discloseable and Connected Acquisition of Tarpaulin Business, pursuant to which the reports of valuation (the “**Valuations**”) prepared by PwC (Vietnam) Limited on the entire equity interest in C & H Vina and C & H Tarps (the “**Target Companies**”) as at 31 December 2018 were referred. It is noted that the Valuations are prepared based on the discounted future cash flows and is regarded as a profit forecast (the “**Profit Forecast**”) under Rule 14.61 of the Listing Rules.

We have reviewed the bases and assumptions based on which the Valuations have been prepared, and reviewed the Valuations for which PwC (Vietnam) Limited is responsible. We have considered the report from KPMG, Certified Public Accountants, (the “**Reporting Accountants**”) dated 3 March 2020 addressed to the board of directors (the “**Board**”) of the Company regarding whether the discounted future cash flows used in the Valuations were compiled properly so far as the calculations are concerned.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board confirmed that the Profit Forecast used in the Valuations have been made after due and careful enquiry.

Yours faithfully,

For and on behalf of the Board

**Dream International Limited**

**Young M. Lee**

*Executive Director*

*The following is the text of a report issued by KPMG, Certified Public Accountants, Hong Kong, dated 3 March 2020 for inclusion in this circular in respect of acquisition of tarpaulin business.*



**REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH  
THE BUSINESS VALUATION OF C & H VINA JOINT STOCK COMPANY AND C & H  
TARPS CO., LTD.**

**TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED**

We refer to the discounted future cash flows on which the business valuations (collectively, “**the Valuation**”) dated 24 February 2020 prepared by PwC (Vietnam) Limited in respect of the appraisal of the fair values of C & H Vina Joint Stock Company and C & H Tarps Co., Ltd. (“**the Target Companies**”) as at 31 December 2018 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

**Directors’ Responsibilities**

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

**Our Independence and Quality Control**

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

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

### **Basis of Opinion**

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

### **Opinion**

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

### **Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Companies or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

3 March 2020



## 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. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, 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 referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange were as follows:

#### *Long position in the Shares and underlying Shares:*

| Name of Directors                  | Personal interests | Number of Shares held |                     |             | Total  | Approximate % of the total issued Shares as at the Latest Practicable Date |
|------------------------------------|--------------------|-----------------------|---------------------|-------------|--------|--|
|                                    |                    | Family interests      | Corporate interests |             |        |  |
| Kyoo Yoon Choi <sup>(Note 2)</sup> | 386,525,000        | –                     | 72,150,000          | 458,675,000 | 67.76% |  |
| Young M. Lee                       | 2,500,000          | –                     | –                   | 2,500,000   | 0.37%  |  |
| Hyun Ho Kim                        | 150,000            | –                     | –                   | 150,000     | 0.02%  |  |
| Sung Sick Kim                      | 3,486,000          | –                     | –                   | 3,486,000   | 0.52%  |  |

#### Notes:

- The shares are registered under the names of the Directors and chief executives of the Company who are the beneficial owners.
- Mr. Kyoo Yoon Choi beneficially owns 100% of the issued shares of Uni-Link Technology Limited which owned 72,150,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations 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 recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Substantial Shareholders' interests and short positions in Shares, underlying Shares and debentures of the Company**

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons had, or were deemed to have, interests or short positions in the Shares or underlying Shares as recorded in the register kept by the Company pursuant to Section 336 of the SFO 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:

| Name of Shareholder         | Capacity   | Number of ordinary Shares held (long position) | Approximate % of the total issued Shares as at the Latest Practicable Date |
|-----------------------------|--|--|--|
| Kyoo Yoon Choi              | Beneficial owner   | 386,525,000                                    | 57.11%   |
|                             | Corporate interest <sup>(Note 1)</sup>                   | 72,150,000                                     | 10.66%   |
| Uni-Link Technology Limited | Beneficial owner   | 72,150,000                                     | 10.66%   |
| FIL Limited                 | Interest in a controlled corporation <sup>(Note 2)</sup> | 47,488,000                                     | 7.02%  |
| Pandanus Partners L.P.      | Interest in a controlled corporation <sup>(Note 3)</sup> | 47,488,000                                     | 7.02%  |
| Pandanus Associate Inc.     | Interest in a controlled corporation <sup>(Note 3)</sup> | 47,488,000                                     | 7.02%  |
| Fidelity Funds              | Beneficial owner   | 36,936,000                                     | 5.46%  |

*Notes:*

1. Mr. Kyoo Yoon Choi beneficially owns 100% of the issued shares of Uni-Link Technology Limited which owned 72,150,000 Shares.
2. FIL Limited owns a series of controlled corporations which directly or indirectly hold 47,488,000 Shares in aggregate. By virtue of the SFO, FIL Limited is deemed to be interested in these shares.
3. Pandanus Partners L.P. owns a series of controlled corporations which directly or indirectly hold 47,488,000 Shares in aggregate. Pandanus Partners L.P. is a wholly-owned subsidiary of Pandanus Associates Inc.. By virtue of the SFO, Pandanus Partners L.P. and Pandanus Associates Inc. are deemed to be interested in these shares.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other person had interests or short positions in the Shares or underlying Shares which were recorded in the register kept by the Company pursuant to Section 336 of the SFO 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.

**3. COMPETING INTERESTS**

C & H Group is principally engaged in the business of property investment in Seoul, Korea, leather goods and accessories agency, garments, fabrics and textiles manufacturing and investment holding in Vietnam. Mr. Kyoo Yoon Choi is a shareholder and a director of C & H and Mr. Sung Sick Kim is a shareholder of C & H, therefore, are deemed to be interested in these businesses, some of which may compete with the Group's businesses.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) was considered to have any interests in the business which compete or is likely to compete, either directly or indirectly, with the businesses of the Group.

**4. 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 does not expire or is not determinable by the relevant member of the Group within one year without payment of compensation other than statutory compensation.

## 5. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, Mr. Kyoo Yoon Choi has material interests in the following contracts or arrangements which were significant and subsisting in relation to the business of the Group:

- 1) On 1 April 2016, the Company entered into a supply agreement with C & H (Mr. Choi is the controlling shareholder of both C & H Group and the Group), which the Company agreed to supply various types of toy products and processing services for the period of three years ended 31 March 2019. The Supply agreement renewed on 1 April 2019 for the period of three years ending 31 December 2021.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018 (the date to which the latest published audited consolidated accounts of the Company 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.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any contract or arrangement in which a Director is materially interested in and which is significant in relation to the business of the Group.

## 6. QUALIFICATION OF EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice, which is contained or referred to in this circular:

| <b>Name</b>           | <b>Qualification</b>  |
|-----------------------|---|
| PwC (Vietnam) Limited | an independent professional valuer  |
| KPMG                  | Certified Public Accountants  |
| Halcyon Capital       | a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO |

As at the Latest Practicable Date, each of Valuer, Halcyon Capital and KPMG does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

To the best of the Directors' knowledge, information and belief, each of Valuer, Halcyon Capital and KPMG is a third party independent of and not connected with the Company or the connected persons (as defined in the Listing Rules) of the Company and its subsidiaries.

As at the Latest Practicable Date, each of Valuer, Halcyon Capital and KPMG has given and has not withdrawn its written consent to the circular with the inclusion of herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since 31 December 2018 (the date to which the latest published audited consolidated accounts of the Company 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.

#### **7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

#### **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at 6/F, Tower 1, South Seas Centre, 75 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and public holidays) from the date of this circular up to and including 23 March 2020:

- (a) the memorandum of association and articles of association of the Company;
- (b) the letter from the IBC as set out in this circular;
- (c) the letter from Halcyon Capital as set out in this circular;
- (d) the written consents from the experts referred to in the paragraph headed “Qualification of Experts and Consents” in this appendix;
- (e) the valuation reports of C & H Tarps and C & H Vina prepared by PwC (Vietnam) Limited dated 24 February 2020;
- (f) the letter from the Board in relation to the profit forecasts as set out in this circular;
- (g) the report from KPMG in relation to the discounted future cash flows in connection with the business valuation of C & H Vina Joint Stock Company and C & H Tarps Co., Ltd. as set out in this circular;
- (h) the contracts referred to in the paragraph under the heading “Directors’ Interest in Contracts and Assets” in this appendix;
- (i) the Share Transfer Agreement;
- (j) the Capital Contribution Transfer Agreement; and
- (k) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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## DREAM INTERNATIONAL LIMITED

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 1126)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Dream International Limited (the “Company”) will be held at 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong on 23 March 2020 at 10:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions which will be proposed, with or without modification, as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the share transfer agreement dated 29 November 2019 (the “**Share Transfer Agreement**”) (a copy of which has been tabled at the meeting marked “A” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company as purchaser and C & H Co., Ltd., Mr. Tae Sub Choi and Mr. Jae Dong Shin as vendors (the “**Vendors 1**”), pursuant to which the Company conditionally agreed to purchase, and the Vendors 1 conditionally agreed to sell, the entire issued share capital of C & H Vina Joint Stock Company, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company (the “**Director(s)**”) (or any two Directors or a Director together with the company secretary of the Company if the affixing of the common seal of the Company is necessary) be and is hereby authorised on behalf of the Company to do or take all acts, things and steps necessary, appropriate, desirable or expedient in his/her/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to and/or complete any matters relating to or in connection with the Share Transfer Agreement, and the transactions contemplated thereunder (including, without limitation, the affixing of common seal of the Company).”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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2. “**THAT**

- (a) the capital contribution transfer agreement dated 29 November 2019 (the “**Capital Contribution Transfer Agreement**”) (a copy of which has been tabled at the meeting marked “B” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company as purchaser and C & H Co., Ltd. as vendor, pursuant to which the Company conditionally agreed to purchase, and C & H Co., Ltd. conditionally agreed to sell, the entire issued share capital of C & H Tarps Co., Ltd., and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one Director (or any two Directors or a Director together with the company secretary of the Company if the affixing of the common seal of the Company is necessary) be and is hereby authorised on behalf of the Company to do or take all acts, things and steps necessary, appropriate, desirable or expedient in his/her/their opinion to be in the interests of the Company and its shareholders as a whole to approve and implement and/or give effect to and/or complete any matters relating to or in connection with the Capital Contribution Transfer Agreement, and the transactions contemplated thereunder (including, without limitation, the affixing of common seal of the Company).”

By order of the Board  
**Dream International Limited**  
**Young M. Lee**  
*Executive Director*

Hong Kong, 3 March 2020

*Notes:*

1. A member entitled to attend and vote at the above meeting shall be entitled to appoint more than one person as his proxy, to attend and vote for him in accordance with the Articles of Association of the Company. A proxy need not be a member.
2. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited with the Company’s Share Registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof.
4. The register of members of the Company will be closed from 18 March 2020 to 23 March 2020, both dates inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the above meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 17 March 2020.