

22 January 2021

To the Independent Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
SHENWAN HONGYUAN SECURITIES (H.K.) LIMITED
FOR AND ON BEHALF OF MR. SZE CHING LAU
TO ACQUIRE ALL THE ISSUED SHARES OF
BCI GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH HIM)**

INTRODUCTION

Reference is made to the Joint Announcement whereby the Offeror and the Company jointly announced on 17 December 2020 that the Offer would be made by Shenwan Hongyuan Securities for and on behalf of the Offeror to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with him (including Mr. Wong)).

The Company was informed by the Vendors that on 14 December 2020, Aplus Concept and Phoenix Year as the Vendors, Mr. Ng as Guarantor and Mr. Sze and Mr. Wong as the Purchasers entered into the Sale and Purchase Agreement, pursuant to which (i) Aplus Concept has agreed to sell, and Mr. Sze has agreed to purchase, the Sale Shares 1; and (ii) Phoenix Year has agreed to sell, and Mr. Wong has agreed to purchase, the Sale Shares 2 for a total Consideration of HK\$42,456,000 (equivalent to HK\$0.08 per Sale Share). The Sale Shares 1 and the Sale Shares 2, being in aggregate of 530,700,000 Shares (representing approximately 55.28% of the entire issued share capital of the Company as at the Latest Practicable Date). Completion of the Sale and Purchase Agreement took place immediately after the signing of the Sale and Purchase Agreement on 14 December 2020 and the Consideration was fully settled by way of cash on the same day.

Immediately following completion of the Sale and Purchase Agreement, the Offeror and the parties acting in concert with him owned a total of 530,700,000 Shares, representing approximately 55.28% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, Shenwan Hongyuan Securities, on behalf of the Offeror, is making the Offer to the Independent Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with him. The terms of the Offer are set out in this Composite Document and the Form of Acceptance.

As at the Latest Practicable Date, the Company has 960,000,000 Shares in issue and does not have any outstanding options, derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) which are convertible or exchangeable into Shares.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things, (i) the details of the Offer (including the expected timetable and terms of the Offer); (ii) the letter from Shenwan Hongyuan Securities containing details of the Offer; (iii) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the Offer; (iv) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee on whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and on acceptance in respect of the Offer; and (v) further information relating to the Group and the Offeror, together with the Form of Acceptance.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Under Rule 2.1 and Rule 2.8 of the Takeovers Code, a board which receives an offer or which is approached with a view to an offer being made, must, in the interests of shareholders, establish an independent committee of the board to make a recommendation: (i) as to whether the offer is, or is not, fair and reasonable; and (ii) as to the acceptance.

The Independent Board Committee comprising all independent non-executive Directors who have no direct or indirect interest in the Offer, namely, Mr. Wong Sui Chi, Mr. Li Lap Sun and Mr. Ng Kwok Kei Sammy, has been established in accordance with Rule 2.1 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

Given that Phoenix Year, one of the Vendors, is a wholly-owned subsidiary of CSI Properties Limited, the shares of which are listed on the Stock Exchange (stock code: 497), and that Mr. Kan Sze Man, being a non-executive Director, is the executive director of CSI Properties Limited, Mr. Kan Sze Man is therefore not considered to be independent to become a member of the Independent Board Committee.

Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. Such appointment has been approved by the Independent Board Committee.

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

THE OFFER

The following information about the Offer is extracted from the “Letter from Shenwan Hongyuan Securities” contained in this Composite Document.

Shenwan Hongyuan Securities, on behalf of the Offeror, is making the Offer in accordance with the Takeovers Code on the following basis:

For each Offer Share. HK\$0.08 in cash

The Offer is extended to all the Independent Shareholders in accordance with the Takeovers Code. The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of the Shares or any other conditions.

As at the Latest Practicable Date, the Company has not declared and does not intend to declare any dividend prior to the close of Offer.

Comparison of value

The Offer Price of HK\$0.08 per Offer Share represents:

- (i) a discount of approximately 56.52% to the closing price of HK\$0.184 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 55.06% to the closing price of HK\$0.178 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 55.06% to the average closing price of approximately HK\$0.178 per Share based on the daily closing prices as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day;

- (iv) a discount of approximately 55.06% to the average closing price of approximately HK\$0.178 per Share based on the daily closing prices as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 55.06% to the average closing price of approximately HK\$0.178 per Share based on the daily closing prices as quoted on the Stock Exchange for the last thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 15,900% over the adjusted net asset value attributable to the owners of the Company of approximately HK\$0.0005 per Share based on (i) the audited loss attributable to owners of the Company of approximately HK\$19,888,000 as at 31 May 2020; (ii) the net proceeds from placing of shares completed on 18 August 2020 of approximately HK\$20,334,000; and (iii) the total number of issued Shares as at the Latest Practicable Date;
- (vii) a premium of approximately 2,566.67% over the unaudited consolidated net asset value attributable to the owners of the Company of approximately HK\$0.003 per Share (based on the total number of issued Shares as at the Latest Practicable Date) as at 31 August 2020 with reference to the unaudited condensed consolidated statement of changes in equity of the first quarterly report of the Company for the three months ended 31 August 2020; and
- (viii) a premium of approximately HK\$0.0838 over the unaudited consolidated loss attributable to the owners of the Company of approximately HK\$0.0038 per Share (based on the total number of issued Shares as at the Latest Practicable Date) as at 30 November 2020.

Further details of the Offer

Further details of the Offer, including, among other things, its extension to the Overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period can be found in the “Letter from Shenwan Hongyuan Securities” and “Appendix I – Further Terms and Procedures for Acceptance of the Offer” to this Composite Document and the accompanying Form of Acceptance.

INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands with limited liability and its issued shares are listed on GEM (stock code: 8412). The Group is a food and beverage and entertainment group based in Hong Kong that owns and operates (i) two night clubs, namely Volar and Mudita; (ii) one sports-themed bar, namely Paper Street; (iii) one entertainment studio, namely Maximus Studio; and (iv) one restaurant focusing on Japanese-style dishes under the proprietary “Tiger” brand, namely Tiger San.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structure of the Company as at the Latest Practicable Date:

	Number of Shares	Approximate percentage of the issued Shares
The Offeror and parties acting in concert with him		
The Offeror	371,520,000	38.70%
Mr. Wong	<u>159,180,000</u>	<u>16.58%</u>
	530,700,000	55.28%
Public Shareholders	<u>429,300,000</u>	<u>44.72%</u>
Total	<u><u>960,000,000</u></u>	<u><u>100.00%</u></u>

INTENTION OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the paragraph headed “the Offeror’s intention in relation to the Group” in the “Letter from Shenwan Hongyuan Securities” in this Composite Document. The Board is aware that the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group.

The Offeror also intends to retain the management and experienced staff of the Group to continue to run the catering operating immediately following Completion. The Offeror will, following the close of the Offer, conduct a detailed review of the business operations and financial position of the Group for the purpose of developing a sustainable business plan or strategy for the Group. Subject to the results of the review, the Offeror may explore other business opportunities and consider whether any restructuring and/or integration of the existing businesses of the Group will be appropriate in order to enhance long-term growth potential of the Group. The Board is aware of the intention of the Offeror in respect of the Group and its employees and is willing to render reasonable co-operation with the Offeror which is in the interests of the Company and the Shareholders as a whole.

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

Your attention is drawn to the paragraph headed “Proposed change of the Board composition” in the “Letter from Shenwan Hongyuan Securities” in this Composite Document.

The Board is currently made up of seven (7) Directors, comprising three (3) executive Directors, being Mr. Ng Shing Joe Kester, Ms. Lau Sze Yuen and Mr. Ng Shing Chun Ray; one (1) non-executive Director, being Mr. Kan Sze Man; and three (3) independent non-executive Directors, being Mr. Wong Sui Chi, Mr. Li Lap Sun and Mr. Ng Kwok Kei Sammy.

The Offeror intends to retain Mr. Ng Shing Chun Ray as executive Director and nominate Mr. Pong as an independent non-executive Director to the Board with effect after the despatch of the Composite Document. Save as disclosed under the paragraph headed “Proposed change of the Board composition” in the “Letter from Shenwan Hongyuan Securities” in this Composite Document, the Offeror has not yet determined as to who will be nominated and the final composition of the Board as at the Latest Practicable Date. Any changes to the Board will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcement will be made as and when appropriate.

MAINTAINING THE LISTING STATUS AND SUFFICIENT PUBLIC FLOAT OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

As stated in the “Letter from Shenwan Hongyuan Securities” in this Composite Document, the Offeror intends the Company to remain listed on GEM following the close of the Offer. The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer. The Offeror and the Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares after the close of the Offer. In this connection, in the event that the public float of the Company falls below 25% upon the close of the Offer, the Offeror will, as soon as practicable, dispose of such number of Shares either directly in the market or through a placing agent to be appointed by the Offeror to ensure that the public float requirement under the GEM Listing Rules can be met. The Company and the Offeror will issue a separate announcement as and when necessary in this regard in compliance with the GEM Listing Rules.

RECOMMENDATION

None of the members of the Independent Board Committee is interested in or involved in the Offer.

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 21 to 22 of this Composite Document, which contains its recommendation to the Independent Shareholders in respect of the Offer; and (ii) the letter from the Independent Financial Adviser set out on pages 23 to 46 of this Composite Document, which contains its advice to the Independent Board Committee in relation to the Offer and the principal factors considered by it before arriving at its recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully ‘Further terms and procedures for acceptance of the Offer’ set out in Appendix I to this Composite Document and the accompanying Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

In considering what action to take in connection with the Offer, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

For and on behalf of the Board of
BCI Group Holdings Limited

A handwritten signature in black ink, appearing to read 'Ng Shing Joe Kester', written in a cursive style.

Ng Shing Joe Kester
Chairman and Executive Director