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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 a licensed securities dealer, or registered institution in securities, bank manager, solicitor, certified public accountant or other professional adviser.

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

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Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

**(1) PROPOSED CAPITAL REORGANISATION;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

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



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

A letter from the Board is set out on pages 11 to 35 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 36 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 58 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 27 October 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Tuesday, 9 November 2021 to Tuesday, 16 November 2021 (both days inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Tuesday, 9 November 2021 to Tuesday, 16 November 2021 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

A notice convening the SGM to be held at Unit 1603–1604, 16/F Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 22 October 2021 at 11:00 a.m. is set out in the Notice of SGM in this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you are to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 30 September 2021 as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares and is subject to the fulfilment of conditions. Please refer to the section headed “Conditions of the Rights Issue” in this circular. In the event that the Rights Issue is not fully subscribed, any Untaken Shares together with the NQS Unsold Shares will be placed to independent places on a best effort basis under the Placing. Any Untaken Shares or NQS Unsold Shares which are not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

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PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing Coronavirus Disease 2019 (COVID-19) pandemic and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the SGM:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendees at the entrance of the SGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the SGM venue and be asked to leave the SGM venue.
- (ii) Shareholders that (a) have travelled, and have been in close contact with any person who has travelled, outside of Hong Kong (as per guidelines issued by the Hong Kong Government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding fourteen (14) days; (b) are, and have been, in close contact with any person who is, subject to any Hong Kong Government prescribed compulsory quarantine (including home quarantine); (c) are, and have been, in close contact with anyone who has contracted COVID-19, has been tested preliminarily positive of COVID-19 or is suspected of contracting COVID-19; or (d) have any flu-like symptoms, may be denied entry into the SGM venue and be asked to leave the SGM venue.
- (iii) All Shareholders, proxies and other attendees are required to wear surgical face masks inside the SGM venue at all times. Any person who does not comply with this requirement may be denied entry into the SGM venue and be asked to leave the SGM venue. A safe distance between seats are also recommended.
- (iv) No distribution of corporate gift or refreshment will be provided at the SGM.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative to attending the SGM in person, Shareholders are encouraged to consider appointing the Chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM by submitting proxy forms with voting instructions inserted.

The proxy form can be downloaded from the Company's website at www.kh381.com and the website of The Stock Exchange of Hong Kong Limited at <http://www.hkexnews.hk> or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 30 September 2021. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

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

“Adjusted Shares”	the ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“Announcements”	the First Announcement, the announcements of the Company dated 27 August 2021, 6 September 2021, 17 September 2021 and 23 September 2021 in relation to, among other things, the Capital Reorganisation, the Rights Issue and the Placing
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bond Holder’s Undertaking”	the undertaking made by Sheen World International Holdings Limited, being holder of the Convertible Bonds, not to exercise the conversion rights attached to the Convertible Bonds from the date of the Bond Holder’s Undertaking up to and including the Record Date
“Business Day”	a day (other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“Bye-Laws”	the bye-laws of the Company as amended from time to time
“Capital Reduction”	the proposal for the reduction of the par value of the issued Consolidated Shares from HK\$0.05 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share and the cancellation of any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation immediately after the Share Consolidation
“Capital Reorganisation”	the proposed reorganisation of the capital of the Company by way of (i) Share Consolidation; (ii) the Capital Reduction; and (iii) the Share Subdivision referred to in this circular
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“Companies Act”	the Companies Act 1981 of Bermuda, as amended, modified or supplemented from time to time
“Companies Registry”	Companies Registry of Hong Kong
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company”	Kiu Hung International Holdings Limited (僑雄國際控股有限公司), an exempted company incorporated in Cayman Islands with limited liability and continued in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 381)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consolidated Shares”	the ordinary share(s) of par value of HK\$0.05 each in the capital of the Company immediately after the Share Consolidation but prior to the Capital Reduction
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Convertible Bonds”	the HK\$51 million zero coupon convertible bonds due 2024 issued by the Company on 27 May 2021
“Director(s)”	the director(s) of the Company
“Existing Share(s)”	the ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company
“First Announcement”	the announcement of the Company dated 3 August 2021 in relation to, among others, the Capital Reorganisation, the Rights Issue and the Placing
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors (except Mr. Cheng Ho On who has interest in the issued Shares), namely Mr. Wang Xiao Ning, Mr. Kong Chun Wing, Mr. Lai Chi Yin Samuel and Ms. Chen Yuxin, which has been established to advise the Independent Shareholders in respect of the Rights Issue
“Independent Financial Adviser”	Sorrento Capital Limited, a licensed corporation to carry out Type 6 (Advising on Corporate Finance) regulated activity as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Independent Shareholder(s)”	Shareholders other than (i) all executive Directors and their respective associates (as defined under the Listing Rules); (ii) those who are involved in or interested in the Rights Issue; and (iii) those who are required under the Listing Rules to abstain from voting at the SGM
“Independent Third Parties”	third parties independent from, and not connected with, the Company and its connected persons
“Last Trading Day”	3 August 2021, being the last trading day of the Shares on the Stock Exchange before the release of the First Announcement
“Latest Practicable Date”	28 September 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Friday, 19 November 2021 or such later time or date as may be agreed by the Company, being the latest time for acceptance of, and payment for, the Rights Shares
“Latest Time for Termination”	4:00 p.m. on Tuesday, 7 December 2021, or such later time as may be agreed by the Company and the Placing Agent in writing
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“No Action Shareholders”	Qualifying Shareholder(s) or renouncee(s) or transferee(s) of nil-paid rights under PAL(s) during the Rights Issue who do not subscribe for the Rights Shares (whether partially or fully) under the PAL(s), or such persons who hold any Nil Paid Rights at the time such Nil Paid Rights lapse

DEFINITIONS

“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) whom the Board considers necessary or expedient to exclude from the Rights Issue on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“NQS Unsold Shares”	the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form that have not been sold by the Company
“Overseas Shareholders”	the Shareholders whose addresses as shown in the register of members of the Company on the Record Date are not situated in Hong Kong
“p.a.”	per annum
“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Placing”	arrangements to place the Undertaken Shares and the NQS Unsold Shares by the Placing Agent on a best effort basis to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties
“Placing Agent”	Yuet Sheung International Securities Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities
“Placing Agreement”	the conditional placing agreement dated 3 August 2021 entered into between the Company and the Placing Agent in respect of the Placing
“Placing End Date”	Monday, 6 December 2021, or such other dates as the Company may announce
“Placing Long Stop Date”	4:00 p.m. on Tuesday, 7 December 2021 (being the next Business Day after the Placing End Date) or such later date as the Company may announce
“Placing Period”	the period from Monday, 29 November 2021 up to 4:00 p.m. on the Placing End Date, being the period during which the Placing Agent will seek to effect the Placing
“Placing Share(s)”	Untaken Share(s) and the NQS Unsold Share(s)

DEFINITIONS

“Posting Date”	Friday, 5 November 2021, or such other date as the Company may determine and announce for the despatch of the Prospectus Documents
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus, containing further details of the Rights Issue, to be issued by the Company in relation to, among other things, the Rights Issue
“Prospectus Documents”	the prospectus and PAL(s)
“Qualifying Shareholder(s)”	Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholders
“Record Date”	the date by reference to which provisional allotments under the Rights Issue are expected to be determined, which is Thursday, 4 November 2021 or such later date as may be determined and announced by the Company
“Registrar”	Tricor Tengis Limited, the Company’s Hong Kong branch share registrar and transfer office
“Rights Issue”	the proposed offer for subscription of the Rights Shares at the Subscription Price on the basis of three (3) Rights Shares for every one (1) Adjusted Share held by the Shareholders on the Record Date and subject to the conditions set out in the section headed “Conditions of the Rights Issue” in this circular
“Rights Issue Completion”	completion of the Rights Issue
“Rights Issue Settlement Date”	Tuesday, 7 December 2021
“Rights Share(s)”	the new Share(s) to be allotted and issued under the Rights Issue, being up to 611,115,793 Shares (having considered that no new Shares will be issued under the Bond Holder’s Undertaking and assuming there is no other change in the total number of issued Shares from the date of this circular up to and including the Record Date)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve, among other things, the Capital Reorganisation, the Rights Issue; the Placing and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) with par value of HK\$0.01 each in the capital of the Company
“Share Consolidation”	the proposed consolidation of every five (5) Existing Shares of par value of HK\$0.01 each into one (1) Consolidated Share of par value of HK\$0.05 each in the share capital of the Company
“Share Subdivision”	the proposed subdivision of each authorised but unissued Consolidated Share of par value of HK\$0.05 into five (5) Adjusted Shares of par value of HK\$0.01 each
“Shareholders”	the holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.205 per Rights Share
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Untaken Share(s)”	the number of unsubscribed Rights Share(s) not taken up by Qualifying Shareholder(s) or renouncee(s) or transferee(s) of nil-paid rights under PAL(s) during the Rights Issue
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the proposed Capital Reorganisation, the Rights Issue and the Placing and the associated trading arrangement is set out below. The expected timetable is subject to the results of the SGM and satisfaction of the conditions and is therefore for indicative purpose only. Any change to the expected timetable will be announced in a separate announcement by the Company as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

Latest time for lodging transfers documents of Shares to qualify for attendance and voting at the SGM	4:30 p.m. on Friday, 15 October 2021
Closure of register of members of the Company for attending the SGM.....	Monday, 18 October 2021 to Friday, 22 October 2021 (both days inclusive)
Latest time for lodging forms of proxy for the purpose of the SGM.....	11:00 a.m. on Wednesday, 20 October 2021
Record date for determining attendance and voting at the SGM	Friday, 22 October 2021
Expected date and time of the SGM	11:00 a.m. on Friday, 22 October 2021
Announcement of poll results of the SGM	Friday, 22 October 2021
Re-opening of the register of members of the Company	Monday, 25 October 2021
Effective date of the Capital Reorganisation	Tuesday, 26 October 2021
Commencement of dealings in the Adjusted Shares.....	Tuesday, 26 October 2021
Original counter for trading in Existing Shares in board lots of 10,000 Existing Shares temporarily closes.....	9:00 a.m. on Tuesday, 26 October 2021
Temporary counter for trading in the Adjusted Shares in board lots of 2,000 Adjusted Shares (in the form of existing share certificates) opens	9:00 a.m. on Tuesday, 26 October 2021
First day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Adjusted Shares.....	Tuesday, 26 October 2021
Last day of dealings in the Adjusted Shares on a cum-entitlement basis.....	Tuesday, 26 October 2021

EXPECTED TIMETABLE

First day of dealings in the Adjusted Shares on an ex-entitlement basis	Wednesday, 15 October 2021
Latest time for lodging transfers of the Adjusted Shares in order for the transferees to qualify for the Rights Issue	4:30 p.m. on Thursday, 28 October 2021
Closure of register of members to determine the entitlements to the Rights Issue	Friday, 29 October 2021 to Thursday, 4 November 2021 (both days inclusive)
Record Date for the Rights Issue	Thursday, 4 November 2021
Re-opening of the register of members of the Company	Friday, 5 November 2021
Despatch of Prospectus Documents (in the case of the Non-Qualifying Shareholders, the Prospectus only)	Friday, 5 November 2021
Designated broker starts to stand in the market to provide matching services for odd lots of the Adjusted Shares	Tuesday, 9 November 2021
Original counter for trading in the Adjusted Shares in board lots of 10,000 Adjusted Shares (in the form of new share certificates) re-opens	9:00 a.m. on Tuesday, 9 November 2021
Parallel trading in the Adjusted Shares (in the form of both existing share certificates in board lots of 2,000 Adjusted Shares and new share certificates in board lots of 10,000 Adjusted Shares) commences	9:00 a.m. on Tuesday, 9 November 2021
First day of dealings in nil-paid Rights Shares	Tuesday, 9 November 2021
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Thursday, 11 November 2021
Last day of dealings in nil-paid Rights Shares	Tuesday, 16 November 2021
Latest Time for Acceptance and payment for the Rights Shares	4:00 p.m. on Friday, 19 November 2021
Announcement of the number of Untaken Shares and NQS Unsold Shares subject to the Placing	Friday, 26 November 2021

EXPECTED TIMETABLE

Commencement of the Placing Period (if there are any Untaken Shares and NQS Unsold Shares available).....	Monday, 29 November 2021
Designated broker ceases to provide matching services for odd lots of the Adjusted Shares.....	4:00 p.m. on Monday, 29 November 2021
Temporary counter for trading in board lots of 2,000 Adjusted Shares (in the form of existing share certificates) closes.....	4:10 p.m. on Monday, 29 November 2021
Parallel trading in Adjusted Shares (in the form of both existing share certificates in board lots of 2,000 Adjusted Shares and new share certificates in board lots of 10,000 Adjusted Shares) ends	4:10 p.m. on Monday, 29 November 2021
Last day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Adjusted Shares.....	Wednesday, 1 December 2021
Placing End Date for placing the Placing Shares	4:00 p.m. on Monday, 6 December 2021
Latest Time for the Rights Issue to become unconditional and the Placing Long Stop Date.....	4:00 p.m. on Tuesday, 7 December 2021
Rights Issue Settlement Date and Placing completion date	Tuesday, 7 December 2021
Announcement of the results of the Rights Issue (including the results of the Placing and the Net Gain)	Wednesday, 8 December 2021
Despatch of share certificates for the Rights Shares and/or refund cheques	Thursday, 9 December 2021
First day of dealings in the fully-paid Rights Shares.....	9:00 a.m. on Friday, 10 December 2021
Payment of Net Gain to relevant No Action Shareholders (if any) or Non-Qualifying Shareholders (if any)	Friday, 24 December 2021

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance will not take place if a tropical cyclone signal No. 8 or above, or “extreme conditions” caused by super typhoons or a “black” rainstorm warning is:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Friday, 19 November 2021, being the date on which the Latest Time for Acceptance falls. In this case, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 19 November 2021, being the date on which the Latest Time for Acceptance falls. In this case, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day on which none of the aforementioned warnings is in force at any time between 9:00 a.m. and 4:00 p.m..

If the Latest Time for Acceptance does not take place on Friday, 19 November 2021, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

LETTER FROM THE BOARD



Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

Executive Directors:

Mr. Zhang Qijun (*Chairman*)

Mr. Chen Jian

Mr. Liu Mingqing

Independent non-executive Directors:

Mr. Wang Xiao Ning

Mr. Cheng Ho On

Mr. Kong Chun Wing

Mr. Lai Chi Yin, Samuel

Ms. Chen Yuxin

Registered office:

Zuill Corporate Services (Bermuda) Limited

Continental Buildings

25 Church Street

Hamilton HM 12

Bermuda

Head Office and Principal Place of

Business in Hong Kong:

Flat E, 20th Floor

Lucky Plaza

315–321 Lockhart Road

Wan Chai

Hong Kong

30 September 2021

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED CAPITAL REORGANISATION;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcements. The purpose of this circular is to provide you with, among other things, (i) further details of the Capital Reorganisation, the Rights Issue and the Placing; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Rights Issue; (iv) other information required under the Listing Rules; and (v) a notice convening the SGM.

LETTER FROM THE BOARD

PROPOSED CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation which will involve the following:

- (i) the Share Consolidation whereby every five (5) issued and unissued Existing Shares of par value of HK\$0.01 each will be consolidated into one (1) Consolidated Share of par value of HK\$0.05 each and any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation will be cancelled;
- (ii) the Capital Reduction whereby the par value of each issued Consolidated Share will be reduced from HK\$0.05 to HK\$0.01 by cancelling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share and any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation will be cancelled;
- (iii) the Share Subdivision of every unissued Consolidated Share of par value of HK\$0.05 each in the authorised share capital of the Company into five (5) Adjusted Shares of par value of HK\$0.01 each;
- (iv) the Credit Transfer whereby the credit arising from the Capital Reduction in the amount equal to the total number of the then issued Consolidated Shares upon the Share Consolidation becoming effective multiplied by HK\$0.04 shall be credited to the contributed surplus account of the Company within the meaning of the Companies Act; and
- (v) the amount standing to the credit of the contributed surplus account be applied in full to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the Bye-laws and all applicable laws of Bermuda.

Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,986,057,031 divided into 198,605,703,079 Existing Shares of par value of HK\$0.01 each, and there are 1,151,859,658 Existing Shares in issue which are fully paid or credited as fully paid. Upon the Share Consolidation becoming effective and on the basis that no further Shares will be allotted, issued or repurchased prior thereto, the issued share capital of the Company will be HK\$11,518,596.55 divided into 230,371,931 Consolidated Shares of par value of HK\$0.05 each.

The fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation, if any, will also be cancelled. Any fractional Consolidated Shares to which the Shareholders are entitled shall be aggregated and sold for the benefit of the Company.

Upon the Capital Reduction becoming effective, the par value of all the issued Consolidation Shares shall be reduced from HK\$0.05 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.04 per Consolidated Share in issue.

LETTER FROM THE BOARD

The Adjusted Shares will rank *pari passu* in all respects with each other in accordance with the Bye-laws. The issued share capital will be reduced to HK\$2,303,719.31 divided into 230,371,931 Adjusted Shares of par value of HK\$0.01 each.

Based on 1,151,859,658 Existing Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$9,214,877.27 arising from the Capital Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act which, together with any credit which may arise as a result of the cancellation of any fraction in the issued share capital of the Company arising from the Share Consolidation, will be applied by the Board to set off the accumulated losses of the Company in full or be applied in any other manner as may be permitted under the Bye-laws and all applicable laws of Bermuda.

Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management of financial position of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

The following tables set out the effect of the Capital Reorganisation on the share capital of the Company before and after the implementation of the Capital Reorganisation, assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation.

	As at the Latest Practicable Date	Immediately after the Capital Reorganisation becoming effective
Par value	HK\$0.01 per Existing Share	HK\$0.01 per Adjusted Share
Authorised share capital	HK\$1,986,057,030.79 divided into 198,605,703,079 Existing Shares	HK\$1,986,057,030.79 divided into 198,605,703,079 Adjusted Shares
Issued and fully paid up or credited as fully paid up share capital	HK\$11,518,596.58 divided into 1,151,859,658 Existing Shares	HK\$2,303,719.31 divided into 230,371,931 Adjusted Shares
Unissued share capital	HK\$1,974,538,434.21 divided into 197,453,843,421 Existing Shares	HK\$1,983,753,311.48 divided into 198,375,331,148 Adjusted Shares

LETTER FROM THE BOARD

Adjustments in relation to other securities of the Company

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds which are convertible into 25,500,000 Existing Shares at the conversion price of HK\$2.00 per Existing Share (subject to adjustment mechanism in accordance with the terms and conditions of the Convertible Bonds). The Share Consolidation may lead to adjustments to the conversion price and/or the number of Shares to be issued upon exercise of the conversion right attached to the Convertible Bonds. The Company will notify the holders of the Convertible Bonds and the Shareholders by way of announcement (as and when appropriate) regarding adjustments to be made (if any) pursuant to the terms and conditions of the Convertible Bonds.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (i) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the SGM;
- (ii) the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation;
- (iii) the compliance with the relevant procedures and requirements under the laws of Bermuda, which includes publication of a notice in relation to the Capital Reduction in Bermuda in accordance with the Companies Act and the Directors being satisfied that on the date the Capital Reorganisation is to take effect, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due, and the Listing Rules to effect the Capital Reorganisation; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

Application for listing

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other. All necessary arrangements will be made for the Adjusted Shares to be admitted into CCASS.

Fractional Shares

Fractional Consolidated Shares will not be issued by the Company to the Shareholders. Any fractional Consolidated Shares to which the Shareholders are entitled shall be aggregated and sold for the benefit of the Company.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, the Shareholders may, on or after Tuesday, 26 October 2021 until Wednesday, 1 December 2021 (both days inclusive), submit share certificates for the Existing Shares (in red colour) to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, to exchange, at the expense of the Company, for new share certificates for the Adjusted Shares (in blue colour) (on the basis of five Existing Shares for one Adjusted Share). Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for the Adjusted Shares, whichever the number of certificates cancelled/issued is higher. The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Monday, 29 November 2021 (or such other date which may be announced by the Company) and will continue to be good evidence of legal title and may be exchanged for share certificates of the Adjusted Shares at any time in accordance with the foregoing.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Adjusted Shares arising from the Capital Reorganisation, the Company has appointed **Shun Loong Securities Company Limited ("Shun Loong")** as an agent to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Adjusted Shares to make up a full board lot, or to dispose of their holding of odd lots of the Adjusted Shares during the period from 9:00 a.m. on Tuesday, 9 November 2021 to 4:00 p.m. on Monday, 29 November 2021 (both dates inclusive). Shareholders who wish to take advantage of this service should contact **Ms. Villa Wu of Shun Loong at 1801, 18/F, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong** or at telephone number (852) **2509 7333** during office hours of such period. Holders of odd lots of the Adjusted Shares should note that the matching of the sale and purchase of odd lots of the Adjusted Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

LETTER FROM THE BOARD

REASONS FOR THE CAPITAL REORGANISATION

Under Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities. Further, pursuant to the requirements set out in “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by Hong Kong Exchanges and Clearing Limited, the expected board lot value per board lot should be greater than HK\$2,000 taking into account the minimum transaction costs for a securities trade. In view of the fact that the Shares had been traded below HK\$0.10 on average and the Shares were trading at under \$2,000 per board lot over the past five months (based on the closing price per Share as quoted on the Stock Exchange), the Board proposes to implement the Share Consolidation in order to comply with the trading requirements of the Listing Rules. The Share Consolidation will reduce the total number of Shares currently in issue. As such, it is expected that the Share Consolidation will bring about a corresponding upward adjustment in the trading price of the Shares.

Meanwhile, the Capital Reorganisation also involves the Capital Reduction which will reduce the par value of the issued Consolidation Shares from HK\$0.05 per Consolidated Share to HK\$0.01 per New Share. Under the laws of Bermuda, a company may not issue shares at a discount to the par value of such shares. Accordingly, the Capital Reduction will allow greater flexibility in the pricing for any issue of new Shares in the future.

The Board considers that (i) the Share Consolidation will reduce the overall transaction and handling costs of dealings in the Existing Share as a proportion of the market value of each board lot, since most of the banks/securities houses will charge a minimum transaction costs for each securities transaction; (ii) the Capital Reduction will reduce the par value of the Consolidated Shares, which will provide the Company with greater flexibility in possible fund raisings in the future; and (iii) the credit in the contributed surplus account of the Company arising from the Capital Reduction, which will enable the Company to set off against its accumulated losses (if any) in full or by the amount of such credits and may facilitate or be applied in any future distribution to the Shareholders or be applied in any other manner as the Board may deem fit as may be permitted under the applicable laws and the Bye-Laws.

As such, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

PROPOSED RIGHTS ISSUE

The Board proposes subject to the Capital Reorganisation having become effective, to conduct the Rights Issue on the basis of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date. Set out below are the details of the Rights Issue statistics.

Rights Issue Statistics

Basis of the Rights Issue	: Three (3) Rights Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date
Subscription Price	: HK\$0.205 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date	: 1,151,859,658 Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	: 230,371,931 Adjusted Shares (having considered that no new Shares will be issued as a result of the Bond Holder's Undertaking and assuming there is no further issue or repurchase of Shares up to the effective date of the Capital Reorganisation)
Maximum number of Rights Shares	: 691,115,793 Rights Shares (having considered that no new Shares will be issued as a result of the Bond Holder's Undertaking and assuming there is no other change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date), representing (i) 300% of the total issued Adjusted Shares upon the Capital Reorganisation becomes effective; and (ii) approximately 75% of the total number of issued Adjusted Shares as enlarged immediately upon completion of the Rights Issue.
Gross proceeds to be raised from the Rights Issue	: Approximately HK\$141.7 million

As at the Latest Practicable Date, there are outstanding Convertible Bonds in the principal amount of HK\$51,000,000 which are convertible into a maximum of 25,500,000 Existing Shares upon full conversion of the Convertible Bonds based on the conversion price of HK\$2.00 (subject to adjustment mechanism in accordance with the terms and conditions of the Convertible Bonds). Save as the above, the Company has no other outstanding warrants, options or convertible securities in issue or other similar rights which confer any right to convert or exchange into or subscribe for Shares as at the Latest Practicable Date.

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The Bond Holder's Undertaking

As at the Latest Practicable Date, Sheen World International Holdings Limited, being holder of the Convertible Bonds, has signed the Bond Holder's Undertaking not to exercise the conversion rights attached to the Convertible Bonds from the date of the Bond Holder's Undertaking up to and including the Record Date.

The Subscription Price

The Subscription Price is HK\$0.205 per Rights Share, which shall be payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) a discount of 28.07% to the adjusted closing price of HK\$0.285 per Adjusted Share (based on the closing price of HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (ii) a discount of approximately 22.05% to the adjusted average closing price of HK\$0.263 per Adjusted Share (based on the average closing price of HK\$0.0526 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iii) a discount of approximately 24.63% to the adjusted average closing price of HK\$0.272 per Adjusted Share (based on the average closing price of HK\$0.0544 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iv) a discount of approximately 8.89% to the theoretical ex-entitlement price of HK\$0.225 per Adjusted Share (based on the closing price of HK\$0.285 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares and adjusted for the effect of the Capital Reorganisation);
- (v) a discount of 31.67% to the adjusted closing price of HK\$0.3 per Adjusted Share (based on the closing price of HK\$0.06 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation);
- (vi) a cumulative theoretical dilution effect (the aggregation of the placing of new shares under specific mandate on 22 October 2020 and the Rights Issue) of approximately 22.61% represented by the cumulative theoretical diluted price of approximately HK\$0.70 to the benchmarked price of HK\$0.90 per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.90 per Existing Share on 22 October 2020 and the average closing price of

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the Existing Shares as quoted on the Stock Exchange for the five consecutive trading days prior to 22 October 2020 of HK\$0.706 per Existing Share and adjusted for the effect of the Capital Reorganisation); and

- (vii) a discount of approximately 88.67% to the consolidated net asset value per Adjusted Share attributable to the Shareholders as at 30 June 2021 of approximately HK\$1.81 per Adjusted Share calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$417,309,000 as at 30 June 2021 as set out in the interim results announcement of the Company for the six months ended 30 June 2021 and 230,371,931 Existing Shares in issue as at the Latest Practicable Date after adjusted for the effect of the Capital Reorganisation.

The Subscription Price was determined with reference to (i) the prevailing market conditions; (ii) the prevailing market prices of the Shares; (iii) the current financial position of the Group; and (iv) the amount of funds the Company intends to raise under the Rights Issue.

Under the Rights Issue, each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Company considers that the discount of the Subscription Price to the current market price (taking into account the effect of the Capital Reorganisation) will encourage them to participate in the Rights Issue.

The Directors (excluding the members of the Independent Board Committee, whose opinion will be provided after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Rights Issue, including the Subscription Price, are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

Each Rights Share has a par value of HK\$0.01.

The aggregate par value of the maximum number of Rights Shares will be HK\$6,911,157.93.

Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, any Untaken Shares together with the NQS Unsold Shares will be placed on a best efforts basis by the Placing Agent to independent places under the Placing. Any Untaken Shares and/or NQS Unsold Shares remain not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

The Bermuda legal adviser of the Company has confirmed that there is no minimum subscription amount required to be raised from the Rights Issue under Bermuda law.

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As the Rights Issue will proceed on a non-underwritten basis, a Shareholder who applies to take up all or part of his/her/its entitlement under the PAL may unwittingly incur an obligation to make a general offer for the Shares and the Convertible Bonds under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules.

Conditions of the Rights Issue

The Rights Issue is conditional on each of the following conditions being fulfilled:

- (i) the Capital Reorganisation having become effective;
- (ii) the passing by more than 50% of the votes cast by the Independent Shareholders by way of poll of all necessary resolutions to be proposed at the SGM for the transactions contemplated under the Rights Issue to be effective in compliance with the Listing Rules, including but not limited to approving, confirming and/or ratifying the Rights Issue, including the allotment and issue of the Rights Shares in their nil-paid and fully paid forms;
- (iii) the issue by the Stock Exchange of a certificate authorising the registration of, and the registration with the Companies Registry, respectively, of one copy of each of the Prospectus Documents not later than the Posting Date and otherwise in compliance with the Listing Rules and the Companies (WUMP) Ordinance;
- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus bearing a “For Information Only” stamp to the Non-Qualifying Shareholders, if any, for information purpose only on or before the Posting Date;
- (v) the grant by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully paid forms (subject to customary conditions) and such approval not having been withdrawn or revoked; and
- (vi) the compliance with any other mandatory requirements under the applicable laws and regulations of Hong Kong and Bermuda.

The conditions are incapable of being waived. If any of the above conditions is not satisfied at or prior to the respective time stipulated therein or 4:00 p.m. on the Rights Issue Settlement Date (as the case may be), the Rights Issue will not proceed.

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Status of the Rights Shares

The Rights Shares, when issued and fully paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank *pari passu* in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of allotment of the Rights Shares.

Qualifying Shareholders and Non-Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and a Qualifying Shareholder.

In order for the transferees to be registered as members of the Company on the Record Date, all transfers of Adjusted Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by 4:30 p.m. on Thursday, 28 October 2021.

Basis of provisional allotment

Under the Rights Issue, the basis of the provisional allotment shall be three (3) Rights Shares (in nil-paid form) for every one (1) Adjusted Share held by the Qualifying Shareholders as at 5:00 p.m. on the Record Date. There will be no excess application arrangements in relation to the Rights Issue.

Fractional entitlements to the Rights Shares

On the basis of the provisional allotment of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue. No odd lot matching services will be provided by the Company in respect of the Rights Shares.

Application for all or any part of a Qualifying Shareholder's provisional allotment of Rights Shares should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar at or before the Latest Time for Acceptance (i.e. 4:00 p.m. on Friday, 19 November 2021).

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

If there are Overseas Shareholders at the close of business on the Record Date, the Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below. The Board will make enquiries regarding the feasibility of extending the Rights Issue to Overseas Shareholders. If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to Overseas Shareholders on account of

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either the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in such relevant jurisdiction, the Rights Issue will not be extended to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus.

To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send PALs to them. The Non-Qualifying Shareholders will not be entitled to any provisional allotment under the Rights Issue.

As at the Latest Practicable Date, there are 4 Overseas Shareholders with registered addresses in the PRC, who hold an aggregate of 86,870,070 Shares, representing approximately 7.54% of the issued share capital of the Company. In compliance with the necessary requirements of the Listing Rules, the Company has made enquiries regarding the feasibility of extending the Rights Issue to such Overseas Shareholders. Based on the advice provided by the legal adviser as to the laws of the PRC, as at the Latest Practicable Date, the laws of the PRC impose no restrictions on extending the Rights Issue to such Overseas Shareholder located in the PRC, and the Company is not required to obtain any approvals for the despatch of the Prospectus Documents to such Overseas Shareholder. Accordingly, there was no Non-Qualifying Shareholder as at the Latest Practicable Date.

The Company will continue to ascertain whether there are any other Overseas Shareholders on the Record Date and will, if necessary, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Rights Issue to such other Overseas Shareholders registered as a member of the Company on the Record Date and make relevant disclosures in the Prospectus.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, had they been Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the Rights Shares in their nil-paid form commence and before dealings in the Rights Shares in their nil-paid form end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid to the Non-Qualifying Shareholders pro rata to their shareholdings held on the Record Date. In light of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

Any NQS Unsold Shares will be placed by the Placing Agent at the price not less than the Subscription Price under the Placing together with the Untaken Shares. The proceeds of the sale as described above, less expenses and in the case of being sold by the Placing Agent, also less the Subscription Price and the Placing Agent's commission, will be paid pro-rata (but rounded down to the nearest cent) to the relevant Non-Qualifying Shareholders' and the No Action Shareholders' shareholdings held on the Record Date on the basis of all NQS Unsold Shares and Untaken Shares in Hong Kong dollars. Any Untaken Shares and the NQS Unsold Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

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Overseas Shareholders should note that they may or may not be entitled to participate in the Rights Issue, subject to the results of the enquiries to be made by the Company. The Company reserves the right to treat as invalid any acceptances of, or applications for, the Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their own professional advisers.

Share certificates and refund cheques for the Rights Shares

Subject to fulfilment of the conditions, and the proceeding, of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted by Thursday, 9 December 2021 to those entitled to them at their registered addresses by ordinary post at their own risk.

Application for listing and dealing arrangements of the Rights Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy and other applicable fees and charges in Hong Kong.

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil- paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stock brokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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Procedures in respect of the Untaken Shares and the NQS Unsold Shares and the Placing

The Company will make arrangements described in Rule 7.21(1)(b) of the Listing Rule to dispose of the Untaken Shares and the NQS Unsold Shares by offering the Untaken Shares and the NQS Unsold Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue.

The Company therefore appointed the Placing Agent to place the Untaken Shares and the NQS Unsold Shares to independent placees on a best effort basis after the number of the Untaken Shares and the NQS Unsold Shares that are subject to the Placing Arrangement has been announced. Any premium over, the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related expenses/fees), that is realised will be paid to the No Action Shareholders and the Non-Qualifying Shareholders on a pro-rata basis. The Placing Agent will on a best effort basis, procure, by not later than 6:00 p.m., on the Placing End Date, acquirers for all (or as many as possible) of those Untaken Shares and the NQS Unsold Shares if a premium over the Subscription Price and the expenses of procuring such acquirers (including any related commissions and any other related expenses/fees) can be obtained. Any Untaken Shares and the NQS Unsold Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Net Gain (if any) will be paid (without interest) on pro-rata basis (on the basis of all Untaken Shares and NQS Unsold Shares) to the No Action Shareholders and the Non-Qualifying Shareholders (but rounded down to the nearest cent). It is proposed that Net Gain to any of the No Action Shareholder(s) or the Non-Qualifying Shareholders of HK\$100 or more will be paid to them in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit. Shareholders are reminded that Net Gain may or may not be realised, and accordingly the No Action Shareholders and the Non-Qualifying Shareholders may or may not receive any Net Gain.

The Placing

On 3 August 2021, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, placees to subscribe for the Placing Shares (i.e. the Untaken Shares and/or the NQS Unsold Share during the Rights Issue) on the terms and subject to the conditions set out in the Placing Agreement. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue through the PAL(s), the Placing will not proceed.

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Placing Agreement

The principal terms of the Placing Agreement are summarised below:

Placing Agent : Yuet Sheung International Securities Limited

The Placing Agent confirms that it and its ultimate beneficial owner(s) are Independent Third Parties.

Placing commission and expenses : 0.5% of the gross proceeds from the subscription of the Placing Shares actually placed by the Placing Agent under the Placing Agreement and reimbursed for the expenses in relation to the Placing (including but not limited to all out-of-pocket expenses actually incurred by the Placing Agent for placing the Placing Shares), which the Placing Agent is authorised to deduct from the payment to be made by the Placing Agent to the Company at the Placing End Date.

Placing price : The placing price of each of the Untaken Share and/or the NQS Unsold Share (as the case maybe) shall be not less than the Subscription Price. The final price determination is depended on the demand and market conditions of the Untaken Shares and the NQS Unsold Shares during the process of Placing. Further announcement in respect of the Placing price, if determined, will be made by the Company.

Placing Period : The Placing Period shall commence on Monday, 29 November 2021, and end on the Placing End Date (i.e. Monday, 6 December 2021 under the expected timetable) or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Placing.

Placees : the Placing Agent shall use its reasonable endeavours to ensure that (i) the placees procured by it (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties; and (ii) no placee shall become a substantial Shareholder immediately following the Placing.

Ranking : The Placing Shares, when issued and fully paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank pari passu in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of issue of the Placing Shares.

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Conditions of the Placing

The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon the following conditions being fulfilled:

- (i) the grant by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully paid forms (subject to customary conditions) and such approval not having been withdrawn or revoked;
- (ii) approval of the Rights Issue by the Independent Shareholders at the SGM;
- (iii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained; and
- (iv) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events.

None of the above conditions of the Placing is capable of being waived in whole or in part by the Placing Agent or the Company.

The timetable of the Placing is driven by the timetable of the Rights Issue. Under the terms of the Placing Agreement, the Placing Period shall commence on Monday, 29 November 2021, or such other date as the Company may announce. The Placing Period shall end on Monday, 6 December 2021, or such other date as the Company may announce.

The long stop date for the fulfilment of conditions of the Placing Agreement shall be 4:00 p.m. on Tuesday, 7 December 2021 (being the next Business Day after the Placing End Date) or such later date as may be announced by the Company. The Company shall use its reasonable endeavours to procure the fulfilment of the conditions and if the said conditions are not fulfilled on or before the Placing Long Stop Date, the Placing Agreement will lapse and become null and void and the Company and the Placing Agent shall be released from all obligations under the Placing Agreement, save the liabilities for any antecedent breaches thereof.

If all the Rights Shares are already fully taken up in the Rights Issue through valid applications by PAL(s), the Placing will not proceed.

Termination

The Placing Agreement can only be terminated by mutual written confirmations by the Company and the Placing Agent.

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Completion of the Placing

Subject to the fulfilment of conditions of the Placing as set out in the section headed “The Placing — Conditions of the Placing” of this circular, the completion of the Placing shall take place on the next business day after the Placing End Date (or such later date as the Company may announce).

The engagement between the Company and the Placing Agent of the Untaken Shares and the NQS Unsold Shares was determined after arm’s length negotiation between the Placing Agent and the Company and is on normal commercial terms. In particular, the Directors, taking into account the range of placing commission for recent rights issues conducted by issuers listed on the Stock Exchange, consider that the terms of Placing Agreement, including the placing commission, are normal commercial terms. Given that the Placing would provide (i) a distribution channel of the Untaken Shares and the NQS Unsold Shares; and (ii) a compensatory mechanism for the No Action Shareholders and Non-Qualified Shareholders, the Directors consider that the Placing Arrangement is fair and reasonable and in the interest of the Company and its shareholders as a whole.

WARNING OF THE RISKS OF DEALING IN THE SHARES

Shareholders and potential investors of the Company should note that each of the Rights Issue and the Placing is subject to the fulfilment of certain conditions. If any of the conditions of the Rights Issue and/or the Placing are not fulfilled, the Rights Issue and/or the Placing will not proceed. Any Shareholder or other person contemplating transferring, selling or purchasing Shares is advised to exercise caution when dealing in the Shares. Any person who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled or the Placing Long Stop Date, which is expected to be 4:00 p.m. on the Rights Issue Settlement Date, will accordingly bear the risk that the Rights Issue and/or Placing may not proceed.

REASONS FOR THE RIGHTS ISSUE, THE PLACING AND THE USE OF PROCEEDS

The Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; and (iii) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

As disclosed in the Company’s annual report for the year ended 31 December 2020, the Company recorded net current liabilities of approximately HK\$278.14 million as at 31 December 2020. As at 31 December 2020, the Company had current liabilities of approximately HK\$474.67 million, however, as at 31 December 2020, the Company had bank balances and cash of only approximately HK\$21.65 million.

The Company has been using its best endeavour to improve the financial position of the Company. On 7 January 2021, the Company had completed a placing exercise and raised funds of approximately HK\$29.57 million for repayment part of the Group’s outstanding

LETTER FROM THE BOARD

indebtedness. On 24 May 2021, the Company had completed a debt capitalisation exercise whereby part of the Group's outstanding indebtedness of approximately HK\$104.25 million had been capitalised.

As at 30 June 2021, the Company had current liabilities of approximately HK\$433.95 million which mainly comprises (i) promissory notes and accrued interests in an aggregate amount of approximately HK\$186.60 million; (ii) other short-term borrowings in an aggregate amount of approximately HK\$93.62 million; (iii) other payables and accruals of approximately HK\$118.83 million; and (iv) trade, tax payables and lease liabilities of approximately HK\$34.90 million.

As disclosed in the Company's annual report for the year ended 31 December 2020, included in promissory notes are, among other things:

- a promissory note in the principal amount of HK\$92 million issued by the Company for an acquisition of a target on 23 April 2015. It was subsequently discovered after the acquisition that the representations made by the vendor of the target in respect of the business of the target were false and misleading. Based on the legal advice from a senior counsel, the sale and purchase agreement regarding the acquisition was void or voidable by reason of fraudulent misrepresentation and the promissory note in dispute can be rescinded, and the vendor cannot enforce the promissory note in a dispute against the Company. The Directors are of the view that the possibility of the Company having to repay the amounts under the promissory note in dispute is remote; and
- 2 promissory notes in an aggregate amount of approximately HK\$58.74 million issued by the Company to suppliers as trade deposits for purchasing wine and juice. As at the Latest Practicable Date, the Company has yet to commence the purchase of wine and juice with those suppliers due to the COVID-19 pandemic and therefore, those amounts under the promissory notes were not obliged to be settled by the Company pursuant to the terms of the purchase contracts.

In addition, as at the Latest Practicable Date, creditors with an aggregate amount of approximately HK\$108.28 million included in the current liabilities of the Company as at 30 June 2021 have agreed not to demand for repayment for the amount due before 31 December 2022. Regarding the trade, tax payables and lease liabilities in the amount of approximately HK\$34.9 million, the Company considers that it is able to meet the payment obligation of such payables from cash flow generated from the Group's existing business activities.

As at the Latest Practicable Date, there is no outstanding winding-up petition against the Company.

LETTER FROM THE BOARD

Based on the above, the Group would have liabilities of approximately HK\$140.03 million which are repayable within the next twelve months from 30 June 2021. Details of the above-mentioned short-term liabilities to be repaid within the next twelve months from 30 June 2021 are as follow:

Nature	Total outstanding amount (HK\$'000)	Terms
Borrowing obtained from an Independent Third Party bearing interest rate of 12% p.a.	63,600	Due on the 18 months from 20 September 2020
Borrowing obtained from an Independent Third Party bearing interest rate of 24% p.a.	6,346	Overdue
A promissory note issued to an Independent Third Party for cash bearing interest rate of 24% p.a.	9,368	Overdue
Corporate bonds issued to an Independent Third Party bearing interest rate of 7% p.a.	1,400	Overdue
Accrued interest expenses of promissory notes and other borrowings	8,915	Overdue
Accrued legal and professional fees	22,489	Overdue
Accrued consultancy fee	4,750	Overdue
Accrued rental expenses	4,254	Overdue
Accrued Staff costs (including directors' remuneration)	15,604	Overdue
Others	<u>3,312</u>	Overdue
Total	<u><u>140,038</u></u>	

Given that the Group had bank balances and cash of approximately HK\$49 million as at the Latest Practicable Date, the Company would not have sufficient financial resources to meet its imminent cash flow demand in view of the aforementioned liabilities.

In light of the above, the Company intends to raise funds by way of the Rights Issue. Assuming a maximum of 691,115,793 Rights Shares will be issued, the estimated gross proceeds of the Rights Issue will be approximately HK\$141.7 million. The estimated expenses

LETTER FROM THE BOARD

in relation to the Rights Issue will amount to approximately HK\$1.87 million and the estimated maximum net proceeds of the Rights Issue will be approximately HK\$139.83 million. The net subscription price per Rights Share is expected to be approximately HK\$0.202.

The Company intends to apply the entire net proceeds from the proposed Rights Issue for repayment of the Group's short-term liabilities as above-mentioned. In the event of undersubscription of the Rights Issue, the entire proceeds from the Rights Issue and the Placing would be applied for the repayment of the Group's short-term liabilities as above-mentioned. The Company will issue further announcement to update the Shareholders and potential investors the amount of actual proceeds and its intended usage.

Based on the above, the Directors confirm that the Company will have sufficient working capital in the coming twelve (12) months upon completion of the Rights Issue and/or Placing.

Regarding the Group's indebtedness in the amount of HK\$108.28 million which the creditors have agreed not to demand for repayment for the amount due before 31 December 2022, the Company plans to settle the above-mentioned indebtedness from the operating cash inflow of the Group's toys and gifts business as well as the newly acquired Chinese herbs business in May 2021. Depending on the then repayment progress when the above-mentioned indebtedness from time to time, the Company will try its best endeavor to negotiate with the creditors for further extension of repayment schedule. In the event that such negotiation fails or the result is not satisfactory, the Company intends to, subject to the then market condition, conduct further fund raising activities in order to satisfy any outstanding indebtedness of the Group. However, as at the Latest Practicable Date, the Company does not have any agreement, arrangement, understanding, intention, or negotiation (either concluded or in process) on any potential fundraising activities which will involve issue of equity securities of the Company. The Company will make further announcement in this regard in accordance with the Listing Rules as and when appropriate.

Other than the Rights Issue, the Company has considered other debt/equity fund raising alternatives such as bank borrowings, placing or an open offer. Given the net current liabilities position and the loss-making position of the Group, the Company considers that the Group's ability to obtain borrowings at favourable terms is limited. On the other hand, as the fundraising size of the Rights Issue is large compared with previous placings conducted by the Company, such large-size placing will significantly dilute the interests of Shareholders without giving them the opportunity to take part in the exercise. Also, as opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Directors (excluding the members of the Independent Board Committee, whose opinion will be provided after taking into account the advice of the Independent Financial Adviser) consider raising funds by way of the Rights Issue is more appropriate as the Rights Issue will enable the Company to strengthen its

LETTER FROM THE BOARD

working capital base and enhance its financial position, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole.

POSSIBLE ADJUSTMENTS TO THE CONVERTIBLE BONDS

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds which are convertible into 25,500,000 Existing Shares at the conversion price of HK\$2 per Share (subject to adjustment mechanism in accordance with the terms and conditions of the Convertible Bonds). The Rights Issue may lead to adjustments to the conversion price and/or the number of Shares to be issued upon exercise of the conversion right attached to the Convertible Bonds. The Company will notify the holders of the Convertible Bonds and the Shareholders by way of announcement (as and when appropriate) regarding adjustments to be made (if any) pursuant to the terms and conditions of the Convertible Bonds.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST 12 MONTHS FROM THE DATE OF THE FIRST ANNOUNCEMENT

The Company had carried out the following equity fundraising activities in the 12 months immediately preceding the date of the First Announcement:

Date of announcement	Event	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
22 October 2020	Placing of new Shares under specific mandate	HK\$29.57 million	All net proceeds for the repayment of the Group's outstanding indebtedness	Used as intended
22 September 2020	Placing of new Shares under general mandate	HK\$20 million	Approximately HK\$16 million repayment of the outstanding promissory notes and other payables, and approximately HK\$4 million for general working capital of the Group	Used as intended

TAXATION

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

LETTER FROM THE BOARD

EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the Capital Reorganisation; (iii) immediately after the Capital Reorganisation and the Rights Issue Completion assuming (1) there is no change in the issued share capital of the Company from the Latest Practicable Date and up to and including the Record Date; and (2) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date:

Shareholder	As at the Latest Practicable Date		Immediately after the Capital Reorganisation		Immediately after the Capital Reorganisation and upon the Rights Issue Completion assuming full acceptance by all Shareholders under the Rights Issue		Immediately after the Capital Reorganisation and upon the Rights Issue Completion assuming (a) no subscription by the Shareholders; and (b) all the Placing Shares are placed to Independent Third Parties under the Placing	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Zhang Qijun (Note 1)	33,500	0.003	6,700	0.003	26,800	0.003	6,700	Negligible (Note 4)
Mr. Liu Mingqing (Note 2)	5,600,000	0.486	1,120,000	0.486	4,480,000	0.486	1,120,000	0.122
Mr. Cheng Ho On (Note 3)	8,500	0.001	1,700	0.001	6,800	0.001	2,125	Negligible (Note 4)
Placees	—	—	—	—	—	—	691,115,793	75.000
Other public Shareholders	1,146,217,658	99.510	229,243,531	99.510	916,974,124	99.510	229,243,531	24.878
TOTAL	<u>1,151,859,658</u>	<u>100.000</u>	<u>230,371,931</u>	<u>100.000</u>	<u>921,487,724</u>	<u>100.000</u>	<u>921,487,724</u>	<u>100.000</u>

Notes:

1. Being an executive director and the chairman of the Company.
2. Being an executive director of the Company.
3. Being an independent non-executive director of the Company.
4. Shareholdings of Mr. Zhang Qijun and Mr. Cheng Ho On will be less than 0.001%.

If a Qualifying Shareholder does not accept the Rights Shares provisionally allotted to him/her/it in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

The Rights Issue

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the date of the First Announcement (taking into account the effect of the Capital Reorganisation), the Rights Issue is conditional upon the minority Shareholders' approval of at the SGM, and any controlling Shareholders and their associates, or where there are no controlling Shareholders, the Directors (excluding the independent non- executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the SGM.

Mr. Zhang Qijun, Mr. Chen Jian, Mr. Liu Mingqing and Mr. Cheng Ho On and their respective associates shall abstain from voting in respect of the resolution relating to the Rights Issue at the SGM.

DESPATCH OF PROSPECTUS DOCUMENTS

Subject to the approval of the Capital Reorganisation by the Shareholders and the Rights Issue by the Independent Shareholders at the SGM, the Prospectus containing further information in relation to the Rights Issue and financial and other information relating to the Group is expected to be despatched by the Company together with the PAL on or before Friday, 5 November 2021. A copy of the Prospectus will also be made available on the websites of the Company (www.kh381.com) and the Stock Exchange (www.hkexnews.hk). To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to Non-Qualifying Shareholders for their information only but will not send the PAL to them.

WARNING OF THE RISKS OF DEALING IN SHARES

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT THE RIGHTS ISSUE AND THE PLACING ARE CONDITIONAL UPON, AMONG OTHERS, CONDITIONS SET OUT IN THE SECTION HEADED "CONDITIONS OF THE RIGHTS ISSUE" AND "CONDITIONS OF THE PLACING" IN THIS CIRCULAR, RESPECTIVELY. ACCORDINGLY, THE RIGHTS ISSUE AND/OR THE PLACING MAY OR MAY NOT PROCEED.

ANY DEALINGS IN THE SHARES FROM THE DATE OF THIS CIRCULAR UP TO THE DATE ON WHICH ALL THE CONDITIONS OF THE RIGHTS ISSUE AND THE PLACING ARE FULFILLED WILL BEAR THE RISK THAT THE RIGHTS ISSUE AND/OR THE PLACING MAY NOT BECOME UNCONDITIONAL OR MAY NOT PROCEED.

LETTER FROM THE BOARD

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE IN CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY, AND IF THEY ARE IN ANY DOUBT ABOUT THEIR POSITION, THEY SHOULD CONSULT THEIR OWN PROFESSIONAL ADVISERS.

GENERAL

The SGM will be convened and held at which resolutions will be proposed to consider, and, if thought fit, to approve, among other things, the Capital Reorganisation, the Rights Issue and the Placing. The register of members of the Company will be closed from Monday, 18 October 2021 to Friday, 22 October 2021 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

In order to be registered as members of the Company on the record date for attendance and voting at the SGM, a Shareholder must lodge the relevant transfer(s) of Share(s) (with the relevant share certificates) with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 15 October 2021.

The notice convening the SGM to be held at Unit 1603–1604, 16/F Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 22 October 2021 at 11:00 a.m. is set out on pages 82 to 86 of this circular.

A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 30 September 2021 as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM (i.e. 11:00 a.m. on Wednesday, 20 October 2021, Hong Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

In compliance with the Listing Rules, all the resolutions to be proposed at the SGM will be voted on by way of poll at the SGM.

RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors (except Mr. Cheng Ho On who has interest in the issued Shares), has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee set out on page 36 of this circular which contains its

LETTER FROM THE BOARD

recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 37 to 58 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman and Executive Director



Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

30 September 2021

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS**

We refer to the circular of the Company dated 30 September 2021 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

The Independent Financial Adviser has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect. Having taken into account the terms of the Rights Issue, and the advice from the Independent Financial Adviser, we are of the opinion that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Wang Xiao Ning Mr. Kong Chun Wing Mr. Lai Chi Yin Ms. Chen Yuxin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Sorrento Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Rights Issue which has been prepared for the purpose of inclusion in this circular.



11/F,
The Wellington,
198 Wellington Street,
Central,
Hong Kong

30 September 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY ONE (1) ADJUSTED SHARE HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed offer for subscription of up to 691,115,793 Rights Shares by way of the Rights Issue at the Subscription Price of HK\$0.205 each to be made by the Company to the Qualifying Shareholders on the basis of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 30 September 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As stated in the Letter from the Board, on 3 August 2021, the Company and Yuet Sheung International Securities Limited (the “**Placing Agent**”) entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, placees to subscribe for the Placing Shares (i.e. the Untaken Shares and/or the NQS Unsold Shares during the Rights Issue) on the terms and subject to the conditions set out in the Placing Agreement. Pursuant to the Rights Issue, the Company will offer up to 691,115,793 Rights Shares to the Qualifying Shareholders whose names shall appear on the register of members of the Company at the close of business on the Record Date on the basis of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue through the PAL(s), the Placing will not proceed. The maximum gross proceeds

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from the Rights Issue will be approximately HK\$141.7 million and the expected maximum net proceeds (i.e. after deducting all relevant expenses relating to the Rights Issue) will be approximately HK\$139.8 million which applied towards settlement of the Company's short-term liabilities.

In accordance with Rule 7.19A(1) of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to the approval of the minority Shareholders at the SGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where minority shareholders' approval is required for a rights issue under Rule 7.19A of the Listing Rules, the rights issue must be made conditional on the approval by shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour. As at the Latest Practicable Date, there were no controlling shareholders (has the meaning ascribed thereto under the Listing Rules). Accordingly, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the SGM. Mr. Zhang Qijun, Mr. Chen Jian, Mr. Liu Mingqing and Mr. Cheng Ho On and their respective associates shall abstain from voting in respect of the resolution(s) relating to the Rights Issue at the SGM.

The Independent Board Committee comprising Mr. Wang Xiao Ning, Mr. Kong Chun Wing, Mr. Lai Chi Yin, Samuel and Ms. Chen Yuxin (i.e. all the independent non-executive Directors except Mr. Cheng Ho On who has interest in the issued Shares) has been established by the Board to consider the terms of the Rights Issue and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned; and are in the interests of the Company and the Shareholders as a whole.

We are independent from and not connected with the Group, its substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Rights Issue.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations expressed to us by the Directors and management of the Company. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the SGM, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONCERNED

In considering whether the terms of the Rights Issue are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; and (iii) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

The Company was incorporated in Cayman Islands on 21 November 2000 with limited liability and continued in Bermuda with effective on 26 August 2020. As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,986,057,030.79 divided into 198,605,703,079 Existing Shares of which 1,151,859,658 Existing Shares with par value of HK\$0.01 each were in issue. As set out in the Letter from the Board, the Company proposed to conduct the Capital Reorganisation whereby the issued share capital of the Company will become 230,371,931 Adjusted Shares of par value of HK\$0.01 each and the unissued share capital of the Company will become HK\$1,983,753,311.48 divided into 198,375,331,148 Adjusted Shares subject to the conditions of the Capital Reorganisation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The audited consolidated financial information of the Group for each of the two years ended 31 December 2020 and unaudited consolidated financial information of the Group for the six months ended 30 June 2020 and 2021, as extracted from the annual report of the Company for the year ended 31 December 2020 (the “**Annual Report**”) and the interim results announcement of the Company for the six months ended 30 June 2021 (the “**Interim Results Announcement**”), are summarised as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2021	2020	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	86,334	60,806	203,351	199,952
Gross Profit	23,970	21,282	65,780	41,686
Other income	1,425	1,396	5,864	4,453
Other gains/(losses), net	2,477	(2,331)	4,372	(4,893)
Selling and distribution costs	(11,936)	(8,736)	(27,306)	(28,312)
Administrative expenses	(34,747)	(27,522)	(71,943)	(89,325)
Finance costs	(22,581)	(15,772)	(55,746)	(34,923)
Impairment	—	—	(9,055)	(42,937)
Other one-off gains	—	—	25,500	27,087
Prepayments, deposits and other receivables written-off	—	—	—	(106,708)
Share of result of associates	(2,959)	(14,722)	(6,541)	(68,315)
Loss before income tax	(44,351)	(46,405)	(69,075)	(302,187)
Loss for the period/year	(44,673)	(46,864)	(1,027)	(302,325)

Comparison between the six months ended 30 June 2021 and 2020

The Company recorded a revenue of approximately HK\$86.3 million for the six months ended 30 June 2021 representing an increase of approximately 41.9% as compared with approximately HK\$60.8 million for the six months ended 30 June 2020 mainly due to the increase in revenue of toys and gift items segment and revenue of leisure segment which was absent in the six months ended 30 June 2020. Toys and gift items segment remains as the largest business segment of the Group in terms of revenue for the six months ended 30 June 2020 and 2021.

Selling and distribution costs of the Company increased by approximately 36.6% for the six months ended 30 June 2021 as compared with that of the same period in 2020 mainly due to the newly acquired Chinese herbs business. Administrative expenses of the Company increased by approximately 26.3% for the six months ended 30 June 2021 as compared with that of the same period in 2020. As advised by the Company, it was mainly due to the increase in professional fees during the period.

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Finance costs of the Company increased by approximately 43.2% for the six months ended 30 June 2021 as compared with that of same period in 2020. As advised by the Company, it was mainly due to additional interest incurred for a newly obtained loan and receipt of court judgement demanding accrued interest.

As a result of the abovementioned, the Company recorded loss of approximately HK\$44.7 million for the six months ended 30 June 2021 as compared to a loss of approximately HK\$46.9 million for the same period in previous year.

Comparison between the years ended 31 December 2020 and 2019

The Company recorded a revenue of approximately HK\$203.4 million for the year ended 31 December 2020 representing an increase of approximately 1.7% as compared with approximately HK\$200.0 million for the year ended 31 December 2019 mainly due to the revenue from trading of ceramic items of approximately HK\$11.1 million which was absent in previous year. Toys and gift items remains as the largest business segment of the Group in terms of revenue for each of the two years ended 31 December 2020.

Selling and distribution costs of the Company decreased by approximately 3.6% for the year ended 31 December 2020 mainly due to the decrease of the staff costs of manufacturing and trading of toys and gifts items segment. Administrative expenses of the Company decreased by approximately 19.5% for the year ended 31 December 2020 mainly due to the decrease of legal and professional fees.

Finance costs of the Company increased by approximately 59.6% for the year ended 31 December 2020 mainly due to the increase of approximately HK\$21.3 million for overdue interest on promissory notes and other borrowings during the year.

Other one-off gains represent (i) a gain on extinguishment of financial liabilities by issue of ordinary shares for the year ended 31 December 2020; and (ii) a gain on disposal of subsidiaries for the year ended 31 December 2019 respectively.

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As a result of the abovementioned, the Company recorded loss for the year of approximately HK\$1.0 million for the year ended 31 December 2020 as compared to a loss of approximately HK\$302.3 million for the previous year.

	As at 30 June 2021 HK\$'000 (unaudited)	As at 31 December 2020 HK\$'000 (audited)
Non-current assets	765,679	656,358
Current assets	<u>240,709</u>	<u>196,531</u>
Total assets	<u><u>1,003,388</u></u>	<u><u>852,889</u></u>
Non-current liabilities	152,131	84,228
Current liabilities	<u>433,948</u>	<u>474,670</u>
Total liabilities	<u><u>586,079</u></u>	<u><u>558,898</u></u>
Net current liabilities	(193,239)	(278,139)
Net assets	<u><u>417,309</u></u>	<u><u>293,991</u></u>

As at 31 December 2020, the current assets and current liabilities of the Company amounted to approximately HK\$196.5 million and HK\$474.7 million respectively. Accordingly, the Company had net current liabilities of approximately HK\$278.2 million and current ratio of approximately 0.4 time, calculated as current assets over the current liabilities as at 31 December 2020. The current assets of the Company as at 31 December 2020 included (i) prepayments, deposits and other receivables of approximately HK\$107.1 million; (ii) trade and bills receivables of approximately HK\$54.7 million; (iii) bank balances and cash of approximately HK\$21.6 million; and (iv) inventories of approximately HK\$13.1 million. The current liabilities of the Company as at 31 December 2020 included, among others, promissory notes at value of approximately HK\$256.3 million, accruals and other payables of approximately HK\$148.8 million and borrowings of approximately HK\$55.7 million respectively.

As at 31 December 2020, the non-current assets of the Company mainly included (i) investment in associates of approximately HK\$569.9 million; (ii) property, plant and equipment of approximately HK\$64.7 million; and (iii) investment properties of approximately HK\$12.2 million whilst the non-current liabilities of the Company comprising mainly borrowings of approximately HK\$66.0 million. The Group had a gearing ratio (being total value of accruals and other payables, promissory notes and borrowings over total equity) of approximately 1.8 times as at 31 December 2020.

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On 5 October 2020, the Company completed a placing of new shares under general mandate pursuant to which net proceeds of approximately HK\$20.0 million was raised and utilised to repay the Group's outstanding promissory notes and other payables and as general working capital of the Group.

On 7 January 2021, the Company completed a placing of new shares under specific mandate pursuant to which net proceeds of approximately HK\$29.6 million was raised and utilised to repay the Group's outstanding indebtedness.

On 24 May 2021, the Company completed a subscription of new Shares under specific mandate pursuant to which 390,440,579 Shares were allotted and issued to certain creditors of the Group for settle amount owing by the Company to them.

On 27 May 2021, the Company completed a major transaction and issued the first tranche convertible bonds in the principal amount of HK\$51.0 million as initial payment of relevant consideration. Further tranche convertible bonds may be issuable as payment of the relevant consideration if the performance of the acquisition target meet certain criteria. For details, please refer to the circular of the Company dated 30 March 2021 and the announcement of the Company dated 27 May 2021.

As a result of the abovementioned placement and subscription, the financial position of the Company was improved and the unaudited net assets and bank balances and cash increased to approximately HK\$417.3 million and approximately HK\$53.2 million respectively as at 30 June 2021. Nevertheless, the Company remained at net current liabilities as to approximately HK\$193.2 million as at 30 June 2021.

Save as disclosed above, the Company has not conducted any other equity financing activity in the past 12 months immediately preceding the Latest Practicable Date.

2. Reasons for the Rights Issue and proposed use of net proceeds

The Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; and (iii) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

As set out in the Letter from the Board, the Company has been using its best endeavour to improve the financial position of the Company such as the aforesaid fundraising activities post financial year ended 31 December 2020. According to the Interim Results Announcement, as at 30 June 2021, the Company had unaudited current liabilities of approximately HK\$433.9 million comprising mainly (i) promissory notes of approximately HK\$186.6 million; (ii) borrowings of approximately HK\$93.6 million; (iii) accruals and other payables of approximately HK\$118.8 million; and (iv) trade payables of approximately HK\$33.0 million. As set out the Letter from the Board, among these current liabilities, approximately HK\$140.0 million are considered repayable within the next twelve months from 30 June 2021 and the Company's cash and bank balance is insufficient to meet its imminent cash flow demand.

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Assuming no Shares will be issued or repurchased by the Company on or before the Record Date and a maximum of 691,115,793 Rights Shares will be issued under the Rights Issue, the maximum gross proceeds and estimated net proceeds (after deducting all relevant expenses relating to the Rights Issue) of the Rights Issue will be approximately HK\$141.7 million and HK\$139.8 million respectively. The Company intends to apply the entire net proceeds from the proposed Rights Issue for repayment of the Group's abovementioned short-term liabilities which are considered repayable within the next twelve months from 30 June 2021. In the event of undersubscription of the Rights Issue, the Company will issue further announcement to update the Shareholders and potential investors the amount of actual proceeds from the entire proceeds from the Rights Issue and the Placing and its intended usage.

As part of our due diligence, we have enquired the terms of the current liabilities and noted that majority of (i) promissory notes (other than the interest-free notes relating to acquisition in April 2015 and as trade deposit for purchasing wine and juice as detailed in the Letter from the Board); and (ii) short-term borrowings bear interest rate over 10% per annum. We have also independently calculated the implied cost of capital for the Rights Issue (being the percentage of estimated expenses in relation to the Rights Issue (e.g. professional fee and relevant expenses) to the maximum gross proceeds of the Rights Issue) and noted that the implied cost of capital of approximately 1.3% is substantially lower than the aforesaid interest rates of existing notes and borrowings. Therefore, it is reasonable for the Company to source capital at a lower cost by the Rights Issue to repay such higher cost current liabilities which will become due in near future.

As majority of the assets of the Company were non-current in nature comprising mainly investment in associates and leasehold land and buildings, we have enquired and were advised by the Company that most of the associates invested by the Company are being held as long term investment and the leasehold land and buildings were occupied by the Group for its operation. Hence, the Company has no current intention to dispose of such assets for capital.

We also noted from the Annual Report that the auditors of the Company was in the opinion that since the Group incurred a loss for the year ended 31 December 2020 and was in net current liability position of as at 31 December 2020 which indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. According to the Interim Results Announcement, such net current liabilities continued as at 30 June 2021.

Based on the above and the fact that the Rights Issue will give all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company without diluting their corresponding shareholdings and to participate in the long-term growth of the Company at a price lower than the current market level, we concur with the view of the Company that it is fair and reasonable and in the interest of the Company to conduct the Rights Issue to support the imminent capital need of the Group and the intended use of proceeds are reasonable and commercially justifiable.

3. Alternative financing methods

As stated in the Letter from the Board, other financing alternatives were considered, including, among other things, (i) debt financing such as bank borrowings; and (ii) equity financing such as placing of new shares and open offer.

Given the net current liabilities position and the loss-making position of the Group, the Company considers that the Group's ability to obtain borrowings at favourable terms is limited. We were also advised by the Company that they have attempted to obtain loan financing from a principal bank for financing the Company but it was unlikely for the Company to obtain loan in view of its financial performance. In addition, as discussed with the management of the Company, debt financing may not be appropriate to the Group as debt financing (i) may further increase financial costs of the Company; (ii) will increase in the gearing of the Company may expose the Group to higher financial risk, especially in interest rate increases; and (iii) is normally for fixed term and the success and timing of renewal would materially affect the liquidity of the Company.

On the other hand, as the fundraising size of the Rights Issue is large compared with previous placings conducted by the Company, such large-size placing will significantly dilute the interests of Shareholders without giving them the opportunity to take part in the exercise. Also, as opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered other fund raising alternatives for the Company as disclosed above, and taking into account the benefits and cost of each of the alternatives, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) are of the view that the Rights Issue is the most appropriate fundraising option to the Company and is in the interest of the Company and the Shareholders as a whole.

4. Principal terms of the Rights Issue

4.1 Rights Issue statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date
Subscription price	:	HK\$0.205 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	1,151,859,658 Shares

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Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	: 230,371,931 Adjusted Shares (having considered that no new Shares will be issued as a result of the Bond Holder's Undertaking and assuming there is no further issue or repurchase of Shares up to the effective date of the Capital Reorganisation)
Maximum number of Rights Shares	: 691,115,793 Rights Shares (having considered that no new Shares will be issued as a result of the Bond Holder's Undertaking and assuming there is no other change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date), representing (i) 300% of the total issued Adjusted Shares upon the Capital Reorganisation becomes effective; and (ii) approximately 75% of the total number of issued Adjusted Shares as enlarged immediately upon completion of the Rights Issue.
Number of Shares in issue upon completion of the Rights Issue	: 921,487,724 Shares

Save for the Convertible Bonds, as at the Latest Practicable Date, the Company did not have any other outstanding derivatives, options, warrants and convertible securities or other similar rights which are convertible or exchangeable into Shares.

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, any Untaken Shares together with the NQS Unsold Shares will be placed on a best efforts basis by the Placing Agent to independent placees under the Placing. Any Untaken Shares and/or NQS Unsold Shares remain not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

As the Rights Issue will proceed on a non-underwritten basis, a Shareholder who applies to take up all or part of his/her/its entitlement under the PAL may unwittingly incur an obligation to make a general offer for the Shares and the Convertible Bonds under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement

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under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules.

As at the Latest Practicable Date, Sheen World International Holdings Limited, being holder of the Convertible Bonds, has signed the Bond Holder's Undertaking not to exercise the conversion rights attached to the Convertible Bonds from the date of the Bond Holder's Undertaking up to and including the Record Date.

4.2 Subscription Price

In order to access the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose only.

Historical price movement analysis

The Subscription Price of HK\$0.205 per Rights Share, which will be payable in full upon application, represents:

- (i) a discount of approximately 31.7% to the adjusted closing price of HK\$0.3 per Adjusted Share (based on the closing price of HK\$0.06 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation);
- (ii) a discount of approximately 28.1% to the adjusted closing price of HK\$0.285 per Adjusted Share (based on the closing price of HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iii) a discount of approximately 22.1% to the average closing price of HK\$0.263 per Adjusted Share (based on the average closing price of approximately HK\$0.0526 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iv) a discount of approximately 24.6% to the average closing price of HK\$0.272 per Adjusted Share (based on the average closing price of approximately HK\$0.0544 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

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- (v) a discount of approximately 8.9% to the theoretical ex-entitlement price of approximately HK\$0.225 per Adjusted Share (based on the closing price of HK\$0.285 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares and adjusted for the effect of the Capital Reorganisation);
- (vi) a cumulative theoretical dilution effect (the aggregation of the placing of new shares under specific mandate announced on 22 October 2020 and the Rights Issue) of approximately 22.6% represented by the theoretical diluted price of approximately HK\$0.7 to the benchmarked price of approximately HK\$0.9 per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.9 per Existing Share on 22 October 2020 and the average closing price of the Existing Shares as quoted on the Stock Exchange for the five consecutive trading days prior to 22 October 2020 of HK\$0.706 per Existing Share and adjusted for the effect of the Capital Reorganisation); and
- (vii) a discount of approximately 88.7% to the unaudited consolidated net asset value per Adjusted Share (the “**NAV per Share**”) attributable to the Shareholders as at 30 June 2021 of approximately HK\$1.81 per Adjusted Share calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$417,309,000 as at 30 June 2021 as set out in the Interim Results Announcement and 230,371,931 Existing Shares in issue as at the Latest Practicable Date after adjusted for the effect of the Capital Reorganisation.

According to the Letter from the Board, the Subscription Price was determined with reference to (i) the prevailing market conditions; (ii) the prevailing market prices of the Shares; (iii) the current financial position of the Group; and (iv) the amount of funds the Company intends to raise under the Rights Issue.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 4 August 2020, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the “**Price Review Period**”). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.

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Source: The Stock Exchange

Although the Subscription Price (taking into account the effect of the Capital Reorganisation) appears to be at a substantial discount to the NAV per Adjusted Share as at 30 June 2021, we consider that the NAV per Share is not a meaningful benchmark to assess the Subscription Price as the Shares have been generally traded at significant discount to the NAV per Share in the open market during the Price Review Period. Given the recent market price of the Shares have already reflected the expectation of the investors to the Company such as financial results and corporate actions of the Company and the recent market sentiment, we consider that recent market price of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

As illustrated in the above chart, the closing price of the Shares has been on a decreasing trend in general during the Price Review Period from HK\$0.22 per Share on 4 August 2020 to HK\$0.057 per Share on the Last Trading Day and remained at HK\$0.06 per Share as at the Latest Practicable Date.

On 14 August 2020, the Company announced its supplemental information on the annual report for the year ended 31 December 2019 in relation to written-off of prepayment, deposits and other receivables and in August 2020, the Company also announced its information on change of domicile and capital reorganization, inside information on a letter of intent for supply of battery. On 31 August 2020, the Company announced its unaudited interim results for the six months ended 30 June 2020. Closing price of the Shares fluctuated between HK\$0.20 per Share and HK\$0.22 per Share.

In October 2020, the Company completed a placing of new Shares under general mandate and announced the entering into memorandum of understanding in respect of establishment of joint venture. The closing price of the Shares decreased to HK\$0.117 per Share. On 22 October 2020, the

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Company announced a placing of new Shares under specific mandate for repayment of the Group's indebtedness and the closing price of the Share increased to HK\$0.222 per Share on the next day.

The Company announced a major transaction in relation to issue of new Shares under specific mandate for debt capitalisation on 3 November 2020 and inside information on an acquisition on 4 November 2020. Several supplemental announcements were made by the Company in relation to the aforesaid debt capitalisation and possible acquisition. The closing price of the Shares decreased to HK\$0.169 per Share on 30 November 2020 and further to HK\$0.138 per Share on 31 December 2020.

On 7 January 2021, the Company announced the completion of placing of new Shares under specific mandate (initially announced on 22 October 2020) and the net proceeds would be fully utilised to repay the Group's outstanding indebtedness. Since then, the closing price of the Shares gradually increased until reaching HK\$0.290 per Share on 9 March 2021 and 10 March 2021. In early March 2021, the Company announced (i) a winding up petition filed in the High Court of The Hong Kong Special Administrative Region against the Company and relevant settlement by the Company; (ii) business update on the Company's associated company in relation to its property project in Samoa as impacted by COVID-19 pandemic; and (iii) a possible acquisition from connected persons of the Company (terminated in mid-March 2021). On 31 March 2021, the Company announced its final results for the year ended 31 December 2020.

After the drop in closing price of the Shares since mid-March 2021, the closing price of the Shares continued to decrease between April 2021 and July 2021 and further to HK\$0.057 per Share on the Last Trading Day. On 9 August 2021, the Company announced inside information on possible acquisition and entering into of the memorandum of understanding in respect of establish of a joint venture and closing price of the Shares surged to HK\$0.093 per Share on the same day. Nevertheless the increase in the Share price was not sustainable and decreased to HK\$0.055 on 31 August 2021 and the Company published the Interim Results Announcement after trading hours on the same day. On 14 September 2021, the Company made an announcement in relation to the Group's acquisition of 51% interests in a company which is in the process of securing the fluorspar mining concession and processing plant, etc. As at the Latest Practicable Date, the closing price of the Shares was HK\$0.06 per Share.

In the Price Review Period, the highest closing price of the Shares was HK\$0.31 per Share on 27 October 2020 and the lowest closing price of the Shares was HK\$0.05 per Share from 28 July 2021 respectively. The Subscription Price (after adjustment to the effect of the Capital Reorganisation) represents a discount of approximately 86.8% and 18.0% to the highest and the lowest closing price of the Shares in the Price Review Period respectively. The Shares were traded above the Subscription Price (after adjustment to the effect

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of the Capital Reorganisation) throughout the Price Review Period. Hence, we consider it is fair and reasonable for the Company to determine the Subscription Price with reference the prevailing market price of the Shares and a discount (which will be analysed below) to enhance the attractiveness of the Rights Issue.

Historical trading volume and liquidity analysis

We have also reviewed the historical trading volume of the Shares during the Price Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Price Review Period are shown in the table below.

Month/period	Number of trading days	Average daily trading volume	% of average daily trading volume to the total number of Shares in issue (Note 1)	% of average daily trading volume to the total number of Shares in the public hands (Note 2)
2020				
August (Note 3)	20	1,039,524	0.2040	0.2040
September	22	796,373	0.1563	0.1563
October	18	9,808,172	1.6042	1.6043
November	21	5,920,738	0.9684	0.9774
December	22	872,259	0.1427	0.1440
2021				
January	20	4,983,407	0.6545	0.6594
February	18	10,198,506	1.3394	1.3494
March	23	39,739,252	5.2191	5.2581
April	19	5,758,947	0.7563	0.7620
May	20	18,703,065	1.6237	1.6317
June	23	9,084,036	0.7886	0.7925
July	21	7,350,057	0.6381	0.6412
August	22	30,383,807	2.6378	2.6508
September (Note 4)	19	9,790,696	0.8500	0.8542

Source: The Stock Exchange

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Notes:

1. Calculated based on the total number of the Shares in issue at the end of month/period.
2. Calculated based on the total number of the Shares in public hands at the end of month/period according to the public information on the Stock Exchange.
3. Represents number of trading days and trading volume for the period from 4 August 2020 to 31 August 2020, both days inclusive.
4. Represents number of trading days and trading volume for the period from 1 September 2021 to the Latest Practicable Date, both days inclusive.

As demonstrated in the table above, during the Price Review Period, the average daily trading volume of the Shares by month/period were in the range of approximately 0.1427% to 5.2191% as to the total number of issued Shares and approximately 0.1440% to 5.2581% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low in the open market. On this basis and the closing price of the Shares generally showed a decreasing trend during the Price Review Period, we concur with the Directors that the discount to the Share price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company. For this reason, we are of the view that the discount to the Share price as represented by the Subscription Price is justifiable.

Rights Issue comparable analysis

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 35 rights issue transactions (the “**Comparables**”) announced by other companies listed on the Stock Exchange for the period from six months immediately prior to the Last Trading Day (the “**Comparable Review Period**”) and up to the Latest Practicable Date. Shareholders should note that the subject companies in the Comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. Although the circumstances surrounding such Comparables may be different from those relating to the Company, we consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to rights issue transactions which the Comparables, for illustrative purpose only, serve as a general reference for prevailing market practices in relation to rights issue transactions conducted by the companies listed in the Stock Exchange.

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/(Discount) of the subscription price over the average share price for the five previous consecutive trading days up to and including the last trading day	Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Underwriting/related commission, as the case may be	Excess application	Maximum dilution effect
				(%)	(%)	(%)	(%)			
5 February 2021	Bossini International Holdings Limited	592	1 for 2	(23.40)	(25.62)	(28.14)	(16.86)	Not disclosed	Yes	33.3
16 February 2021	China LotSynergy Holdings Limited	1371	2 for 1	(30.07)	(32.89)	(40.12)	(15.97)	1.0	Yes	66.7
19 February 2021	Enterprise Development Holdings Limited	1808	1 for 2	(49.15)	(42.20)	(34.68)	(39.09)	1.0	Yes	33.3
17 March 2021	Qingdao Holdings International Limited	499	1 for 1	(18.80)	(8.90)	(5.60)	(10.30)	4.5	Yes	50.0
24 March 2021	Noble Engineering Group Holdings Limited	8445	1 for 2	(33.80)	(35.80)	(38.60)	(25.30)	5.0	No	33.3
26 March 2021	Kaisa Group Holdings Limited	1638	1 for 7	(25.13)	(27.52)	(27.68)	(22.70)	2.5	Yes	12.5
29 March 2021	China Demeter Financial Investments Limited	8120	3 for 1	(17.36)	(20.38)	(22.30)	(4.99)	Nil	No	75.0
								(underwritten by connected person)		
8 April 2021	State Energy Group International Assets Holdings Limited	918	3 for 1	(22.20)	(24.20)	(27.30)	(7.40)	1.0	No	75.0
9 April 2021	Golden Power Group Holdings Limited	3919	1 for 2	(21.40)	(20.70)	(19.60)	(15.40)	7.07	Yes	33.3
12 April 2021	Merdeka Financial Group Limited	8163	5 for 2	(21.05)	(22.68)	(27.54)	(6.83)	2.0	Yes	71.4
23 April 2021	PFC Device Inc.	8231	1 for 2	(20.00)	(23.37)	(23.37)	(14.29)	Not disclosed	Yes	33.3
28 April 2021	Sandmartin International Holdings Limited	482	1 for 2	(16.00)	(16.00)	(14.81)	(11.21)	2.0	No	33.3
4 May 2021	China Investment Development Limited	204	1 for 2	(10.31)	(11.11)	(13.79)	(6.98)	2.5	Yes	33.3
4 May 2021	Coolpad Group Limited	2369	1 for 2	(41.05)	(41.18)	(42.27)	(31.70)	2.5	Yes	33.3
11 May 2021	Great Wall Belt & Road Holdings Limited	524	1 for 4	(18.92)	(23.47)	(25.15)	(15.73)	Not disclosed	Yes	20.0
11 May 2021	China Best Group Holding Limited	370	1 for 2	(45.21)	(46.95)	(46.09)	(37.89)	1.5	No	33.3
13 May 2021	Ta Yang Group Holdings Limited	1991	1 for 2	(22.22)	(21.08)	(20.23)	(16.02)	Not disclosed	Yes	33.3
18 May 2021	Champion Technology Holdings Limited	92	3 for 1	8.70	6.38	7.53	2.04	2.5	Yes	75.0
20 May 2021	China Internet Investment Finance Holdings Limited	810	1 for 2	(51.22)	(53.05)	(55.70)	(41.18)	2.5	Yes	33.3
1 June 2021	Vision Fame International Holding Limited	1315	1 for 4	(60.78)	(60.47)	(61.83)	(55.36)	2.0	No	20.0
7 June 2021	AL Group Limited	8360	3 for 1	(27.03)	(27.03)	(27.61)	(8.47)	1.5	Yes	75.0
11 June 2021	Cool Link (Holdings) Limited	8491	1 for 2	(39.33)	(40.13)	(40.91)	(31.06)	2.5	Yes	33.3
11 June 2021	Lai Sun Garment (International) Limited	191	1 for 2	(65.00)	(65.05)	(64.27)	(55.38)	1.0	Yes	33.3
16 June 2021	China Environmental Energy Investment Limited	986	1 for 1	(5.66)	(2.34)	(2.44)	(2.91)	2.5	No	50.0
23 June 2021	CBK Holdings Limited	8428	3 for 2	(22.73)	(19.05)	(19.05)	(10.53)	3.0	No	60.0
13 July 2021	Sun Entertainment Group Limited	8082	4 for 5	(52.54)	(52.86)	(52.70)	(38.60)	Not disclosed	Yes	44.4
14 July 2021	China Baoli Technologies Holdings Limited	164	1 for 2	(29.82)	(31.03)	(31.03)	(21.57)	3.5	Yes	33.3
16 July 2021	P.B. Group Limited	8331	1 for 1	(36.36)	(31.37)	(31.37)	(22.22)	Nil	No	50.0
								(underwritten by connected person)		
19 July 2021	Tongda Group Holdings Limited	698	1 for 2	(49.01)	(50.53)	(50.64)	(40.51)	3.0	Yes	33.3
29 July 2021	China Properties Investment Holdings Limited	736	1 for 1	(4.10)	(2.10)	(2.10)	(2.10)	2.5	No	50.0
29 July 2021	Worldgate Global Logistics Ltd	8292	3 for 1	(17.91)	(16.54)	(16.86)	(5.17)	1.0	No	75.0
2 August 2021	Luen Wong Group Holdings Limited	8217	2 for 1	(18.75)	(14.92)	(18.95)	(7.14)	2.5	No	66.7
6 August 2021	LKS Holding Group Limited	1867	1 for 5	(9.84)	(8.71)	(7.60)	(8.33)	1.5	Yes	16.6
12 August 2021	Lai Sun Development Company Limited	488	1 for 2	(50.00)	(49.56)	(48.58)	(38.86)	2.0	Yes	33.3

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Announcement date	Company name	Stock code	Basis of entitlement	Premium/(Discount) of the subscription price over the average share price for the five previous consecutive trading days up to and including the last trading day	Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day	Underwriting/related commission, as the case may be	Excess application	Maximum dilution effect
				(%)	(%)	(%)	(%)			
2 September 2021	Daisho Microline Holdings Limited	567	1 for 1	(44.44)	(37.50)	(35.82)	(28.57)	2.0	Yes	50.0
			Min	(65.00)	(65.05)	(64.27)	(55.38)			12.5
			Max	8.70	6.38	7.53	2.04			75.0
			Median	(23.40)	(25.62)	(27.61)	(15.97)			33.3
			Mean	(28.91)	(28.57)	(29.06)	(20.42)			43.9
	The Company		3 for 1	(28.07)	(22.05)	(24.63)	(8.89)	0.5	No	75.0

Source: The Stock Exchange

Note: The potential maximum dilution effect of each rights issue is calculated as number of rights shares issued or to be issued under the basis of entitlement divided by the total number of shares as enlarged by the rights issue according to their respective basis of entitlements and assuming all rights shares have been/will be allotted and issued times 100%.

We noted from the above table that almost all of the Comparables had set the subscription price of their rights issue at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the rights issue were made. Therefore we consider it is a normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing market price of the relevant shares so as to encourage the shareholders' participation. The discount/premium represented by the subscription prices to/over the closing price of shares of the Comparables on respective last trading day ranges from a discount of approximately 65.00% to a premium of approximately 8.70% with mean and median discount of approximately 28.91% and 23.40% respectively. The discount of approximately 28.07% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the range of those of the Comparables and is comparable to the mean discount of the Comparables.

The subscription prices of the Comparables represent a range from a discount of approximately 55.38% to a premium of approximately 2.04% relative to their respective theoretical ex-rights prices as disclosed in relevant announcements. The discount of approximately 8.89% of the Subscription Price to the theoretical ex-rights prices of the Shares on the Last Trading Day is lower than the mean and median discount of the Comparables and within the range.

Based on the above analysis and the facts that (i) the Shares were traded above the Subscription Price (taking into account the effect of the Capital Reorganisation) throughout the Comparable Review Period; (ii) the liquidity in

trading of the Shares was thin during the Comparable Review Period; (iii) it is common for the listed companies in Hong Kong to set the subscription price of rights issue at a discount to the market price of the listed shares in order to enhance the attractiveness of the rights issue transactions; (iv) the discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day fall within the range of the Comparables; (v) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (vi) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we consider that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Application for excess Rights Shares

As stated in the Letter from the Board, the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. We have reviewed the Comparables, and noted that 12 out of 35 Comparables did not offer excess application to their shareholders. Furthermore, 17 out of 35 Comparables were conducted on non-underwritten basis, among which 9 of them did not offer excess application to their shareholders. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice.

After having considered the facts that (i) the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company; (ii) the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full can maintain their respective existing shareholdings in the Company after completion of the Rights Issue; and (iii) the absence of excess application arrangement is not an uncommon market practice, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

5. Compensatory Arrangements

According to the Letter from Board, the Company would make arrangements described in Rule 7.21(1)(b) of the Listing Rule to dispose of the Untaken Shares and the NQS Unsold Shares by offering the Untaken Shares and the NQS Unsold Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the rights (i.e. the Compensatory Arrangements). Therefore, on 3 August 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Untaken Shares and the NQS Unsold Shares. Please refer to the section headed “The Placing Agreement” in the Letter from the Board for the details of the Placing Agreement.

5.1 Placing Price

Pursuant to the Placing Agreement, the placing price (the “**Placing Price**”) of each of the Untaken Share and/or the NQS Unsold Share shall be not less than the Subscription Price. The final price determination is depended on the demand and market conditions of the Untaken Shares and/or the NQS Unsold Shares during the process of the Placing.

Given that (i) the Placing Price shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraph headed “4.2 Subscription Price” above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

5.2 Placing Commission

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent a placing commission (the “**Placing Commission**”) of 0.50% of the amount which is equal to the Placing Price multiplied by the Untaken Shares and NQS Unsold Shares that have been successfully placed by the Placing Agent. As advised by the Company, the Placing Commission was determined after arm’s length negotiation between the Company and the Placing Agent and is on normal commercial terms, and the Directors, have taken into account the range of placing commission for recent rights issues conducted by issuers listed on the Stock Exchange.

As illustrated in table above, the placing/underwriting commission rate of the Comparables ranged from 1.00% to 7.07% (except those underwritten by connected persons). The Placing Commission falls below the range of the placing/underwriting commission rate of the Comparables. Accordingly, we consider that the Placing Commission is fair and reasonable.

We have also reviewed other major terms of the Placing Agreement, including but not limited to the conditions and termination clause of the Placing Agreement (details of which are set out in the Letter from the Board) and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Placing Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

In view of the above, we consider that the implementation of the Compensatory Arrangements is in the interests of the Company and the Shareholders as a whole.

6. Dilution effect of the Rights Issue on shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their proportionate shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. As at the Latest Practicable Date, the existing public Shareholders held approximately 99.51% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the Qualifying Shareholders), the shareholding of the existing public Shareholders will be diluted to approximately 24.88%.

As set out in table above, the maximum dilution of the Comparables ranged from approximately 12.5% to approximately 75.0% with an average dilution of approximately 43.9%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 75.0%, which fall within the range of the Comparables.

In all cases of rights issue, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the rights issue is inevitable. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed "7. Financial effects" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

7. Financial effects

It should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7.1 Net tangible assets

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, had the Rights Issue been completed on 30 June 2021, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would have increased from approximately HK\$284.9 million to approximately HK\$424.8 million immediately after the completion of the Rights Issue.

7.2 Bank balances

Upon completion of the Rights Issue and before the repayment of the Group's short term liabilities as intended by the Company, the bank balances of the Company is expected to increase by an amount equivalent to the net proceeds from the Rights Issue, which is estimated to be approximately HK\$139.8 million.

7.3 Gearing

Since all the net proceeds from the Rights Issue are intended to be used to repay the current liabilities of the Company, the total liabilities of the Company are expected to decrease as a result of the Rights Issue. Accordingly, the gearing ratio of the Company, as expressed as the ratio of debt to equity, would decrease after the Rights Issue.

Based on the above analysis, we are of the view that the Rights Issue would have a positive effect on the Group's net tangible assets, cash position and gearing.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the relevant resolution(s) proposed at the SGM thereby approving the Rights Issue.

Yours faithfully,
For and on behalf of
Sorrento Capital Limited
Wesker Poon
Managing Director

Note: Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Mr. Poon has participated in and completed various advisory transactions (including fundraising activities of listed companies in Hong Kong).

1. SUMMARY OF FINANCIAL INFORMATION

Details of the audited financial information of the Group for each of the years ended 31 December 2018, 2019 and 2020 are disclosed in the following annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 respectively and the interim results announcement of the Company for the six months ended 30 June 2021 which have been published and are available on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.kh381.com):

- (i) the annual report of the Company for the year ended 31 December 2018 published on 29 April 2019 (pages 34 to 120) in relation to the financial information of the Group for the same year.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291625.pdf>

- (ii) the annual report of the Company for the year ended 31 December 2019 published on 5 June 2020 (pages 37 to 136) in relation to the financial information of the Group for the same year.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0605/2020060500904.pdf>

- (iii) the annual report of the Company for the year ended 31 December 2020 published on 30 April 2021 (pages 36 to 136) in relation to the financial information of the Group for the same year.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0430/2021043000881.pdf>

- (iv) the interim results announcement of the Company for the six months ended 30 June 2021 published on 31 August 2021 (pages 1 to 16) in relation to the financial information of the Group for the same period.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0831/2021083101677.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 August 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had approximately HK\$419.1 million outstanding indebtedness comprising the following debts:

- (i) HK\$60 million borrowings were guaranteed, and were secured by the Group's certain properties;
- (ii) HK\$30 million borrowings were not guaranteed and unsecured;
- (iii) current and non-current lease liabilities of approximately HK\$1.5 million and HK\$2.6 million respectively;
- (iv) Convertible bonds of principal amount of approximately HK\$129 million; and

(v) Promissory notes of HK\$196 million.

The carrying values of the Group's assets pledged to secure its borrowings amounted to approximately HK\$56 million as at 31 August 2021.

As at 31 August 2021, the Group had no significant contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 August 2021, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or other borrowings, mortgages, charges, guarantees or contingent liabilities.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstances, taking into account the financial resources available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements for at least the next twelve (12) months following the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up) and up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; (iii) investment in various potential businesses including fruit plantation, leisure and culture; and (iv) the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products.

According to the Company's interim results announcement for the six months ended 30 June 2021, the Group recorded unaudited net current liabilities of approximately HK\$193.24 million. The Company considers that such tight financial position of the Group should be rectified as soon as practicable, otherwise, it may not only undermine the Group's ability to negotiate appropriate investment opportunity but will also hinder future business development of the Group. In light of the above, the Company had been successfully negotiated with and will continue to negotiate with its creditors on the repayment method and repayment schedule of the Group's indebtedness with an aim to restore the financial position of the Group into a healthy level as soon as practicable.

As disclosed in the Company's interim results announcement for the six months ended 30 June 2021, the Group has been reviewing its operations and exploring other investment opportunities that have earning potentials in order to expand its existing operations and

diversify its businesses and income base to maximize the interests of the Group and the Shareholders as a whole. On 27 May 2021, the Group completed the acquisition of 51% equity interests in Hubei Jincaotang Pharmaceutical Co., Ltd.* (湖北金草堂藥業有限公司) (“**Hubei Jincaotang**”) which principally engaged in the development of seeding cultivation and plantation technology of Chinese herbs as well as processing and sale of Chinese herbs products. According to the interim results announcement of the Company for the six months ended 30 June 2021, Hubei Jincaotang has been contributing income to the Group since completion of the acquisition, as such, the Company is optimistic that Hubei Jincaotang will become one of the key revenue drivers to the Group.

Going forward, the Company will carefully review and assess its existing operation while continuing to explore other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the Shareholders as a whole. This is evidenced by the entering of certain memorandum of understandings by the Group since July 2020. Detail of the memorandum of understandings and their respective updates are as follow:

Date	Description	Latest update
22 July 2020	entered into between a wholly-owned subsidiary of the Company and Sichuan Liaofan Chuanghang Technology Co., Ltd.* (四川了凡創航科技有限公司) in respect of the mutual intention to establish a joint venture in the PRC to engage in advance technology related business.	Lapsed
29 July 2020	entered into between the Company (as purchaser) and China Commerce Huaxia Asset Management Co., Ltd. (as vendor) in relation to a mutual intention on a possible acquisition by the Company (or its wholly-owned subsidiary) of certain equity interest in China Commerce Fule Construction Co., Ltd..	Lapsed
15 October 2020	entered into between a wholly-owned subsidiary of the Company and Mianyang Liaofan Shande Senior Care Services Ltd.* (綿陽了凡善德養老服務有限公司) in respect of the mutual intention to establish a joint venture in the PRC to engage in health and elderly care business.	Lapsed

* English name for identification purpose

Date	Description	Latest update
10 March 2021	entered into among the Company (as purchaser) with Ms. Zhao Jing, Mr. Hou Yunde, Mr. Li Zhengjun and Mr. Ge Jigan (as vendors) in relation to a mutual intention on a possible acquisition by the Company (or its wholly-owned subsidiary) of certain equity interest in Beijing Jindike Biotech Institute Limited.	Terminated
22 March 2021	entered into among the Company (as purchaser) with Mr. Tian Xinwen and Mr. Hou Junming (as vendors) in relation to a mutual intention on a possible acquisition by the Company (or its wholly-owned subsidiary) of certain equity interest in Inner Mongolia Zhonghe Mining Co., Ltd..	The exclusivity period has been extended for 120 days to allow more time for the Company to carry out the due diligence works during the COVID-19 pandemic.
9 August 2021	entered into between the Company (as purchaser) and Yuanta Chinese Medicine Chain (Shenzhen) Co., Ltd (as vendor) in relation to a mutual intention on a possible acquisition by the Company (or its wholly-owned subsidiary) of certain equity interest in a target company engaging in Chinese medicine diagnosis and treatment, Chinese medicine physiotherapy, Chinese medicine diet therapy, family doctors, health and wellness and sales of Chinese medicine.	<p>The exclusivity period shall end on the earlier of (i) ninety (90) days after the date of signing of the memorandum of understanding on 9 August 2021; or (ii) the written confirmation by both parties that negotiation on the possible acquisition shall discontinue; or (iii) the breach of the confidentiality obligations as contained in the memorandum of understanding by either party.</p> <p>The Company is currently conducting due diligence review of the target company.</p>

Date	Description	Latest update
9 August 2021	the Company designated subsidiary, entered into between a wholly-owned subsidiary of the Company and Waisheng Industrial Group Co., Limited (the “ PRC JV Partner ”) in respect of the mutual intention to establish a joint venture in the PRC to engage in I.T. related business.	<p>The exclusivity period shall end on the earlier of (i) ninety (90) days from the date of signing of the memorandum of understanding on 9 August 2021; or (ii) the date on which both parties enter into a written agreement not to proceed with the formation of the joint venture; or (iii) the breach of the confidentiality provisions as contained in the memorandum of understanding by either party.</p> <p>The Company is currently conducting due diligence review of the PRC JV Partner.</p>

A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATION NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the consolidated net tangible assets of the Group attributable to the Shareholders as if the Rights Issue had been completed on 30 June 2021. As it is prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group upon completion of the Rights Issue or at any future dates after completion of the Rights Issue.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the consolidated net tangible assets of the Group attributable to the Shareholders as at 30 June 2021 as derived from the Group's published unaudited consolidated financial statements for the six months ended 30 June 2021 and is adjusted for the effect of the Rights Issue as if the Rights Issue had been completed on 30 June 2021.

Unaudited consolidated net tangible assets attributable to the Shareholders as at 30 June 2021 (Note 1) HK\$'000	Unaudited estimated net proceeds from the Rights Issue (Note 3) HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to the Shareholders as at 30 June 2021 HK\$'000	Unaudited consolidated net tangible assets attributable to the Shareholders per Share as at 30 June 2021 (Note 4) HK\$	Unaudited pro forma adjusted consolidated net tangible assets attributable to the Shareholders per Share as at 30 June 2021 (Note 5) HK\$
Based on 691,115,793 Rights Shares to be issued at the Subscription Price of HK\$0.205 per Rights Share				
284,944	139,813	424,757	1.24	0.46

Notes:

1. The consolidated net tangible assets of the Group attributable to the owners of the Company at 30 June 2021 of approximately HK\$284,944,000 is based on the unaudited consolidated net assets the Group of HK\$369,403,000 excluding other intangible assets and goodwill of approximately HK\$983,000 and HK\$83,476,000 respectively as shown on the unaudited consolidated statement of financial position of the Group as at 30 June 2021 as extracted from the published unaudited consolidated statement of financial statements of the Group for the six months ended 30 June 2021.
2. The 230,371,931 shares will be adjusted from 1,151,859,658 existing shares as at date of announcement on 3 August 2021 upon the Capital Reorganisation becoming effective, after having considered that no new shares will be issued as a result of the Bond Holder's undertaking and assuming there is no further issue or repurchase of shares up to the effective date of the Capital Reorganisation.
3. The estimated net proceeds from the Rights Issue approximately HK\$141,679,000 are based on 691,115,793 Right Shares (having considered that no new shares will be issue as a result of the Bond Holder's undertaking and assuming there is no further issue or repurchase of shares up to the effective date of the Capital Reorganisation) at the Subscription Price of HK\$0.205 per Rights Share, after deduction of the estimated related expenses of approximately HK\$1,866,000.
4. The unaudited pro forma adjusted consolidated net tangible assets of Group attributable to the Shareholders per Share as at 30 June 2021 after the Rights Issue Completion is calculated based on the consolidated net tangible assets of the Group attributable to the Shareholders as at 30 June 2021 of approximately HK\$284,944,000 divided by 230,371,931 Shares (based on shares after taking the effect of share consolidation disclosed in Note 2) which represents Shares in issue as at 30 June 2021.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders per Share as at 30 June 2021 is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders as at 30 June 2021 and 921,487,724 Shares in issue upon completion of the Rights Issue as at 30 June 2021, which comprises 230,371,931 shares in issue (based on shares after share consolidation disclosed in Note 2) as at 30 June 2021 before the Rights Issue and 691,115,793 Rights Shares to be issued under the Rights Issue.
6. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2021.

The following is the text of a report received from the Company's reporting accountants, Prism CPA Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular.

B. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION



Prism CPA Limited
柏淳會計師事務所有限公司

Room 1002-3, 10/F., Perfect Commercial Building,
No. 20 Austin Avenue, Tsim Sha Tsui, Hong Kong
香港九龍尖沙咀柯士甸路20號保發商業大廈10樓1002-3室

To the Board of Directors

Kiu Hung International Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kiu Hung International Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2021 and related notes as set out on pages 64 to 65 of Appendix II to the circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 64 to 65 of Appendix II to the circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Rights Issue on the Group's consolidated net tangible assets as at 30 June 2021 as if the Rights Issue had taken place on 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the unaudited interim report of the Company for the period ended 30 June 2021, on which audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our 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 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 Accountant’s Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have complied the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors

in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Prism CPA Limited

Certified Public Accountants

Lee Kwok Lun

Practising Certificate Number: P06294

Hong Kong, 30 September 2021

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately following the completion of the Share Consolidation and the Increase in Authorised Share Capital but before the completion of the Rights Issue; and (iii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to completion of the Rights Issue and full acceptance by Eligible Shareholders) are as follows:

(a) As at the Latest Practicable Date

Authorised: HK\$

<u>198,605,703,079</u> Existing Shares of HK\$0.01 each	<u>1,986,057,030.24</u>
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Issued and fully paid:

<u>1,151,859,658</u> Existing Shares of HK\$0.01 each	<u>11,518,596.58</u>
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(b) Immediately following the Capital Reorganisation becoming effective but before the completion of the Rights Issue

Authorised: HK\$

<u>198,605,703,079</u> Adjusted Shares of HK\$0.01 each	<u>1,986,057,030.79</u>
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Issued and fully paid:

<u>230,371,931</u> Adjusted Shares of HK\$0.01 each	<u>2,303,719.31</u>
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(c) Immediately following completion of the Rights Issue*Authorised:**HK\$*

<u>198,605,703,079</u>	Adjusted Shares of HK\$0.01 each	<u>1,986,057,030.79</u>
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Issued and fully paid:

<u>921,487,724</u>	Adjusted Shares of HK\$0.01 each	<u>9,214,877.24</u>
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All of the Rights Shares to be issued will rank *pari passu* in all respects with each other. Holder of the Rights Shares in their fully-paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

As at the Latest Practicable Date, there are outstanding Convertible Bonds in the principal amount of HK\$51,000,000 which are convertible into a maximum of 25,500,000 Existing Shares upon full conversion of the Convertible Bonds based on the conversion price of HK\$2.00 (subject to adjustment mechanism in accordance with the terms and conditions of the Convertible Bonds). Save as the above, the Company did not have any other outstanding derivatives, options, warrants and convertible securities or other similar rights which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any convertible securities, warrants and/or options on or before the Record Date.

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

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the “Register”), or (c) pursuant to the Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares and the underlying Shares

Name	Capacity	Number of Shares held/ interested	Approximate percentage of shareholding
Zhang Qijun	Beneficial owner	33,500	0.004%
Liu Mingqing	Beneficial owner	5,600,000	0.736%
Cheng Ho On	Beneficial owner	8,500	0.001%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have 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 in which they are 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, or were required, pursuant to the Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, 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, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

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

5. DIRECTOR'S INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors has or had any direct or indirect interest in any assets which have been 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 member of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or controlling shareholders or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

7. LITIGATIONS

(a) Guo Jingsheng

On 8 June 2016 and 19 July 2016, the Company and a director of the Company received from Mr. Guo Jingsheng (“**Mr. Guo**”) a writ of summons and an indorsement of claim issued by the High Court, respectively, against the Company as borrower and the director of the Company as guarantor for the outstanding amount of borrowing including interests of approximately HK\$13,921,000.

A deed of settlement (the “**Settlement Deed**”) was made between the Company, the director of the Company and Mr. Guo on 29 April 2019. Pursuant to the Settlement Deed, the Company would issue 80,000,000 ordinary shares of the Company at HK\$0.10 per share (the “**Shares**”) for the settlement of HK\$8,000,000 as partial settlement of Mr. Guo's debt of approximately HK\$17,600,000 as at 29 April 2019. The Settlement Deed contains a buy-back clause for the Shares by the Company should the quoted market price of the Company's shares fail to reach at least HK\$0.10 per share within one year from the date of issue of the Shares. The Company issued and allotted the Shares to Mr. Guo on 21 May 2019. On 15 May 2020 and 8 June 2020, the Company received a writ of summons from Mr. Guo demanding an order that the Company buy back the Shares from Mr. Guo.

As at the date of this circular, the Company is liaising with Mr. Guo about the buy-back of the Shares and the outstanding amount of borrowings of approximately HK\$9,600,000, which is included in accruals and other payables as at 30 June 2021.

(b) Everbright Centre

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Everbright Centre Company Limited (“**Everbright Centre**”) (formerly known as Wing Siu Company Limited) as landlord and Super Dragon Management Limited (“**Super Dragon**”), a wholly-owned subsidiary of the Company, as tenant, and the Company as guarantor to Super Dragon, for a lease of premises for a term of three years from 15 December 2014 to 14 December 2017.

On 8 August 2016, Super Dragon and the Company received from Everbright Centre a writ of summons issued by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) with an indorsement of claim against Super Dragon and the Company jointly for (i) vacant possession of the premises; (ii) the outstanding total amount of rent, management fees, interests and other charges of approximately HK\$3,886,000 as at 1 August 2016; (iii) rent, management fees and rates to the date of delivery of vacant possession of the Wanchai Property; (iv) damage for breach of the tenancy agreement to be assessed; (v) interest; (vi) costs; and (vii) further or other relief.

The Company vacated from the premises in the third quarter of 2017 and has settled part of the amount claimed above. As at 30 June 2021, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK\$3,225,000 which is included in accruals and other payables.

(c) Veda Capital Limited

On 17 July 2020, the Company received a writ of summons from Veda Capital Limited issued by the District Court of the Hong Kong Special Administrative Region against the Company for a claim of fees in the amount of HK\$803,000 for the provision of consultancy service.

As at the date of this circular, the Company is liaising with Veda Capital Limited to settle the above claim which is included in accruals and other payables as at 30 June 2021 and 31 December 2020.

8. EXPERTS AND CONSENTS

The following is the qualification of the expert who has given opinions or advice which are contained in this circular (the “**Experts**”):

Name	Qualification
Prism CPA Limited	certified public accountants
Sorrento Capital Limited	a corporation licensed to carry out Type 6 (Advising on Corporate Finance) regulated activity as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

As at the Latest Practicable Date, (i) each of the above Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of their letters and references to its name and/or its advice in the form and context in which they respectively appear; (ii) each of the above Experts was not beneficially interested in any share of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (iii) each of the above Experts did not have any direct or indirect interest in any assets which have been 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 since 31 December 2020 (the date to which the latest published audited consolidated financial statements of the Group were made up).

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by the members of the Group during two years preceding the Latest Practicable Date and are or may be material:

- (a) the conditional sale and purchase agreement dated 11 September 2019 (“**SPA**”) entered into among Fujian Green Forest Agricultural Technology Co., Ltd.* (福建綠森農業科技有限公司) (as the purchaser) (“**Green Forest**”), Sheen World International Holdings Limited (as the vendor) (“**Sheen World**”) and Mr. Lin Wei (as the vendor guarantor) (“**Mr. Lin**”) in respect of the acquisition of 51% equity interest in Hubei Jincaotang Pharmaceutical Co., Ltd.* (湖北金草堂藥業有限公司) (“**Jincaotang**”) at the consideration of HK\$170 million;
- (b) the conditional subscription agreement (“**Subscription Agreement**”) dated 11 October 2019 entered into by the Company (as the issuer) and Guangdong Wangzu Green Residential Industry Limited (the “**Subscriber**”) in relation to the subscription of the bonds in the amount of HK\$500,000,000;

* English name for identification purpose

- (c) the supplemental subscription agreement to the Subscription Agreement dated 26 November 2019 entered into between the Company and the Subscriber to clarify certain terms of the Subscription Agreement;
- (d) the deed of settlement dated 14 January 2020 entered into among Trinity Force Investments Limited (as purchaser), Green Luxuriant Group Investment Limited (as vendor) and Ms. Lin Meiling (as vendor guarantor) in relation to the subscription of 300,000,000 new Shares at the subscription price of HK\$0.1 per subscription share for settlement of an outstanding promissory notes;
- (e) the supplemental agreement to the SPA dated 20 July 2020 entered into among Green Forest, Sheen World and Mr. Lin in relation to the revision of certain terms under the SPA;
- (f) the placing agreement dated 22 September 2020 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing of up to 101,900,000 new Shares at a placing price of HK\$0.2 per placing share;
- (g) the placing agreement dated 22 October 2020 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing of up to 150,000,000 new Shares at a placing price of HK\$0.2 per placing share;
- (h) the subscription agreement (the “**Subscription Agreement**”) dated 3 November 2020 entered into among the Company (as the issuer) with 12 creditors of the Company in relation to the subscription of an aggregate of 306,659,459 new Shares at a subscription price of HK\$0.267 per subscription share for debt settlement;
- (i) the acquisition framework agreement dated 4 November 2020 entered into between Fujian Green Forest Agricultural Technology Co., Ltd. (as purchaser) and Ms. Zhang Li (as vendor) in relation to the possible acquisition of controlling interests in the target company engaging in technology development, technical services in the field of biomedical technology, investments in and establishment of pharmaceutical projects and other industries;
- (j) the supplemental subscription agreement to the Subscription Agreement dated 22 January 2021 entered in to among the Company (as the issuer) with 3 creditors of the Company in relation to the subscription of an aggregate of 83,781,119 additional new Shares at a subscription price of HK\$0.267 per additional subscription share;
- (k) the second supplemental agreement to the SPA dated 23 March 2021 entered into among Green Forest, Sheen World and Mr. Lin in relation to the revision of certain terms under the SPA;
- (l) the third supplemental agreement to the SPA dated 25 March 2021 entered into among Green Forest, Sheen World and Mr. Lin in relation to the revision of certain terms under the SPA;

- (m) the Placing Agreement; and
- (n) the transfer agreement dated 14 September 2021 entered into between Nanjing Shensen Business Management Company Limited* (南京申森商業管理有限公司) (an indirect wholly-owned subsidiary of the Company as purchaser) and Mr. Hou Junming (as vendor) in relation to the acquisition of 51% share capital in Inner Mongolia United Mining Company Limited* (內蒙古衆合礦業有限公司).

10. CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Zhang Qijun (*Chairman*)
 Mr. Chen Jian
 Mr. Liu Mingqing

Independent non-executive Directors

Mr. Wong Xiao Ning
 Mr. Cheng Ho On
 Mr. Kong Chun Wing
 Mr. Lai Chi Yin, Samuel
 Ms. Chen Yuxin

Audit Committee

Mr. Kong Chun Wing (*Chairman*)
 Mr. Wang Xiao Ning
 Mr. Cheng Ho On

Remuneration Committee

Mr. Zhang Qijun (*Chairman*)
 Mr. Chen Jian
 Mr. Wang Xiao Ning
 Mr. Cheng Ho On

Nomination Committee

Mr. Zhang Qijun (*Chairman*)
 Mr. Wang Xiao Ning
 Mr. Cheng Ho On

Registered office

Zuill Corporate Services (Bermuda) Limited
 Continental Buildings
 25 Church Street
 Hamilton HM 12
 Bermuda

* English name for identification purpose

Head office and principal place of business in Hong Kong	Flat E, 20th Floor Lucky Plaza 315–321 Lockhart Road Wan Chai Hong Kong
Principal share registrar and transfer office	Zuill Corporate Services (Bermuda) Limited Continental Buildings 25 Church Street Hamilton HM 12 Bermuda
Branch share registrar and transfer office in Hong Kong	Tricor Tengis Limited Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Company Secretary	Mr. Tam Tsz Ming (a member of Hong Kong Institute of Certified Public Accountants and a member of Institute of Chartered Accountants in England and Wales)
Compliance officer	Mr. Zhang Qijun
Authorised representatives	Mr. Zhang Qijun Mr. Tam Tsz Ming
Business address of Directors, senior management and authorised representatives	Flat E, 20th Floor Lucky Plaza 315–321 Lockhart Road Wan Chai Hong Kong
Principal bankers	Bank of China (Hong Kong) Limited Bank of China Tower 1 Garden Road Central Hong Kong OCBC Wing Hang Bank Limited Head office 161 Queen's Road Central Hong Kong

11. PARTIES INVOLVED IN THE RIGHTS ISSUE

The Company	KIU HUNG INTERNATIONAL HOLDINGS LIMITED Flat E, 20th Floor Lucky Plaza 315–321 Lockhart Road Wan Chai Hong Kong
Legal adviser to the Company	Robertsons 57th Floor, The Center, 99 Queens Road Central Hong Kong
Financial adviser to the Company	Bison Corporate Finance Limited Room 602, 6/F 18 King Wah Road North Point Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Sorrento Capital Limited 11/F, The Wellington 198 Wellington Street Central, Hong Kong
Reporting accountant of the Company	Prism CPA Limited Room 1002–03, 10/F Perfect Commercial Building 20 Austin Avenue Tsim Sha Tsui Kowloon, Hong Kong
Placing Agent	Yuet Sheung International Securities Limited 8/F, Central 88 88–98 Des Voeux Road Central Central, Hong Kong

12. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT**Executive Directors**

Mr. Zhang Qijun (“Mr. Zhang”), aged 44, had been appointed as an executive director of the Company since March 2016. Mr. Zhang was also appointed chairman and authorised representative of the Company since July 2019. Mr. Zhang is currently the Legal Person of Fuzhou Taijiang He Xuan Trading Co. Ltd., a company principally engaged in trading in the PRC. Mr. Zhang has approximately 17 years of experience in arts and design, and trading.

Mr. Chen Jian (“Mr. Chen”), aged 43, had been appointed as an executive director of the Company on 2 July 2019. Mr. Chen is currently a member of the Advisory Committee of the China Association of Foreign Trade and Economic Cooperation Enterprises and a member of the Fuzhou Foreign Economic and Trade Enterprise Association and the Fuzhou Import and Export Chamber of Commerce. Mr. Chen has over 22 years of experience in foreign trade related business, covering sales and procurement, local and international supply chain, logistics and finance.

Mr. Liu Mingqing (“Mr. Liu”), aged 42, had been appointed as an executive director of the Company on 27 March 2020. Mr. Liu has over 15 years of experience in financial and investment related business and considerable experience in securities and futures, corporate finance, derivative products and other various financial services. Mr. Liu is currently involved in Private Equity investment and enterprise management.

Independent non-executive Directors

Mr. Wang Xiao Ning (“Mr. Wang”), aged 61, had been appointed as an independent non-executive director of the Company since June 2015. Mr. Wang joined the field of import and export trading in 1990. He is currently the general manager of 福建省鄉鎮企業進出口公司 (Fujian Township Enterprises Import and Export Corporation*). Mr. Wang has over 25 years of experience in the import and export trading management.

Mr. Cheng Ho On (“Mr. Cheng”), aged 37, had been appointed an independent non-executive Director since 23 March 2019. He holds a Bachelor degree in Marketing from Hong Kong Polytechnic University, and a Master degree in Art Administration from Hong Kong Baptist University. Mr. Cheng is currently a project manager in a Hong Kong company which engaging in the promotion of culture, specializing in project management. Mr. Cheng has accumulated over 11 years working experience.

Mr. Kong Chun Wing (“Mr. Kong”), aged 37, had been appointed as an independent non-executive Director on 2 July 2019. He is a fellow member of the CPA Australia. Mr. Kong is currently an assistant general manager in a Hong Kong company which engaging in the production of food and beverage. Mr. Kong has over 5 years working experience in the field of accounting professional and accumulated over 14 years working experience.

Mr. Lai Chi Yin Samuel (“Mr. Lai”), aged 57, had been appointed as an independent non-executive Director on 16 January 2020. Mr. Lai is currently a director of DreamPro Lifestyle & Sports Management Company Limited, a private limited company registered in Hong Kong which is principally engaged in organization of sports events. Mr. Lai has accumulated over 30 years working experience as an executive in sales, marketing, administration and personnel while working at international companies in the United Kingdom, Hong Kong, Singapore, Thailand, and Pakistan.

* English name for identification purpose

Ms. Chen Yuxin (“Ms. Chen”), aged 23, had been appointed as an independent non-executive Director on 13 May 2020. Over the years, she has actively expanded the overseas business operation, and currently serves as the investment director of China Commerce Huaxia Products Co., Ltd..

Senior management

Mr. Hui Ki Yau, aged 59, is the president of the Group’s toys and gifts business. He is responsible for the operations and the sales and marketing functions of the toy and gift business of the Group. Mr. Hui has over 25 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People’s Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 52, is the Director of operations and sales of the Group’s toys and gifts business. Madam Hui has over 20 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

13. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised of, namely Mr. Kong Chun Wing (the Chairman of the Audit Committee), Mr. Wang Xiao Ning and Mr. Cheng Ho On. The background, directorship and past directorship (if any) of each of the members of the Audit Committee are set out in the section headed “12. Particulars of the Directors and senior management” in this appendix. The primary role and function of the Audit Committee are to oversee the relationship with the external auditors, to review the Group’s preliminary quarterly results, interim results and annual results and to monitor compliance with statutory and listing requirements.

14. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, placing commission (assuming nil acceptance of the Rights Shares by the Eligible Shareholders and placing all Untaken Shares and the NQS Unsold Shares by the Placing Agent), printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$1 million, which are payable by the Company.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any Business Day at the principal place of business of the Company in Hong Kong at Flat E, 20th Floor, Lucky Plaza, 315–321 Lockhart Road, Wan Chai, Hong Kong from the date of this circular up to and including the date of SGM:

- (a) the bye-laws of the Company;
- (b) the letter from the Board, the text of which is set out on pages 11 to 35 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 36 of this circular;
- (d) the letter from the Independent Financial Advisor, the text of which is set out on pages 37 to 58 of this circular;
- (e) the Placing Agreement;
- (f) the Bond Holder's Undertaking;
- (g) the annual reports of the Company for the three years ended 31 December 2018 to 2020;
- (h) the interim results announcement of the Company for the six months ended 30 June 2021;
- (i) the accountant's report on the unaudited pro forma financial information of the Group as set out in Appendix II of this circular;
- (j) the material contracts referred to in the paragraph headed "Material Contracts" of this appendix;
- (k) the written consent from the Experts referred to in the paragraph headed "Experts and consents" of this appendix; and
- (l) this circular.

16. MISCELLANEOUS

- (a) As at the Latest Practicable Date, to the best knowledge of the Directors, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) As at the Latest Practicable Date, the Group had no exposure to foreign exchange liabilities.
- (c) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.



Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 00381)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Kiu Hung International Holdings Limited (the “**Company**”) will be held at Unit 1603–1604, 16/F Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 22 October 2021 at 11:00 a.m. to consider and, if thought fit, approve, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting approval for the listing of, and permission to deal in, the Consolidated Shares (as defined below) in issue and the Adjusted Shares (as defined below); and (ii) the compliance with all relevant procedures and requirements under the laws of Bermuda (where applicable) and Listing Rules to effect the Share Consolidation (as defined below) and the Share Subdivision (as defined below), with effect from the second business day immediately following the day of passing of this resolution, being a day on which the shares of the Company are traded on the Stock Exchange:
 - (i) every five (5) issued and unissued ordinary shares of par value of HK\$0.01 (the “**Existing Shares**”) in the share capital of the Company be consolidated into one (1) ordinary share of par value of HK\$0.05 each (the “**Consolidated Shares**”), and such Consolidated Share(s) shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the bye-laws of the Company (the “**Share Consolidation**”);
 - (ii) the par value of each issued Consolidated Share be reduced from HK\$0.05 to HK\$0.01 by cancelling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share and all fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation immediately after the Share Consolidation be cancelled (the “**Capital Reduction**”);
 - (iii) each of the authorised but unissued Consolidated Shares of HK\$0.05 each in the share capital of the Company be subdivided into five (5) subdivided shares of HK\$0.01 each (each a “**Adjusted Share**”) so that the authorised share capital of the Company will be HK\$1,986,057,030.79 divided into 198,605,703,079

NOTICE OF SGM

Adjusted Shares (the “**Share Subdivision**” and together with the Share Consolidation and the Capital Reduction, the “**Capital Reorganisation**”) immediately following the Share Subdivision being effective and such Adjusted Share(s) shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the bye-laws of the Company; and

- (iv) the Directors be and are hereby authorised to approve, sign and execute such documents and do and/or procure to be done any and all acts, deeds and things which in his/her opinion may be necessary, desirable or expedient to effect and implement this resolution.”

2. “**THAT**

- (i) subject to and conditional upon the passing of the resolutions numbered 1, the Rights Issue (as defined below) and the transactions contemplated thereunder be and are hereby approved;
- (ii) the allotment and issue of a maximum of 691,115,793 new Rights Shares (assuming no further issue and repurchase of shares of the Company up to the Record Date (as defined below)) (the “**Rights Shares**”) pursuant to an offer by way of rights to the shareholders of the Company (the “**Shareholders**”) at the subscription price of HK\$0.205 per Rights Share (the “**Subscription Price**”) on the basis of three (3) Rights Shares for every one (1) Adjusted Shares held by the Shareholders (“**Qualifying Shareholders**”) whose names appear on the register of members of the Company on Thursday, 4 November 2021, or such other date as may be determined by the Company for determining entitlements of the Shareholders to participate in the Rights Issue (as defined below) (the “**Record Date**”), save for the Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) to whom the Directors, based on legal opinions to be provided by the legal advisers to the Company, consider it necessary or expedient not to offer the Rights Shares on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s) (“**Non-Qualifying Shareholders**”), and on and subject to such terms and conditions as may be determined by the Directors (the “**Rights Issue**”), be and is hereby approved, confirmed and ratified;
- (iii) the placing agreement dated 3 August 2021 (the “**Placing Agreement**”) and entered into between the Company and Yuet Sheung International Securities Limited, in relation to the placing of the Rights Shares not subscribed by the Qualifying Shareholders and/or the Rights Share(s) which would otherwise has/have been provisionally allotted to the Non-Qualifying Shareholder(s) in nil-paid form that has/have not been sold by the Company at the placing price of not less than the Subscription Price on a best effort basis, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

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- (iv) the board of Directors or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to any Non-Qualifying Shareholders, and to do all such acts and things or make such arrangements as it considers necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (v) the Directors be and are hereby authorised to do all such acts, deeds and things, to sign and execute all such further documents or deeds and to take such steps as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with the Rights Issue, the Placing Agreement and the transactions contemplated thereunder.”

For and on behalf of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman and Executive Director

Hong Kong, 30 September 2021

Registered office:
Zuill Corporate Services (Bermuda) Limited
Continental Buildings
25 Church Street
Hamilton HM 12
Bermuda

*Head office and principal place of
business in Hong Kong:*
Flat E, 20th Floor
Lucky Plaza
315–321 Lockhart Road
Wan Chai
Hong Kong

- (i) Any member of the Company (the “**Member**”) entitled to attend and vote at the Meeting or its adjourned meeting (as the case may be) is entitled to appoint one or more proxies (if such member is the holder of two or more shares in the Company) to attend and, on a poll, vote on his/her/its behalf subject to the provisions of the bye-laws of the Company. A proxy need not be a Member but must be present in person at the Meeting to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (ii) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the Meeting or its adjourned meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting, 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 of members in respect of the joint holding.

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- (iii) A form of proxy for use at the Meeting or its adjourned meeting is enclosed.
- (iv) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 30 September 2021 not less than 48 hours before the time appointed for holding the Meeting or its adjourned meeting. Completion and return of the form of proxy will not preclude a Member from attending and voting in person at the Meeting or its adjourned meeting and in such event, the form of proxy shall be deemed to be revoked.
- (v) For determining Members' entitlement to attend and vote at the Meeting, the register of Members will be closed from Monday, 18 October 2021 to Friday, 22 October 2021 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for attending the forthcoming Meeting, all transfer documents accompanied by the relevant share certificate must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 15 October 2021.
- (vi) The voting at the meeting or its adjourned meeting will be taken by poll.
- (vii) If tropical cyclone warning signal No. 8 or above, or a "black" rainstorm warning or "extreme conditions after super typhoons" announced by the Government of Hong Kong is/are in effect any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the website of Company at www.kh381.com and on the website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the re-scheduled meeting.

If a tropical cyclone warning signal No. 8 or above or a "black" rainstorm warning signal is lowered or cancelled at or before 7:00 a.m. on the date of the Meeting and where conditions permit, the Meeting will be held as scheduled.

The Meeting will be held as scheduled when an "amber" or "red" rainstorm warning signal is in force.

As at the date of this notice, the Directors are:

Executive Directors:

Mr. Zhang Qijun (*Chairman*)
Mr. Chen Jian
Mr. Liu Mingqing

Independent non-executive Directors:

Mr. Wang Xiao Ning
Mr. Cheng Ho On
Mr. Kong Chun Wing
Mr. Lai Chi Yin, Samuel
Ms. Chen Yuxin

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This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice 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 notice misleading.

This notice will remain on the “Latest Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its publication and on the website of Company at www.kh381.com.