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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 12 to 39 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 40 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 41 to 63 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Tuesday, 28 June 2022. Dealings in the Rights Shares in nil-paid form are expected to take place from Tuesday, 12 July 2022 to Tuesday, 19 July 2022 (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, 12 July 2022 to Tuesday, 19 July 2022 (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, the Adjusted Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its own professional advisers.

A notice convening the SGM to be held at Harbour Plaza Room 1, B1/F, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong on Thursday, 23 June 2022 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-emeeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 2 June 2022 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 "Letter from the Board — 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, the Adjusted Shares and/or the nil-paid Rights Shares up to the date when all the conditions to which the Rights Issue is subject are fulfilled.

2 June 2022

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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 is 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-emeeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company on 2 June 2022. 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 Share(s)”	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 March 2022 Announcement and the announcements of the Company dated 14 April 2022 and 5 May 2022 in relation to, among other things, the Capital Reorganisation, the Rights Issue and the Placing
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bond Holder’s Undertaking”	the undertaking dated 23 March 2022 made by Sheen World International Holdings Limited, being holder of the Convertible Bonds, in favour of the Company, 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 proposed reduction of the issued share capital of the Company by reducing the par value of each issued Consolidated Share from HK\$0.05 to HK\$0.01 by cancelling the paid-up share capital to the extent of HK\$0.04 on each issued Consolidated Share and the cancellation of any fractional Consolidated Shares 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

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified 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 the Cayman Islands with limited liability and continued in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 381)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	the ordinary share(s) of par value of HK\$0.05 each in the share capital of the Company immediately after the Share Consolidation but prior to the Capital Reduction and the Share Subdivision
“controlling shareholder(s)”	has the meaning ascribed to it 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
“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 SFO
“Independent Shareholders”	Shareholders other than (i) all executive Directors and their respective associates; (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 (within the meaning of the Listing Rules) with, the Company and its connected persons
“Last Trading Day”	23 March 2022, being the last trading day for the Shares immediately prior to the date of the March 2022 Announcement
“Latest Practicable Date”	30 May 2022, 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, 22 July 2022 (or such other time and date as may be determined by the Company), being the latest time for the acceptance of, and payment for, the Rights Shares
“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
“March 2022 Announcement”	the announcement of the Company dated 23 March 2022 in relation to, among other things, the Capital Reorganisation, the Rights Issue and the Placing
“Net Gain”	any premiums paid by the placees over the Subscription Price for the Untaken Shares and the NQS Unsold Shares placed by the Placing Agent under the Placing

DEFINITIONS

“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
“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 Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at 5:00 p.m. on the Record Date and whose address(es) as shown on such register is/are outside 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 Untaken 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 during the Placing Period pursuant to the terms and conditions of the Placing Agreement
“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 as defined under the SFO
“Placing Agreement”	the conditional placing agreement dated 23 March 2022 entered into between the Company and the Placing Agent in respect of the Placing, as supplemented by the Supplemental Placing Agreement
“Placing End Date”	6:00 p.m. on Monday, 8 August 2022 or such other date as the Company may announce

DEFINITIONS

“Placing Long Stop Date”	4:00 p.m. on Tuesday, 9 August 2022 (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, 1 August 2022 (or such other date as the Company may announce) up to 6:00 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)
“Posting Date”	Friday, 8 July 2022, 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 to be issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus and the PAL
“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 entitlements of the Shareholders to participate in the Rights Issue will be determined, which is expected to be on Thursday, 7 July 2022 or such other 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 issue by way of rights of the Rights Shares to the Qualifying Shareholders on the basis of three (3) Rights Shares for every one (1) Adjusted Share held on the Record Date at the Subscription Price, payable in full on acceptance and on the terms and subject to the conditions of the Prospectus Documents

DEFINITIONS

“Rights Issue Completion”	completion of the Rights Issue
“Rights Issue Settlement Date”	Friday, 12 August 2022
“Rights Share(s)”	the new Share(s) proposed to be allotted and issued by the Company under the Rights Issue, being up to 691,115,793 Shares (having considered that no new Shares will be issued under the Bond Holder’s Undertaking and assuming there is no change in the total number of issued Shares from the date of this circular up to and including the Record Date other than as a result of the Capital Reorganisation)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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 share 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
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.205 per Rights Share
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Placing Agreement”	the supplemental placing agreement dated 14 April 2022 to the conditional placing agreement dated 23 March 2022 entered into between the Company and the Placing Agent to extend the Placing Long Stop Date
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“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 of Shares to qualify for attendance and voting at the SGM	4:30 p.m. on Thursday, 16 June 2022
Closure of register of members of the Company to determine entitlement to attend and vote at the SGM	Friday, 17 June 2022 to Thursday, 23 June 2022 (both days inclusive)
Latest time for lodging proxy forms for the SGM	11:00 a.m. on Tuesday, 21 June 2022
Record date for determining attendance and voting at the SGM	Thursday, 23 June 2022
Expected date and time of the SGM	11:00 a.m. on Thursday, 23 June 2022
Announcement of poll results of the SGM	Thursday, 23 June 2022
Re-opening of the register of members of the Company	Friday, 24 June 2022
Effective date of the Capital Reorganisation	Monday, 27 June 2022
Commencement of dealings in the Adjusted Shares	Monday, 27 June 2022
Original counter for trading in Existing Shares in board lots of 10,000 Existing Shares temporarily closes	9:00 a.m. on Monday, 27 June 2022
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 Monday, 27 June 2022
First day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Adjusted Shares	Monday, 27 June 2022
Last day of dealings in the Adjusted Shares on a cum-rights basis	Monday, 27 June 2022
First day of dealings in the Adjusted Shares on an ex-rights basis	Tuesday, 28 June 2022

EXPECTED TIMETABLE

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 Wednesday, 29 June 2022
Closure of register of members to determine the entitlements to the Rights Issue	Thursday, 30 June 2022 to Thursday, 7 July 2022 (both days inclusive)
Record Date for determining entitlements to the Rights Issue	Thursday, 7 July 2022
Re-opening of the register of members of the Company	Friday, 8 July 2022
Despatch of Prospectus Documents (in the case of the Non-Qualifying Shareholders, the Prospectus only).....	Friday, 8 July 2022
Designated broker starts to stand in the market to provide matching services for odd lots of the Adjusted Shares	Tuesday, 12 July 2022
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, 12 July 2022
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, 12 July 2022
First day of dealings in nil-paid Rights Shares	Tuesday, 12 July 2022
Latest time for splitting nil-paid Rights Shares.....	4:30 p.m. on Thursday, 14 July 2022
Last day of dealings in nil-paid Rights Shares	Tuesday, 19 July 2022
Latest Time for Acceptance.....	4:00 p.m. on Friday, 22 July 2022
Announcement of the number of the Untaken Shares and NQS Unsold Shares subject to the Placing.....	Friday, 29 July 2022
Commencement of the Placing Period (if there are any Untaken Shares and NQS Unsold Shares available)	Monday, 1 August 2022
Designated broker ceases to provide matching services for odd lots of the Adjusted Shares	4:00 p.m. on Monday, 1 August 2022

EXPECTED TIMETABLE

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, 1 August 2022
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, 1 August 2022
Last day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Adjusted Shares.....	Wednesday, 3 August 2022
Placing End Date for the Placing.....	6:00 p.m. on Monday, 8 August 2022
Latest Time for the Rights Issue to become unconditional and the Placing Long Stop Date.....	4:00 p.m. on Tuesday, 9 August 2022
Rights Issue Settlement Date and Placing completion date.....	Friday, 12 August 2022
Announcement of the results of the Rights Issue (including the results of the Placing and the Net Gain)	Monday, 15 August 2022
Despatch of share certificates for the Rights Shares and/or refund cheques	Tuesday, 16 August 2022
First day of dealings in the fully-paid Rights Shares.....	9:00 a.m. on Wednesday, 17 August 2022
Payment of Net Gain to relevant No Action Shareholders (if any) or Non-Qualifying Shareholders (if any).....	Wednesday, 31 August 2022

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, 22 July 2022, 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

EXPECTED TIMETABLE

- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 22 July 2022, 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, 22 July 2022, 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*)
Ms. Lai Yee Man
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
Rose Cottage
18 Parliament 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

2 June 2022

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) details of the Capital Reorganisation; (ii) further information regarding the Rights Issue, the Placing Agreement and the transactions contemplated thereunder; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iv) a letter of advice from the

LETTER FROM THE BOARD

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue; (v) other information required under the Listing Rules; and (vi) the notice of the SGM.

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;
- (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid-up share capital to the extent of HK\$0.04 on each issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$0.05 to HK\$0.01;
- (iii) immediately following the Capital Reduction becoming effective, the Share Subdivision whereby each of the authorised but unissued Consolidated Shares of par value of HK\$0.05 each in the authorised share capital of the Company will be subdivided into five (5) authorised but unissued Adjusted Shares of par value of HK\$0.01 each;
- (iv) the credit transfer whereby the credit arising from the Capital Reduction will 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\$1,986,057,030.79 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.

Any fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation will be cancelled and will not be issued to the Shareholders.

LETTER FROM THE BOARD

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

Upon the Share Subdivision becoming effective, each of the authorised but unissued Consolidated Shares of par value of HK\$0.05 each shall be subdivided into five (5) authorised but unissued Adjusted Shares of par value of HK\$0.01 each.

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.

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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

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 include the publication of a notice in Bermuda in relation to the Capital Reduction 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

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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.

The conditions are incapable of being waived. As at the Latest Practicable Date, none of the conditions has been fulfilled.

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.

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

Any fractional Consolidated Shares which may arise from the Share Consolidation will not be issued by the Company to the Shareholders and will be cancelled.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, the Shareholders may, on or after Monday, 27 June 2022 until Wednesday, 3 August 2022 (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

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4:10 p.m. on Monday, 1 August 2022 (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.

No change in board lot size

As at the Latest Practicable Date, the Existing Shares are traded on the Stock Exchange in board lots of 10,000 Existing Shares. Upon the Capital Reorganisation becoming effective, the Adjusted Shares will continue to be traded in the board lot size of 10,000 Adjusted Shares.

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 the designated broker 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, 12 July 2022 to 4:00 p.m. on Monday, 1 August 2022 (both days 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.

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 and value per board lot. Based on the closing price of HK\$0.040 per Existing Share as quoted on the Stock Exchange as at the Latest Practicable Date, the value of each board lot of the Existing Shares is HK\$400 and the theoretical value of each board lot of the Adjusted Shares, assuming the Capital Reorganisation has become effective, would be HK\$2,000.

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Meanwhile, the Capital Reorganisation also involves the Capital Reduction which will reduce the par value of the issued Consolidated Shares from HK\$0.05 per Consolidated Share to HK\$0.01 per Adjusted Share. Under the laws of Bermuda, a company may not issue shares at a price lower than 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 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 fundraisings 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 at the Latest Practicable Date, the Company has no intention to carry out other corporate action in the next 12 months which may have an effect of undermining or negating the intended purpose of the Capital Reorganisation.

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.

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)

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- Maximum number of Rights Shares : Up to 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 change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than as a result of the Capital Reorganisation), representing (i) 300% of the total number of issued Adjusted Shares upon the Capital Reorganisation having become 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\$141.68 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 per Existing Share (subject to adjustment mechanism in accordance with the terms and conditions of the Convertible Bonds). Save for 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.

The Bond Holder's Undertaking

On 23 March 2022, Sheen World International Holdings Limited, being holder of the Convertible Bonds, has signed the Bond Holder's Undertaking, pursuant to which it has unconditionally and irrevocably undertaken 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. According to the relevant Bermuda laws, the Company shall not issue Shares at a price below its par value.

The Subscription Price represents:

- (i) a discount of 18.00% to the adjusted closing price of HK\$0.250 per Adjusted Share (based on the closing price of HK\$0.050 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

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- (ii) a discount of approximately 17.00% to the adjusted average closing price of HK\$0.247 per Adjusted Share (based on the average closing price of HK\$0.0494 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 14.58% to the adjusted average closing price of HK\$0.240 per Adjusted Share (based on the average closing price of approximately HK\$0.048 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 5.09% to the theoretical ex-rights price of HK\$0.216 per Adjusted Share (based on the closing price of HK\$0.050 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 premium of 2.50% to the adjusted closing price of HK\$0.200 per Adjusted Share (based on the closing price of HK\$0.040 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 issue of new Shares for 2 debt capitalisations under specific mandate of the Company announced on 3 November 2020 and 22 January 2021 respectively and completed on 24 May 2021 and the Rights Issue) of approximately 13.43% represented by the cumulative theoretical diluted price of approximately HK\$1.16 to the benchmarked price of HK\$1.34 per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.250 per Existing Share on 3 November 2020 and the average closing price of the Existing Shares as quoted on the Stock Exchange for the five consecutive trading days prior to 3 November 2020 of HK\$0.268 per Existing Share and adjusted for the effect of the Capital Reorganisation); and
- (vii) a discount of approximately 65.08% to the adjusted consolidated net asset value per Adjusted Share attributable to owners of the Company as at 31 December 2021 of approximately HK\$0.587 per Adjusted Share calculated based on the audited consolidated net assets of the Group attributable to owners of the Company of approximately HK\$135,127,000 as at 31 December 2021 as set out in the annual report of the Company for the year ended 31 December 2021 and 230,371,931 Existing Shares in issue as at the Latest Practicable Date after adjusted for the effect of the Capital Reorganisation.

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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 as detailed below:

- (i) market sentiment of the Hong Kong stock market has been pessimistic since year 2022 and the performance of the market prices of the Shares has been showing a decreasing trend;
- (ii) the prevailing closing price of the Shares which ranged from HK\$0.044 to HK\$0.057 (or HK\$0.220 to HK\$0.285 after adjusted the effect of the Capital Reorganisation) during the month immediately preceding the Last Trading Day. The average closing price of the Shares was HK\$0.051 or HK\$0.255 after adjusted the effect of the Capital Reorganisation and the trading volume of the Shares since year 2022 was relatively thin and the average daily trading volume amounted to approximately 0.25% of the total number of existing issued Shares. The Subscription Price was determined at a discount to the prevailing closing prices of the Shares aiming at lowering the further investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company;
- (iii) the Group was loss-making for the year ended 31 December 2021 and had recorded audited net current liabilities of approximately HK\$258.44 million as at 31 December 2021. The ability of the Group to obtain bank loans with favourable terms or conduct other equity fundraising activities with relatively large scale is limited; and
- (iv) the Group has imminent needs to raise funds to satisfy its short-term liabilities (details are disclosed in the section headed “Letter from the Board — Reasons for the Rights Issue, the Placing and the use of proceeds” in this circular). The Subscription Price was determined at a discount to the prevailing closing prices of the Shares which would attract existing Shareholders to participate in the Rights Issue.

The Directors noted that the Subscription Price represents a discount of approximately 65.08% to the adjusted consolidated net asset value per Adjusted Share attributable to owners of the Company as at 31 December 2021. While it was also noted that the Shares had been consistently traded at a substantial discount to the consolidated net assets attributable to owners of the Company per Share over the past one year immediately preceding the Last Trading Day, the Directors consider that net asset value per Share is not a meaningful benchmark to assess the Subscription Price, instead, the prevailing market price of the Shares would be a more appropriate reference in determining the Subscription Price in this regard.

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.

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The Directors 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 effort 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.

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.

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 upon 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 Registrar of Companies in Hong Kong, respectively, of one copy of each of the Prospectus Documents by no later than the Posting Date and otherwise in compliance with the Listing Rules and the Companies (WUMP) Ordinance;

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- (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 Tuesday, 9 August 2022, the Rights Issue will not proceed.

Status of the Rights Shares

The Rights Shares, when allotted, 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 fully-paid 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 not be a Non-Qualifying Shareholder.

Shareholders with their Shares held by nominee(s) (or which are deposited in CCASS) should note that the Board will consider the said nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company and are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date for the purpose of the Rights Issue. Shareholders should consult their professional advisers if they are in any doubt as to their status.

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, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by 4:30 p.m. on Wednesday, 29 June 2022.

Qualifying Shareholders who take up their pro-rata entitlement in full will not suffer any dilution to their interests in the Company.

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Closure of register of members of the Company

The register of members of the Company will be closed from Thursday, 30 June 2022 to Thursday, 7 July 2022 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

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, 22 July 2022).

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.

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 Rule 13.36(2)(a) 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 of the legal adviser as to the laws of the PRC, as at the Latest Practicable Date, the laws of the PRC imposed no restrictions on extending the Rights Issue to such Overseas Shareholders with registered addresses in the PRC, and the Company is not required to obtain any approvals from the relevant authorities in the PRC for the despatch of the Prospectus Documents to such Overseas Shareholders nor is

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the Company required to register or file the Prospectus Documents with the relevant authorities in the PRC. 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 for the Rights Shares which would otherwise have been available to the Non-Qualifying Shareholders

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 (without interest and rounded down to the nearest cent) in Hong Kong dollars pro-rata 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. 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.

Overseas Shareholders should note that they may or may not be entitled to participate in the Rights Issue. 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.

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Share certificates and refund cheques for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted on or before Tuesday, 16 August 2022 to those entitled thereto at their registered addresses by ordinary post at their own risk. If the Rights Issue does not become unconditional, refund cheques are expected to be posted on or before Tuesday, 16 August 2022 by ordinary post to the respective applicants, at their own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for Rights Shares (if any) are expected to be posted on or before Tuesday, 16 August 2022 by ordinary post to the respective applicants, at their own risk, to their registered addresses.

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. The nil-paid and fully-paid Rights Shares will be traded in board lots of 10,000 Shares.

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, the Securities and Futures Commission of Hong Kong 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 as well as compliance with the stock admission requirements of HKSCC, 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 dates 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.

No irrevocable commitments

As at the Latest Practicable Date, the Company has not received any irrevocable commitments from any Shareholder to accept or reject the Rights Shares to be allotted and issued to them under the Rights Issue.

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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 related commission and 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 no 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 and rounded down to the nearest cent) in Hong Kong dollars on a pro-rata basis (on the basis of all Untaken Shares and NQS Unsold Shares) to the No Action Shareholders and the Non-Qualifying Shareholders. 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 23 March 2022, 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 Shares) 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 valid applications by PAL(s), the Placing will not proceed. On 14 April 2022, the Company and the Placing Agent entered into the Supplemental Placing Agreement to extend the Placing Long Stop Date.

LETTER FROM THE BOARD

The 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 successfully 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 reasonably 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 on completion.
- Placing price : The placing price of each of the Untaken Shares and/or the NQS Unsold Shares (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, 1 August 2022, and end at 6:00 p.m. on the Placing End Date (i.e. Monday, 8 August 2022) 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 ensure that the Placing Shares are placed (i) only to institutional, corporate or individual investor(s) who and whose ultimate beneficial owner(s) shall be the Independent Third Parties; (ii) such that no placee shall become a substantial shareholder of the Company immediately following the Placing; and (iii) such that the Placing will not have any implications under the Takeovers Code and no placee and/or Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.

LETTER FROM THE BOARD

Ranking : The Placing Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue as at the date of allotment and issue of the Placing Shares.

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 on or before the Placing Long Stop Date.

None of the above conditions precedent of the Placing Agreement 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, 1 August 2022, or such other date as the Company may announce. The Placing Period shall end at 6:00 p.m. on Monday, 8 August 2022, or such other date as the Company may announce.

The long stop date for the fulfilment of conditions precedent of the Placing Agreement shall be 4:00 p.m. on Tuesday, 9 August 2022 (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, all rights, obligations and liabilities of the parties to the Placing Agreement shall cease and determine and no party shall have any claim against the other party save for any antecedent breach of the Placing Agreement.

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.

LETTER FROM THE BOARD

Completion of the Placing

Subject to the fulfilment of conditions of the Placing as set out in the section headed “Letter from the Board — The Placing — Conditions of the Placing” in this circular, completion of the Placing is expected to take place on the third business day after the Placing Long Stop Date (or such later date as the Company may announce).

The appointment of the Placing Agent by the Company for the placing 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 the 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-Qualifying 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, THE ADJUSTED SHARES AND/OR THE NIL-PAID RIGHTS 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, the Adjusted Shares and/or the nil-paid Rights 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, the Adjusted Shares and/or the nil-paid Rights 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 Tuesday, 9 August 2022, will accordingly bear the risk that the Rights Issue and/or the 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; (iii) manufacturing and sales of Chinese herbs products; and (iv) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

LETTER FROM THE BOARD

As disclosed in the Company's annual report for the year ended 31 December 2021, the Company recorded net current liabilities of approximately HK\$258.44 million as at 31 December 2021. As at 31 December 2021, the Company had current liabilities of approximately HK\$658.84 million comprising (i) promissory notes in an aggregate amount of approximately HK\$250.62 million; (ii) borrowings in an aggregate amount of approximately HK\$109.81 million; (iii) accruals and other payables of approximately HK\$203.42 million; (iv) contingent consideration payable of approximately HK\$73.73 million; and (v) trade payables and others of approximately HK\$21.26 million.

As disclosed in the Company's annual report for the year ended 31 December 2021, included in promissory notes is 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.

In addition, as at the Latest Practicable Date, certain promissory note holders and creditors with an aggregate amount of approximately HK\$142.79 million included in the current liabilities of the Company as at 31 December 2021 have agreed not to demand for repayment for the amount due before 19 April 2023. Included in the current liabilities of the Group were a bank borrowing of approximately HK\$7.35 million obtained to support the Group's existing principal business and trade payable and others of approximately HK\$51.15 million, the Company considers that it is able to meet the payment obligation under the term of the bank loan and the trade payables from cash flow generated from the Group's existing business activities. Included in other payables is a short-term advance from customer of approximately HK\$77.78 million, which is non-interest bearing and was subsequently fully repaid by the Group in February 2022. The contingent consideration payable in the amount of approximately HK\$73.73 million was in relation to the acquisition of a Chinese herb products manufacturer by the Group completed on 27 May 2021 and pursuant to the terms of the sale and purchase agreement, the settlement of the contingent consideration payable will not require cash outflow of the Group.

Based on the above, the Group would have liabilities of approximately HK\$214.04 million which are repayable shortly.

LETTER FROM THE BOARD

Details of the above-mentioned short-term liabilities to be repaid within the next twelve months from 31 December 2021 and details of the short-term liabilities to be settled via the proceeds from the Rights Issue and/or the Placing are as follows:

Nature	Total outstanding amount (HK\$'000)	Terms	Amount to be settled via the proceeds from the Rights Issue and/or the Placing (HK\$'000)
Borrowings obtained from two Independent Third Parties bearing interest rate of 12% p.a.	60,075	HK\$30 million was due on 6 March 2022; HK\$30 million was due on 13 April 2022; and HK\$75,000 was due on 18 May 2019	60,000
Borrowings obtained from two Independent Third Parties bearing interest rate of 28% p.a.	15,000	HK\$10 million was due on 23 April 2021; and HK\$5 million was due on 2 June 2021	—
Borrowings obtained from three Independent Third Parties with no interest bearing	24,416	HK\$12.25 million was due on 31 December 2019; HK\$8 million was due on 31 July 2019; and HK\$4.17 million will be due on 4 July 2022	12,245
Borrowing obtained from an Independent Third Party bearing interest rate of 18% p.a.	9,050	Due on 10 October 2021	9,050
Borrowing obtained from an Independent Third Party bearing interest rate of 24% p.a.	1,920	Due on 3 June 2014	—
Promissory notes issued to two Independent Third Parties for cash bearing interest rate of 24% p.a.	9,603	HK\$949,000 was matured on 30 September 2018; and HK\$8,654,000 was matured on 20 January 2019	8,654
Promissory notes issued to two Independent Third Parties bearing interest rate of 12% p.a.	5,600	HK\$30 million was matured on 31 July 2018; and HK\$26 million was matured on 30 April 2018	—
Accrued interest expenses of promissory notes and other borrowings	25,931	Overdue	—
Accrued legal and professional fees	9,782	Overdue	9,782
Other accruals	26,775	Overdue	20,770
Accrued consultancy fee	5,295	Overdue	—
Accrued rental expenses	3,295	Overdue	3,295
Accrued staff costs (including Directors' remuneration)	16,014	Overdue	16,014
Due to related parties	1,094	Overdue	—
Amount due to an associate	192	Overdue	—
Total	<u>214,042</u>		<u>139,810</u>

LETTER FROM THE BOARD

The Company confirmed that any default of the above short-term liabilities will not cause cross default under the terms of the above short-term liabilities.

As at 30 April 2022, the Group had bank and cash balances of approximately HK\$95.20 million. Given that there are short-term liabilities in the aggregate amount of approximately HK\$214.04 million which are required to be satisfied within the next twelve months from 31 December 2021, current available financial resources of the Group is not sufficient to satisfy the aforementioned liabilities and the Company has imminent needs to further raise funds to satisfy the aforementioned liabilities. As at the Latest Practicable Date, there is no outstanding winding-up petition against the Company.

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\$141.68 million. The estimated expenses 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\$139.81 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. As the Rights Issue will be on a non-underwritten basis, the actual amount of the net proceeds from the Rights Issue cannot be ascertained at this point. 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 abovementioned. The Company will issue further announcement to update the Shareholders and potential investors the amount of actual proceeds and its intended usage. In the event that the Rights Issue and the Placing are undersubscribed leading to any part of the outstanding short-term liabilities remain unsettled, the Company will (i) subject to the then market condition, negotiate with the creditors on the feasibility to capitalise any outstanding balances by issuing Shares; (ii) given the Group had generated positive net cash from operating activities for the year ended 31 December 2021, the Company is optimistic about the future business performance of the Group and is confident that the Group could able to utilise certain part of cash generated from the Group's business activities to settle in full or in part of any outstanding short-term liabilities; and (iii) subject to the then market condition, the Company may consider conducting further fundraising activities in order to settle any remaining outstanding short-term liabilities. In addition, the Company has been communicating with the creditors, who did not agree to extend the repayment date of the short-term liabilities, on the settlement of the short-term liabilities and majority of the creditors have indicated to the Company that as long as the Company can demonstrate its best endeavour to settle their respective short-term liabilities, they are willing to wait and will withhold taking further legal actions.

The Group has been reviewing its existing operations from time to time and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximise 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 annual report of the Company for the year ended 31

* English name for identification purpose

LETTER FROM THE BOARD

December 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 Group will continue to operate its toys business and Chinese herbs related business. As at the Latest Practicable Date, all memorandum of understandings entered into by the Company since 20 July 2020 have either lapsed or been terminated.

Having considered (i) the Group has started to generate positive cashflow from operating activities for the year ended 31 December 2021; (ii) certain promissory note holders and creditors with an aggregate amount of approximately HK\$142.79 million have agreed not to demand for repayment for the amount due before 19 April 2023; (iii) majority of the creditors, who did not agree to extend the repayment date of the short-term liabilities, have indicated to the Company that as long as the Company can demonstrate its best endeavour to settle their respective short-term liabilities, they are willing to wait and will withhold taking further legal actions, 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 the Placing.

Regarding the Group's indebtedness in the amount of approximately HK\$142.79 million which the promissory note holders and creditors have agreed not to demand for repayment for the amount due before 19 April 2023, the Company plans to initially settle the above-mentioned indebtedness from the operating cash inflow of the Group's existing businesses. Depending on the then repayment progress of the above-mentioned indebtedness from time to time, the Company will use its best endeavours to negotiate with those promissory note holders and creditors for further extension of repayment schedule or settle any outstanding indebtedness by allotment and issue of new Shares. In the event that such negotiation fails or the result of which is not satisfactory, the Company intends to, subject to the then market condition, conduct further fundraising activities in order to satisfy any remaining part of the above-mentioned indebtedness of the Group. 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 fundraising 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 consider raising funds by way of the Rights Issue is more appropriate as the Rights Issue will enable the Company to strengthen its 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.

LETTER FROM THE BOARD

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\$2.00 per Existing 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 ANNOUNCEMENT

The Company had on 24 May 2021 completed the allotment and issue of 390,440,579 Shares to the Company's creditors under a specific mandate of the Company at the issue price of HK\$0.267 per Share for settlement of indebtedness owed by the Company to those creditors with an aggregate amount of approximately HK\$104.25 million. Save for the above, the Company had not conducted any other equity fundraising activities in the 12 months immediately preceding the date of the March 2022 Announcement.

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

For illustration purpose only, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation; and (iii) immediately after the Capital Reorganisation and the Rights Issue Completion, assuming there is no change in the issued share capital of the Company, other than as a result of the Capital Reorganisation, 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 Qualifying Shareholders under the Rights Issue		Immediately after the Capital Reorganisation and upon the Rights Issue Completion assuming (a) no subscription by the Qualifying 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	1,700	Negligible (Note 4)
Placees (Note 5)	—	—	—	—	—	—	691,115,793	75.000
Other public Shareholders	<u>1,146,217,658</u>	<u>99.510</u>	<u>229,243,531</u>	<u>99.510</u>	<u>916,974,124</u>	<u>99.510</u>	<u>229,243,531</u>	<u>24.878</u>
TOTAL	<u><u>1,151,859,658</u></u>	<u><u>100.000</u></u>	<u><u>230,371,931</u></u>	<u><u>100.000</u></u>	<u><u>921,487,724</u></u>	<u><u>100.000</u></u>	<u><u>921,487,724</u></u>	<u><u>100.000</u></u>

Notes:

1. Being an executive Director and the chairman of the Company.
2. Being an executive Director.
3. Being an independent non-executive Director.
4. Shareholdings of Mr. Zhang Qijun and Mr. Cheng Ho On will be less than 0.001%.
5. Pursuant to the terms of the Placing Agreement, none of the placees will become a substantial shareholder of the Company immediately following the Placing. The placees will be regarded as members of the public under Rule 8.24 of the Listing Rules.

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

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 March 2022 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 of the Company 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 in relation to the Rights Issue at the SGM.

Mr. Zhang Qijun, Mr. Liu Mingqing and Ms. Lai Yee Man (all being executive Directors, and Mr. Zhang Qijun and Mr. Liu Mingqing were interested in 33,500 Shares and 5,600,000 Shares, respectively, as at the Latest Practicable Date) and Mr. Cheng Ho On (being an independent non-executive Director and was interested in 8,500 Shares as at the Latest Practicable Date) and their respective associates shall abstain from voting in respect of the resolutions relating to the Rights Issue at the SGM. Save as disclosed above, no other Shareholder is required to abstain from voting at the SGM. No Shareholder has informed the Company that he/she/it intends to vote in favour of or against the proposed resolutions in connection with the Capital Reorganisation and the Rights Issue as at the Latest Practicable Date.

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, 8 July 2022. 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 THE SHARES, THE ADJUSTED SHARES AND/OR THE NIL-PAID RIGHTS 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 SECTIONS HEADED "LETTER FROM THE BOARD — PROPOSED RIGHTS ISSUE — CONDITIONS OF THE RIGHTS ISSUE" AND "LETTER FROM THE BOARD — PROPOSED RIGHTS ISSUE — CONDITIONS OF THE PLACING" IN THIS CIRCULAR, RESPECTIVELY. ACCORDINGLY, THE RIGHTS ISSUE AND/OR THE PLACING MAY OR MAY NOT PROCEED.

LETTER FROM THE BOARD

ANY DEALINGS IN THE SHARES, THE ADJUSTED SHARES AND/OR THE NIL-PAID RIGHTS SHARES 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.

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE 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 Agreement. The register of members of the Company will be closed from Friday, 17 June 2022 to Thursday, 23 June 2022 (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 Thursday, 16 June 2022.

The notice convening the SGM to be held at Harbour Plaza Room 1, B1/F, Harbour Plaza North Point, 665 King's Road, North Point, Hong Kong on Thursday, 23 June 2022 at 11:00 a.m. is set out on pages 85 to 89 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 2 June 2022 as soon as possible and in any event no later than 48 hours before the time appointed for holding the SGM (i.e. 11:00 a.m. on Tuesday, 21 June 2022, 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.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors (except Mr. Cheng Ho On who was interested in 8,500 Shares as at the Latest Practicable Date and was considered to have an interest in the Rights Issue), has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM on the relevant resolutions. Sorrento Capital Limited 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 40 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 41 to 63 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors consider that the terms of the Capital Reorganisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Further, 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 Placing Agreement, 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 Shareholders and the Independent Shareholders to vote in favour of the resolutions 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)

2 June 2022

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 2 June 2022 (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 terms of the Rights Issue and the Placing Agreement, 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 Placing Agreement, and the advice from the Independent Financial Adviser, we are of the opinion that the terms of the Rights Issue and the Placing Agreement, 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 resolutions to be proposed at the SGM to approve the Rights Issue, the Placing Agreement, 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, Samuel 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

2 June 2022

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 2 June 2022 (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 the previous proposed offer for subscription of the rights shares (the “**Original Rights Issue**”) and the proposed capital reorganisation (the “**Original Capital Reorganisation**”) have lapsed (details of which are set out in the circular of the Company dated 30 September 2021) and the Company intends to continue to conduct fundraising by way of rights issue, on 23 March 2022, 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) on the terms and subject to the conditions set out in the Placing Agreement. On 14 April 2022, the Company and Placing Agent entered into the Supplemental Placing Agreement to extend the Placing Long Stop Date. 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 on the Record Date on the basis of three (3) Rights Shares for every one (1) Adjusted Share

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

held on the Record Date. Under the terms of the Placing Agreement (as supplemented by the Supplemental Placing Agreement), if all the Rights Shares are already fully taken up in the Rights Issue through valid applications by the PAL(s), the Placing will not proceed. The maximum gross proceeds from the Rights Issue will be approximately HK\$141.68 million and the expected maximum net proceeds (i.e. after deducting all relevant expenses relating to the Rights Issue) will be approximately HK\$139.81 million. The Company intends to apply the entire net proceeds from the Rights Issue for repayment of the Group'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. Liu Mingqing, Ms. Lai Yee Man 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, save for engagements as independent financial adviser in relation the Original Rights Issue and review on any adjustments to the Convertible Bonds post the Original Capital Reorganisation, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 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 Company was incorporated in Cayman Islands on 21 November 2000 with limited liability and continued in Bermuda with effective on 26 August 2020. According to the Letter from the Board, the Group is principally engaged in (i) manufacturing and trading of toys and gifts; (ii) exploration of natural resources; (iii) manufacturing and sales of Chinese herbs products; and (iv) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

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 2021, as extracted from the annual report of the Company for the year ended 31 December 2021 (the “**Annual Report**”), are summarised as follows:

	For the year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Revenue	323,718	203,351
Gross Profit	91,922	65,780
Other income	6,304	5,864
Other gains, net	2,061	4,372
Selling and distribution costs	(34,365)	(27,306)
Administrative expenses	(78,496)	(71,943)
Finance costs	(44,146)	(55,746)
Impairment losses under expected credit loss model, net of reversal	1,104	(9,055)
Impairment of investment in associates	(139,098)	—
Gain on extinguishment of financial liabilities by issue of ordinary shares	69,889	25,500
Prepayments, deposits and other receivables written-off	(3,726)	—
Fair value change on contingent consideration payables	(2,354)	—
Share of result of associates	(88,558)	(6,541)
Loss before income tax	(219,463)	(69,075)
Loss for the period/year	(220,496)	(70,102)

Comparison between the years ended 31 December 2021 and 2020

The Company recorded a revenue of approximately HK\$323.72 million for the year ended 31 December 2021 representing an increase of approximately 59.19% as compared with approximately HK\$203.35 million for the year ended 31 December 2020 mainly due to the more sales of toys and gift items as to approximately HK\$72.02 million and additional sales of Chinese herbs products of approximately HK\$59.41 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 2021.

Selling and distribution costs of the Company increased by approximately 25.85% and administrative expenses of the Company increased by approximately 9.11% for the year ended 31 December 2021 respectively mainly attributable to the newly acquired Chinese herbs related business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Finance costs of the Company decreased by approximately 20.81% for the year ended 31 December 2021 mainly due to the debt repayment and debt capitalisation for promissory notes and other borrowings during the year.

Impairment of investment in associates of approximately HK\$139.10 million was recorded by the Company for the year ended 31 December 2021 due to impairment of investment in USO Management & Holding Co Ltd, a company expected to jointly develop with Plantation Construction & Development Co Ltd. a property in Samoa for commercial purposes such as residential properties and hotels (for details, please refer to, among others, the announcements of the Company dated 5 October 2015, 23 January 2019, 21 August 2019, 11 September 2019, 3 October 2019, 14 October 2019 and 9 December 2019 and circular of the Company dated 31 December 2018). According to the Annual Report, under the impact of COVID-19 pandemic, the construction of the relevant hotel and casino, as well as residential villas is delayed and expected to be taken place in January 2023. The management of the Group is assessing the operational and financial impacts of the proposed arrangements to the Group.

The Company also recognised a gain on extinguishment of financial liabilities by issue of ordinary shares for the year ended 31 December 2021.

As a result of the abovementioned, the Company recorded loss for the year of approximately HK\$220.50 million for the year ended 31 December 2021 as compared to a loss of approximately HK\$70.10 million for the previous year.

	As at 31 December 2021 HK\$'000 (audited)	As at 31 December 2020 HK\$'000 (audited)
Non-current assets	556,040	656,358
Current assets	<u>400,399</u>	<u>196,531</u>
Total assets	956,439	852,889
Non-current liabilities	85,402	84,228
Current liabilities	<u>658,843</u>	<u>474,670</u>
Total liabilities	744,245	558,898
Net current liabilities	(258,444)	(278,139)
Equity attributable to owners of the Company	135,127	286,908
Non-controlling interests	<u>77,067</u>	<u>7,083</u>
Total equity/Net assets	<u><u>212,194</u></u>	<u><u>293,991</u></u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2021, the current assets and current liabilities of the Company amounted to approximately HK\$400.40 million and HK\$658.84 million respectively. Accordingly, the Company had net current liabilities of approximately HK\$258.44 million and current ratio of approximately 0.61 time, calculated as current assets over the current liabilities as at 31 December 2021. The current assets of the Company as at 31 December 2021 included (i) prepayments, deposits and other receivables of approximately HK\$128.70 million; (ii) trade and bills receivables of approximately HK\$35.23 million; (iii) bank balances and cash of approximately HK\$201.11 million; and (iv) inventories of approximately HK\$35.36 million. The current liabilities of the Company as at 31 December 2021 comprises mainly (i) promissory notes in an aggregate amount of approximately HK\$250.62 million; (ii) accruals and other payables of approximately HK\$203.42 million; (iii) borrowings of approximately HK\$109.81 million; (iv) contingent consideration payables of approximately HK\$73.73 million; and (v) trade payables of approximately HK\$17.47 million. As set out in the Letter from the Board, the Company had an unaudited bank balances and cash of approximately HK\$95.20 million as at 30 April 2022.

As at 31 December 2021, the non-current assets of the Company mainly included (i) investment in associates of approximately HK\$351.84 million; (ii) property, plant and equipment of approximately HK\$95.32 million; (iii) goodwill of approximately HK\$56.90 million; (iv) other intangible assets of approximately HK\$29.92 million; and (v) investment properties of approximately HK\$12.47 million whilst the non-current liabilities of the Company comprised mainly (i) convertible bonds of HK\$42.33 million; (ii) deferred income tax liabilities of approximately HK\$20.71 million; (iii) contingent consideration payables of approximately HK\$10.95 million; and (iv) borrowings of approximately HK\$8.68 million. The Group had a gearing ratio (being total value of trade payables, accruals and other payables, promissory notes, lease liabilities, borrowings, contingent consideration payables, amount due to an associate, income tax payables and convertible bonds less bank balances and cash over total equity) of approximately 246.20% as at 31 December 2021 as compared to approximately 177.52% as at 31 December 2020 according to the Annual Report.

On 24 May 2021, the Company completed a subscription of new Shares under specific mandate pursuant to which 390,440,579 Shares at HK\$0.267 each were allotted and issued to certain creditors of the Group for settle an aggregate amount of approximately HK\$104.25 million owing by the Company to them.

Save as the above, the Company has not conducted any other equity financing activity (except those relating to issue of securities as consideration for acquisition) in the past 12 months immediately preceding the date of the March 2022 Announcement.

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

According to the Annual Report, the Company had an audited current liabilities of approximately HK\$658.84 million and bank balances and cash of approximately HK\$201.11 million as at 31 December 2021. As set out the Letter from the Board, among these current liabilities, approximately HK\$214.04 million (the “**Concerned Short-Term Liabilities**”) are

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

considered repayable within the next twelve months from 31 December 2021 and the Company confirmed that any default of the Concerned Short-Term Liabilities will not cause cross default under the terms of the Concerned Short-Term Liabilities.

As set out in the Letter from the Board, given the Concerned Short-Term Liabilities in the aggregate amount of approximately HK\$214.04 million are required to be satisfied within the next twelve months from 31 December 2021, current available financial resources of the Group is not sufficient to satisfy the such liabilities and the Company has imminent needs to further raise funds to satisfy the aforementioned liabilities.

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\$141.68 million and HK\$139.81 million respectively. The Company intends to apply the entire net proceeds from the proposed Rights Issue for repayment of the Concerned Short-Term Liabilities. 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 Concerned Short-Term Liabilities.

As part of our due diligence, we have (i) enquired and reviewed the terms of the Concerned Short-Term Liabilities and noted that (a) approximately HK\$101.25 million of which are interest-bearing borrowings and promissory notes with rates range from 12% to 28% p.a., and (b) substantially all of them are already overdue; and (ii) 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 1.32% is substantially lower than the aforesaid interest rates of existing notes and borrowings. According to the Letter from the Board, among the maximum net proceeds from the Rights Issues, (i) majority (being approximately HK\$77.70 million) will be applied to repayment of interest bearing borrowings and promissory notes; (ii) approximately HK\$12.25 million will be applied to repayment of non-interest bearing borrowings from the Independent Third Parties; and (iii) approximately HK\$49.86 million will be applied to repayment of other accruals and payables (for details of the Concerned Short-Term Liabilities, please refer to the Letter from the Board). Therefore, it is reasonable for the Company to source capital at a lower cost by the Rights Issue to repay such higher cost or imminent current liabilities which have been or will become due in near future.

As majority of the assets of the Company as at 31 December 2021 were non-current in nature comprising mainly investment in associates, leasehold land and buildings, investment properties, goodwill and other intangible assets, we have enquired and were advised by the Company that (i) most of the associates invested have been loss-making, in particular during the period of epidemic, so the Company currently intends to retain them and assess the market condition in future; (ii) the properties invested by the Company are being held as long term investment for stable income; and (iii) the leasehold land and buildings have been occupied by the Group for its operation. Hence, the Company has no current intention to dispose of such assets for capital.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted from the Annual Report that the auditors of the Company was in the opinion that since the Group incurred a loss of approximately HK\$220.50 million for the year ended 31 December 2021 and was in net current liability position of approximately HK\$258.44 million as at 31 December 2021 which indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Furthermore, as set out in the Letter from the Board, the sufficiency of working capital in the coming twelve months upon completion of the Rights Issue and/or the Placing is relating to (i) the cashflow from operating activities of the Group; (ii) the agreement of certain promissory note holders and creditors on not demanding for repayment for the amount due before 19 April 2023; and (iii) the willing of majority of the creditors who did not agree to extend the repayment of the short-term liabilities to wait and withhold taking further legal actions.

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 development 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 or open offer but 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.

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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 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 change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than as a result of the Capital Reorganisation), representing (i) 300% of the total number of issued Adjusted Shares upon the Capital Reorganisation having become 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Save for the Convertible Bonds, as at the Latest Practicable Date, the Company did not have any 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 the 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 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.

On 23 March 2022, Sheen World International Holdings Limited, being holder of the Convertible Bonds, has signed the Bond Holder's Undertaking pursuant to which it has unconditionally and irrevocably undertaken 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 assess the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose only.

Historical price movement analysis

As set out in the Letter from the Board, the Subscription Price of HK\$0.205 per Rights Share, which will be payable in full upon application, represents:

- (i) a premium of approximately 2.50% over the adjusted closing price of HK\$0.200 per Adjusted Share (based on the closing price of HK\$0.040 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation);

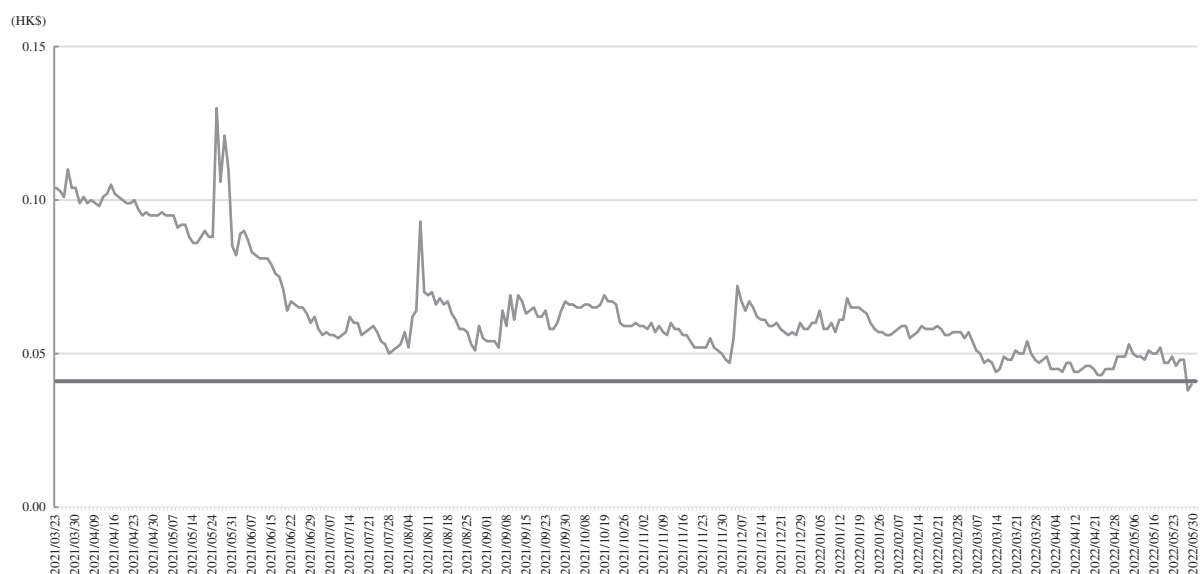
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) a discount of approximately 18.00% to the adjusted closing price of HK\$0.250 per Adjusted Share (based on the closing price of HK\$0.05 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 17.00% to the average closing price of HK\$0.247 per Adjusted Share (based on the average closing price of approximately HK\$0.0494 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 14.58% to the average closing price of HK\$0.240 per Adjusted Share (based on the average closing price of approximately HK\$0.048 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);
- (v) a discount of approximately 5.09% to the theoretical ex-rights price of approximately HK\$0.216 per Adjusted Share (based on the closing price of HK\$0.05 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 issue of new Shares for debt capitalisations under specific mandate of the Company initially announced on 3 November 2020 and completed on 24 May 2021 and the Rights Issue) of approximately 13.43% represented by the cumulative theoretical diluted price of approximately HK\$1.16 to the benchmarked price of HK\$1.34 per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.250 per Existing Share on 3 November 2020 and the average closing price of the Existing Shares as quoted on the Stock Exchange for the five consecutive trading days prior to 3 November 2020 of HK\$0.268 per Existing Share and adjusted for the effect of the Capital Reorganisation); and
- (vii) a discount of approximately 65.08% to the audited consolidated net asset value per Adjusted Share (the “**NAV per Share**”) attributable to the Shareholders as at 31 December 2021 of approximately HK\$0.587 per Adjusted Share calculated based on the audited consolidated net assets of the Group attributable to owners of the Company of approximately HK\$135.13 million as at 31 December 2021 as set out in the Annual Report and 230,371,931 Shares in issue as at the Latest Practicable Date after adjusted for the effect of the Capital Reorganisation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Letter from the Board, the Subscription Price was determined with reference to (i) the prevailing market conditions (e.g. pessimistic stock market sentiment of Hong Kong since 2022); (ii) the prevailing market prices of the Shares; (iii) the current financial position of the Group (e.g. loss-making performance and net current liabilities position of the Company); and (iv) the amount of funds the Company intends to raise under the Rights Issue. For details, please refer to the Letter from the Board.

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 23 March 2021, 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.



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 31 December 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 prices of the Shares should 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 prices of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

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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\$0.104 per Share on 23 March 2021 to HK\$0.038 per Share on 27 May 2022 and remained at HK\$0.040 per Share as at the Latest Practicable Date.

On 31 March 2021, the Company announced its final results for the year ended 31 December 2020. 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. The closing price of the Shares reached a record high during the Price Review Period of HK\$0.13 per Share on 25 May 2021.

On 27 May 2021, the Company completed a major transaction and issued the first tranche convertible bonds in the principal amount of HK\$51.00 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. Since then, closing price of the Shares further have been below HK\$0.10 throughout the Price Review Period.

On 3 August 2021, the Company announced to conduct the Original Capital Reorganisation and the Original Rights Issue. 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.

On 14 December 2021, the Company announced (i) the appointment of Ms. Lai Yee Man as executive Director and resignation of Mr. Chen Jian as executive Director; and (ii) the entering into of a cooperation framework agreement with other parties in relation to the possible Jingdezhen ceramics business development. No material changes in closing price of the Shares immediately after aforesaid announcements.

On 23 March 2022, the Company announced, among others, the lapse of the Original Rights Issue and the Original Capital Reorganisation and proposed to conduct the Rights Issue and the Capital Reorganisation. The Company announced its unaudited annual results for the year ended 31 December 2021 on 31 March 2022 and its audited annual results for the year ended 31 December 2021 on 28 April 2022 respectively. Closing prices of the Shares fluctuated between HK\$0.043 per Share to HK\$0.054 per Share during the period.

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In the Price Review Period, the highest closing price of the Shares was HK\$0.13 per Share on 25 May 2021 and the lowest closing price of the Shares was HK\$0.038 per Share on 27 May 2022 respectively. The Subscription Price (after adjustment to the effect of the Capital Reorganisation) represents a discount of approximately 68.46% and a premium of approximately 7.89% to the highest and the lowest closing price of the Shares in the Price Review Period respectively.

We consider that the prices and general decreasing price trend of the Shares during the Price Review Period have should have reflected market evaluation on the recent financial performance/position and development of the Group. The closing price of the Shares were all above the Subscription Price (after adjustment to the effect 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)
2021				
March (Note 3)	7	29,919,457	3.9294	3.9588
April	19	5,758,947	0.7563	0.7620
May	20	18,703,065	1.6237	1.6317
June	21	9,949,182	0.8637	0.8680
July	21	7,350,057	0.6381	0.6412
August	22	30,383,807	2.6378	2.6508
September	21	9,393,082	0.8155	0.8195
October	18	2,526,767	0.2194	0.2204
November	22	1,453,682	0.1262	0.1268
December	22	16,687,550	1.4487	1.4559

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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)
2022				
January	21	6,823,338	0.5924	0.5953
February	17	283,006	0.0246	0.0247
March	23	687,796	0.0597	0.0600
April	18	1,246,556	0.1082	0.1088
May (Note 4)	19	2,649,500	0.2300	0.2312

Source: The Stock Exchange

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 23 March 2021 to 31 March 2021, both days inclusive.
4. Represents number of trading days and trading volume for the period from 1 May 2022 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 0.0246% to 3.9294% as to the total number of issued Shares and approximately 0.0247% to 3.9588% 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.

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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 45 rights issue transactions (the “**Comparables**”) announced by other companies listed on the Stock Exchange (except those terminated or lapsed) 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.

Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the average	Premium/ (Discount) of the subscription price over/to the average	Premium/ (Discount) of the subscription price over/to the average	Premium/ (Discount) of the subscription price over/to the average	Underwriting/ placing commission, as the case may be (%)	Excess application Yes/No	Maximum dilution effect (%)	Cumulative theoretical dilution impact (%)
				Premium/ (Discount) of the subscription price over/to the share price on the last trading day (%)	share price for the five previous consecutive trading days up to and including the last trading day (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)	Premium/ (Discount) of the subscription price over/to net assets per share				
							(Note 1)			(Note 2)	(Note 3)
7 October 2021	Great Wall Terroir Holdings Limited	524	1 for 5	(23.70)	(18.30)	(20.50)	150.00	N/A	Yes	16.67	8.17
15 October 2021	Link-Asia International MedTech Group Limited	1143	1 for 2	(7.83)	(9.91)	(5.35)	(61.55)	3.00	Yes	33.33	6.93
19 October 2021	Risecomm Group Holdings Limited	1679	1 for 2	(0.50)	(1.00)	(0.50)	101.94	1.00	Yes	33.33	No theoretical dilution
20 October 2021	Jete Power Holdings Limited	8133	1 for 2	(54.50)	(54.50)	(44.40)	(5.66)	1.50	Yes	33.33	18.18
24 October 2021	Yuexiu Real Estate Investment Trust	405	37 for 100	(12.80)	(12.80)	(9.60)	(39.30)	1.25	No	27.01	3.40
28 October 2021	China Zheshang Bank Co., Ltd.	2016	3 for 10	N/A	N/A	N/A	N/A	N/A	Yes	23.08	N/A
1 November 2021	Deson Development International Holdings Limited	262	1 for 2	(7.40)	(7.60)	(5.06)	(93.90)	3.50	Yes	33.33	2.53
2 November 2021	Grand T G Gold Holdings Limited	8299	3 for 1	(16.67)	(14.63)	(5.41)	(79.04)	Nil (underwritten by connected person)	No	75.00	11.90
5 November 2021	Mansion International Holdings Limited	8456	3 for 1	(18.60)	(16.70)	(5.40)	Net liabilities	2.50	No	75.00	14.30
8 November 2021	Xinyi Electric Storage Holdings Limited	8328	1 for 10	(8.07)	(12.36)	(7.39)	405.50	N/A	Yes	9.09	13.00
9 November 2021	CIFI Holdings (Group) Co. Ltd.	884	1 for 20	(2.91)	(4.12)	(2.77)	(8.79)	N/A	Yes	4.76	N/A
16 November 2021	King Stone Energy Group Limited	663	1 for 2	(41.90)	(43.90)	(32.40)	(30.17)	1.00	Yes	33.33	14.57

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the average	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price	Premium/ (Discount) of the subscription price over/to the average	Premium/ (Discount) of the subscription price over/to net assets per share	Underwriting/ placing commission, as the case may be (%)	Excess application Yes/No	Maximum dilution effect (%)	Cumulative theoretical dilution impact (%)
				share price for the five previous consecutive trading days up to and including the last trading day (%)	share price for the five previous consecutive trading days up to and including the last trading day (%)	share price for the five previous consecutive trading days up to and including the last trading day (%)	share price for the five previous consecutive trading days up to and including the last trading day (%)				
				on the last trading day (%)	on the last trading day (%)	on the last trading day (%)	on the last trading day (%)				
(Note 1)											
23 November 2021	Xinyang Maojian Group Limited	362	1 for 2	(4.00)	(9.77)	(6.98)	140.00	3.50	Yes	33.33	3.30
23 November 2021	Tongda Hong Tai Holdings Limited	2363	2 for 1	(30.00)	(30.73)	(12.50)	(72.84)	2.00	No	66.67	20.83
26 November 2021	Vertical International Holdings Limited	8375	1 for 2	(40.80)	(42.50)	(31.60)	(62.37)	4.00	Yes	33.33	14.25
30 November 2021	Titan Invo Technology Limited	872	1 for 2	(37.50)	(35.20)	(28.60)	(37.50)	N/A	Yes	33.33	14.00
2 December 2021	Seazen Group Limited	1030	1 for 21	(5.86)	(11.19)	(5.61)	(69.42)	N/A	Yes	4.55	0.51
15 December 2021	Future World Holdings Limited	572	3 for 2	(33.82)	(36.26)	(16.97)	7.27	3.50	No	60.00	23.23
24 December 2021	Hanvey Group Holdings Limited	8219	1 for 2	(22.81)	(22.81)	(16.35)	(45.00)	3.50	No	33.33	7.60
29 December 2021	Bank of Qingdao Co., Ltd.	3866	3 for 10	(11.50)	(13.10)	(9.10)	(39.20)	N/A	Yes	23.08	3.09
5 January 2022	China Information Technology Development Limited	8178	1 for 2	(34.78)	(34.78)	(26.11)	(88.00)	1.50	Yes	33.33	11.74
6 January 2022	Youth Champ Financial Group Holdings Limited	1160	1 for 2	(60.00)	(60.00)	(50.00)	Net liabilities	3.50	No	33.33	20.00
7 January 2022	China New Economy Fund Limited	80	1 for 2	(28.00)	(30.80)	(23.31)	38.46	3.50	No	33.33	10.42
10 January 2022	Wisdom Wealth Resources Investment Holding Group Limited	7	1 for 2	Nil	(7.70)	Nil	(90.00)	N/A	Yes	33.33	3.57
14 January 2022	CITIC Securities Company Limited	6030	1.5 for 10	(15.00)	(13.00)	(13.30)	(0.48)	N/A	Yes	13.04	1.97
14 January 2022	Beaver Group (Holding) Company Limited	8275	3 for 2	(24.14)	(23.08)	(11.29)	(45.54)	3.50	No	60.00	22.88
14 January 2022	KNT Holdings Limited	1025	1 for 2	(15.38)	(14.33)	(10.81)	281.94	2.50	No	33.33	5.13
19 January 2022	RMH Holdings Limited	8437	1 for 2	(29.58)	(30.56)	(21.88)	108.33	2.50	Yes	33.33	9.86
21 January 2022	Cornerstone Financial Holdings Limited	8112	3 for 1	(11.63)	(17.39)	(3.18)	(87.23)	3.50	Yes	75.00	14.62
28 January 2022	Affluent Partners Holdings Limited	1466	1 for 1	(4.35)	(6.30)	(2.22)	(4.35)	2.50	Yes	50.00	3.15
14 February 2022	Gold Peak Industries (Holdings) Limited	40	1 for 6	(21.52)	(20.92)	(19.06)	(81.38)	4.59	Yes	14.29	3.04
28 February 2022	Zioncom Holdings Limited	8287	1 for 2	(16.70)	(14.20)	(11.80)	(69.83)	2.50	No	33.33	5.95
2 March 2022	Feiyang International Holdings Group Limited	1901	1 for 3	(56.52)	(55.75)	(49.49)	751.79	2.50	Yes	25.00	13.91
3 March 2022	China Eco-Farming Limited	8166	1 for 2	(10.11)	(12.57)	(6.98)	(83.51)	2.00	Yes	33.33	5.26
15 March 2022	Success Dragon International Holdings Limited	1182	3 for 2	(2.86)	(4.49)	(1.16)	(8.60)	1.00	No	60.00	2.70

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to 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/to the theoretical ex-right share price	Premium/ (Discount) of the subscription price over/to net assets per share	Underwriting/ placing related commission, as the case may be	Excess application	Maximum dilution effect	Cumulative theoretical dilution impact	
				on the last trading day (%)	the last trading day (%)	(Note 1)	(Note 1)				(Note 2)
12 April 2022	CA Cultural Technology Group Limited	1566	1 for 2	(42.11)	(29.90)	(32.50)	(89.21)	7.07	Yes	33.33	14.17
18 April 2022	DFZQ	3958	2.8 for 10	113.58	115.71	24.90	(7.78)	N/A	Yes	21.88	No theoretical dilution
21 April 2022	Vixtel Technologies Holdings Limited	1782	1 for 2	(34.50)	(39.20)	(26.00)	25.43	1.50	Yes	33.33	13.63
28 April 2022	Life Concepts Holdings Limited	8056	3 for 2	(6.98)	(13.04)	(2.91)	Net liabilities	1.00	Yes	60.00	9.28
28 April 2022	Palinda Group Holdings Limited	8179	1 for 2	(39.76)	(39.61)	(13.25)	(80.43)	7.07	Yes	33.33	13.25
29 April 2022	China CITIC Bank Corporation Limited	998	3 for 10	N/A	N/A	N/A	N/A	N/A	Yes	23.08	N/A
12 May 2022	KOALA Financial Group Limited	8226	2 for 1	(4.76)	(7.12)	(1.64)	(88.17)	3.00	Yes	66.67	4.66
18 May 2022	K Group Holdings Limited	8475	2 for 1	(28.80)	(30.50)	(12.30)	Net liabilities	3.00	Yes	66.67	20.73
24 May 2022	Progressive Path Group Holdings Limited	1581	1 for 1	(42.22)	(39.95)	(26.76)	(72.69)	1.50	No	50.00	21.11
25 May 2022	F8 Enterprises (Holdings) Group Limited	8347	1 for 2	(5.56)	(2.86)	(3.68)	(71.67)	5.00	Yes	33.33	1.94
				Min	(60.00)	(60.00)	(50.00)	(93.90)	1.00	4.55	0.51
				Max	113.58	115.71	24.90	751.79	7.07	75.00	23.23
				Median	(17.65)	(16.70)	(11.05)	(39.30)	2.50	33.33	10.14
				Mean	(19.12)	(19.30)	(13.44)	10.18	2.88	37.12	10.32
The Company			3 for 1	(18.00)	(17.00)	(5.09)	(65.08)	0.50	No	75.0	13.43

Source: The Stock Exchange

Notes:

- Being the premium/(discount) of the subscription price over/to the latest net asset value per share as disclosed in the relevant announcements, circulars, prospectuses and/or annual/interim reports.
- 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%.
- Being the cumulative (where applicable) theoretical dilution impact (as defined under Rule 7.27B of the Listing Rules or Rule 10.44A of the Rules Governing the Listing of Securities on GEM of the Stock Exchange) as disclosed in the relevant announcements, circulars and/or prospectuses.

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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 60.00% to a premium of approximately 113.58% with mean and median discount of approximately 19.12% and 17.65% respectively. The discount of approximately 18.00% 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 and median discounts of the Comparables.

The subscription prices of the Comparables represent a range from a discount of approximately 50.00% to a premium of approximately 24.90% relative to their respective theoretical ex-rights prices as disclosed in relevant announcements. The discount of approximately 5.09% of the Subscription Price to the theoretical ex-rights prices of the Shares is lower than the mean and median discounts of the Comparables and within the range.

The subscription prices of the Comparables represent a range from a discount of approximately 93.90% to a premium of approximately 751.79% relative to their respective latest net asset value per share as published in annual/interim reports, announcements, circulars and/or prospectuses. The discount of approximately 65.08% of the Subscription Price to the adjusted consolidated net asset value per Adjusted Share attributable to owners of the Company as at 31 December 2021 is within the range. We also noted that subscription prices of 17 Comparables (i.e. over one-third of the Comparables) represent discount over 60% to their respective latest net asset values. Therefore, we consider that it is not uncommon for rights issue conducted with subscription price representing substantial discount to net asset value and we also 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.

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-

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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 13 out of 45 Comparables did not offer excess application to their shareholders. Furthermore, 16 out of 45 Comparables were conducted on non underwritten basis, among which 7 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 Issue (i.e. the Compensatory Arrangements). Therefore, on 23 March 2022, 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/or 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 depends 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 0.5% 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 and all the Placing Shares are placed to the Independent Third Parties), 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 4.55% to approximately 75.00% with an average dilution of approximately 37.12%. 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 75.00%, which fall within the range of the Comparables. As set out in the Letter from the Board, the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

cumulative theoretical dilution impact is approximately 13.43% and we also noted that cumulative (where applicable) theoretical dilution impact of the Comparables range from 0.51% to 23.23% with 20 out of 45 Comparables showing dilution impact over 10%. Hence, we consider that it is reasonable for the Rights Issue with such cumulative theoretical dilution impact.

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.

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 in full on 31 December 2021, the consolidated net tangible assets of the Group attributable to the Shareholders would have increased from an audited one of approximately HK\$48.30 million to an unaudited pro forma adjusted one of approximately HK\$188.12 million immediately after the completion of the Rights Issue.

7.2 Bank balances

Upon completion of the Rights Issue in full 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\$139.81 million.

7.3 Gearing

According to the Annual Report, the gearing ratio of the Company, as expressed as the ratio of net debts (comprising trade payables, accruals and other payables, amount due to an associate, income tax payable, promissory notes, lease liabilities, borrowings, contingent consideration payables and convertible bonds less bank and cash balances) to equity, was approximately 246.20% as at 31 December 2021. 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. Assuming the Rights Issue will be completed in full and the entire estimated net proceeds of approximately HK\$139.81 million would be applied as intended, the hypothetical gearing ratio of the Company, for illustrative purpose only, would decrease to approximately 108.69%.

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 2019, 2020 and 2021 are disclosed in the following annual reports of the Company for the years ended 31 December 2019, 2020 and 2021 respectively, 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 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>

- (ii) 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>

- (iii) the annual report of the Company for the year ended 31 December 2021 published on 13 May 2022 (pages 37 to 147) in relation to the financial information of the Group for the same year.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0513/2022051300384.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2022, 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\$85 million borrowings were guaranteed, and were secured by the Group's certain properties;
- (ii) HK\$33 million borrowings were not guaranteed and unsecured;
- (iii) Current and non-current lease liabilities of approximately HK\$2.1 million and HK\$2.7 million respectively;
- (iv) Convertible bonds of principal amount of approximately HK\$42 million;
- (v) Current and non-current contingent consideration payables of approximately HK\$73.7 million and HK\$11 million respectively; and
- (vi) Promissory notes of HK\$251 million.

The carrying values of the Group's assets pledged to secure its borrowings amounted to approximately HK\$64.6 million as at 30 April 2022.

As at 30 April 2022, 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 30 April 2022, 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 2021 (being the date to which the latest published audited consolidated 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) manufacturing and sales of Chinese herbs products; and (iv) investment in various potential businesses including fruit plantation, Chinese yellow rice wine, leisure and culture.

According to the Company's annual report for the year ended 31 December 2021, the Group recorded audited net current liabilities of approximately HK\$258.44 million as at 31 December 2021. 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.

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 is 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 annual report of the Company for the year ended 31 December 2021, Hubei Jincaotang has been contributing income to the Group. The Company is optimistic that Hubei Jincaotang will continue to become one of the key revenue drivers to the Group.

* English name for identification purpose

The Group has been reviewing its existing operations from time to time and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximise the interests of the Group and the Shareholders as a whole.

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

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the Shareholders 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 audited consolidated net tangible assets of the Group attributable to the Shareholders as if the Rights Issue had been completed on 31 December 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 audited consolidated net tangible assets of the Group attributable to the Shareholders as at 31 December 2021 as derived from the Group's published annual report for the year ended 31 December 2021, and is adjusted for the effect of the Rights Issue as if the Rights Issue had been completed on 31 December 2021.

Audited consolidated net tangible assets of the Group attributable to the Shareholders as at 31 December 2021 (Note 1) HK\$'000		Estimated net proceeds from the Rights Issue (Note 3) HK\$'000	Unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to the Shareholders as at 31 December 2021 HK\$'000		Audited consolidated net tangible asset of the Group attributable to the Shareholders per Share as at 31 December 2021 (Note 4) HK\$		Unaudited pro forma adjusted consolidated net tangible asset of the Group attributable to the Shareholders per Share as at 31 December 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								
48,303		139,813	188,116		0.21		0.05	

Notes:

- The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2021 of approximately HK\$48,303,000 is based on the audited consolidated net assets attributable to shareholders of HK\$135,127,000 excluding other intangible assets and goodwill of approximately HK\$29,922,000 and HK\$56,902,000 respectively as shown on the audited consolidated statement of financial position of the Group as at 31 December 2021 as extracted from the published annual report of the Group as at 31 December 2021.
- 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 of approximately HK\$139,813,000 are based on 691,115,793 Right 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) 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 audited consolidated net tangible assets of Group attributable to the Shareholders per Share as at 31 December 2021 is calculated based on the consolidated net tangible assets of the Group attributable to the Shareholders as at 31 December 2021 of approximately HK\$48,303,000 as set out in note 1 above 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 31 December 2021.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders per Share as at 31 December 2021 immediately after the completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders as at 31 December 2021 and 921,487,724 Shares in issue upon completion of the Rights Issue as at 31 December 2021, which comprises 230,371,931 shares in issue (based on shares after share consolidation disclosed in Note 2) as at 31 December 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 31 December 2021.

B. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION

UniTax Prism (HK) CPA Limited 尤尼泰·柏淳(香港)會計師事務所有限公司
Units 1903A -1905, 19/F, No. 8 Observatory Road, Tsim Sha Tsui, Hong Kong
香港九龍尖沙咀天文臺道8號19樓1903A-1905室

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Board of Directors
Kiu Hung International Holdings Limited

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 31 December 2021 and related notes as set out on pages 67 to 68 of Appendix II to the circular issued by the Company in connection with the Rights Issue. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 67 to 68 of Appendix II to this 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 31 December 2021 as if the Rights Issue had taken place on 31 December 2021. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s audited consolidated financial statements for the year ended 31 December 2021, on which annual 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 31 December 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.

UniTax Prism (HK) CPA Limited

Certified Public Accountants

Lee Kwok Lun

Practising Certificate Number: P06294

Hong Kong, 2 June 2022

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 Capital Reorganisation 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 up to and including the Record Date other than as a result of the Capital Reorganisation) 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>1,986,057,030.79</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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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 fully-paid Rights Shares.

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 per Existing Share (subject to adjustment mechanism in accordance with the terms and conditions of the Convertible Bonds). Save for 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. The Company has no intention to issue or grant any convertible securities, warrants and/or options on or before the Record Date.

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

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 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 Model Code for Securities Transactions by Directors of the Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”) 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	0.003%
Liu Mingqing	Beneficial owner	5,600,000	0.486%
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 Mode Code 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 the 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 2021, 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 received from Mr. Guo Jingsheng (“**Mr. Guo**”) a writ of summons and an indorsement of claim issued by the High Court of Hong Kong (the “**High Court**”), respectively, against the Company as borrower and the Director 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 and Mr. Guo on 29 April 2019. Pursuant to the Settlement Deed, the Company would issue 80,000,000 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 Shares fail to reach at least HK\$0.10 per share within one year from the date of issue of the Shares. The Company allotted and issued 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 Latest Practicable Date, the Company is liaising with Mr. Guo about the buyback 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 31 December 2020 and 2021.

(b) Everbright Centre Company Limited

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 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 31 December 2021, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK\$3,295,000 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 Hong Kong against the Company for a claim of fees in the amount of HK\$803,000 for the provision of consultancy service.

As at the Latest Practicable Date, the Company is liaising with Veda Capital Limited to settle the above claim which is included in accruals and other payables as at 31 December 2020 and 2021.

So far as is known to the Directors, save for the above, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

8. EXPERTS AND CONSENTS

The following are the names and qualifications of the experts who have given opinions or advice which are contained in this circular (the “**Experts**”):

Name	Qualification
UniTax Prism (HK) 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 SFO

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 its letter 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; and (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 2021 (being 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 date of this circular and are or may be material:

- (a) the supplemental agreement dated 20 July 2020 to the conditional sale and purchase agreement dated 11 September 2019 (the “**SPA**”) entered into among Fujian Green Forest Agricultural Technology Co., Ltd.* (福建綠森農業科技有限公司) (“**Green Forest**”) (as purchaser), Sheen World International Holdings Limited (“**Sheen World**”) (as vendor) and Mr. Lin Wei (“**Mr. Lin**”) (as vendor guarantor) in relation to the revision of certain terms under the SPA;
- (b) 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;

* English name for identification purpose

- (c) 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;
- (d) the subscription agreements dated 3 November 2020 (the “**Subscription Agreements**”) entered into among the Company (as issuer) and each of the 10 creditors of the Company, namely Mr. Yu Won Kong Dennis, Mr. Hui Kee Fung, Mr. Lau Siu Wa, Mr. Chan Tsz Sing William, Mr. Liu Yuk Ming, Mr. Liu Falin, Mr. Tang Yingzhou, Mr. Wong Pui Wang Jefferson, Mr. Chen Blinglin and Ms. Ou Zhu, 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;
- (e) the acquisition framework agreement dated 4 November 2020 entered into between Green Forest (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;
- (f) the supplemental subscription agreements dated 22 January 2021 to the Subscription Agreements entered into among the Company (as issuer) and each of the three creditors of the Company, namely Mr. Wong Pui Wang Jefferson, Mr. Chen Blinglin and Ms. Ou Zhu, 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;
- (g) the second supplemental agreement dated 23 March 2021 to the SPA entered into among Green Forest, Sheen World and Mr. Lin in relation to the revision of certain terms under the SPA;
- (h) the third supplemental agreement dated 25 March 2021 to the SPA entered into among Green Forest, Sheen World and Mr. Lin in relation to the revision of certain terms under the SPA;
- (i) the conditional placing agreement dated 3 August 2021 entered into between the Company (as issuer) and Yuet Sheung International Securities Limited (as placing agent) in relation to the placing of unsubscribed rights shares not taken up by the qualifying shareholders and rights shares which would otherwise have been provisionally allotted to the non-qualifying shareholders under the original rights issue;
- (j) 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* (內蒙古眾合礦業有限公司);

* English name for identification purpose

- (k) the Placing Agreement; and
- (l) the Supplemental Placing Agreement.

10. CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Zhang Qijun (*Chairman*)
 Ms. Lai Yee Man
 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. Liu Mingqing
 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
 Rose Cottage
 18 Parliament 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

Principal share registrar and transfer office	Zuill Corporate Services (Bermuda) Limited Rose Cottage 18 Parliament 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 <i>(a member of Hong Kong Institute of Certified Public Accountants and a member of Institute of Chartered Accountants in England and Wales)</i>
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 advisers to the Company	<i>As to Hong Kong law</i> Robertsons 57th Floor, The Center 99 Queens Road Central Hong Kong <i>As to PRC law</i> Hills & Co. 11th Floor Central Tower No. 88 Fu Hua 1st Road Fu Tian District Shenzhen, PRC <i>As to Bermuda law</i> Conyers Dill & Pearman 29th Floor, One Exchange Square 8 Connaught Place 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	UniTax Prism (HK) CPA Limited Units 1903A-1905 19/F, No. 8 Observatory Road 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 45, had been appointed as an executive Director on 4 March 2016. Mr. Zhang was also appointed as the 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.

Ms. Lai Yee Man (“Ms. Lai”), aged 32, had been appointed as an executive Director on 14 December 2021. She holds a Bachelor degree in Arts with Honours (Accounting) from the University of Bedfordshire and executive diploma in accountancy from the Institute of Advanced Executive Education, Hong Kong Polytechnic University. Ms. Lai is currently a certified sustainable development planner of the World Institute of Sustainable Development Planners. Prior to joining the Company, Ms. Lai had served as a finance manager of China Carbon Neutral Development Group Limited (stock code: 1372) and PacRay International Holdings Limited (stock code: 1010), and has extensive experience in finance and management accounting, financial due diligence and post-deal monitoring, and company secretarial services.

Mr. Liu Mingqing (“Mr. Liu”), aged 43, had been appointed as an executive Director 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 62, had been appointed as an independent non-executive Director on 1 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 38, had been appointed as an independent non-executive Director on 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 is engaged in the promotion of culture, specialising in project management. Mr. Cheng has accumulated over 11 years of working experience.

Mr. Kong Chun Wing (“Mr. Kong”), aged 38, had been appointed as an independent non-executive Director on 2 July 2019. He is a fellow member of CPA Australia. Mr. Kong is currently an assistant general manager of a Hong Kong company

* English name for identification purpose

which is engaged in the production of food and beverage. Mr. Kong has over 5 years of working experience in the field of professional accounting and accumulated over 14 years of working experience.

Mr. Lai Chi Yin Samuel (“Mr. Lai”), aged 58, 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 organising sports events. Mr. Lai has accumulated over 30 years of 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.

Ms. Chen Yuxin, aged 24, 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 is currently serving as the investment director of China Commerce Huaxia Products Co., Ltd..

Senior management

Mr. Hui Ki Yau (“Mr. Hui”), aged 60, 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 the 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 (“Madam Hui”), aged 53, 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.

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 Qualifying Shareholders and the placing of 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\$1.77 million, which are payable by the Company.

15. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kh381.com) for 14 days from the date of this circular:

- (a) the letter from the Independent Financial Adviser, the text of which is set out on pages 41 to 63 of this circular;
- (b) the letter issued by the reporting accountants regarding the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (c) the material contracts referred to in the paragraph headed “9. Material contracts” in this appendix; and
- (d) the written consent from the Experts as referred to in the paragraph headed “8. Experts and consents” in this appendix.

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 Harbour Plaza Room 1, B1/F, Harbour Plaza North Point, 665 King’s Road, North Point, Hong Kong on Thursday, 23 June 2022 at 11:00 a.m. to consider and, if thought fit, approve, with or without modifications, the following resolutions:

SPECIAL RESOLUTION

“THAT

1. subject to and conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Adjusted Shares (as defined below) arising from the Capital Reorganisation (as defined below); and (ii) the compliance by the Company with section 46(2) of the Companies Act 1981 of Bermuda and the Listing Rules to effect the Share Consolidation (as defined below), Capital Reduction (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) existing issued and unissued ordinary shares of par value of HK\$0.01 each in the authorised share capital of the Company be consolidated (the “**Share Consolidation**”) into one (1) ordinary share of par value of HK\$0.05 each (the “**Consolidated Share(s)**”);
 - (ii) immediately following the Share Consolidation becoming effective, the issued share capital of the Company be reduced by (a) rounding down the number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid-up share capital to the extent of HK\$0.04 on each issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$0.05 to HK\$0.01 (the “**Capital Reduction**”);

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- (iii) the credit arising from the Capital Reduction be applied to set off against the accumulated losses of the Company or be applied in any other manner as may be permitted under the bye-laws of the Company and all applicable laws of Bermuda;
- (iv) immediately following the Capital Reduction becoming effective, each of the then authorised but unissued Consolidated Shares of par value of HK\$0.05 each in the share capital of the Company be subdivided into five (5) authorised but unissued shares of par value of HK\$0.01 each in the share capital of the Company (the “**Adjusted Share(s)**”) such that the authorised share capital of the Company will be HK\$1,986,057,030.79 divided into 198,605,703,079 Adjusted Shares of par value of HK\$0.01 each (the “**Share Subdivision**”, together with the Share Consolidation and the Capital Reduction, the “**Capital Reorganisation**”) immediately following the Share Subdivision becoming 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;
- (v) any one of the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Capital Reorganisation, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to carry out or give effect to any or all of the foregoing arrangements in respect of the Capital Reorganisation.”

ORDINARY RESOLUTION

“THAT

- 2. subject to and conditional upon the passing of the resolutions numbered 1, and the fulfilment of all conditions as set out in the section headed “Letter from the Board — Proposed Rights Issue — Conditions of the Rights Issue” in the circular of the Company dated 2 June 2022:
 - (i) the issue of a maximum of 691,115,793 new Shares (assuming no further issue and repurchase of the 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 Share held by the Shareholders (“**Qualifying Shareholders**”) whose names appear on the register of members of the Company on Thursday, 7 July 2022, 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

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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) (the “**Non-Qualifying Shareholders**”), and on and subject to such terms and conditions as may be determined by the Directors (the “**Rights Issue**”), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

- (ii) the placing agreement dated 23 March 2022 and the supplemental placing agreement dated 14 April 2022 (collectively, the “**Placing Agreement**”) entered into between the Company and Yuet Sheung International Securities Limited (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), 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;
- (iii) 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 Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Directors be and is hereby authorised to 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 he/she considers necessary, desirable or expedient having regard any restrictions under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong to give effect to any or all other transactions contemplated in this resolution; and

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- (iv) the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Rights Issue and the Placing Agreement, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to implement or give effect to any matters 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, 2 June 2022

Registered office:
Zuill Corporate Services (Bermuda) Limited
Rose Cottage
18 Parliament 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

Notes:

- (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.
- (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 2 June 2022 as soon as possible and in any event, 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 the Members’ entitlement to attend and vote at the Meeting, the register of Members will be closed from Friday, 17 June 2022 to Thursday, 23 June 2022 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for attending and voting at the

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forthcoming Meeting, all transfer documents accompanied by the relevant share certificates 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 by no later than 4:30 p.m. on Thursday, 16 June 2022.

- (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 the Company at www.kh381.com and on the website of the Stock Exchange at www.hkexnews.hk to notify the 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. Liu Mingqing

Ms. Lai Yee Man

Independent non-executive Directors:

Mr. Wang Xiao Ning

Mr. Cheng Ho On

Mr. Kong Chun Wing

Mr. Lai Chi Yin, Samuel

Ms. Chen Yuxin