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If you have sold or transferred all your shares in MH Development Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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美好發展集團

MH DEVELOPMENT

MH Development Limited

美好發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2662)

**(1) PROPOSED CAPITAL REORGANISATION;
(2) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION
OF NEW SHARES UNDER SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



Gram Capital Limited
嘉林資本有限公司

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



BAOQIAO PARTNERS CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 7 to 30 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Main Conference room, Basement 1/F., Building 28-29, 383 Zizhu Road, Pudong New District, Shanghai, China on Friday, 30 April 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at Boardroom Share Registrars (HK) Limited on 2103B, 21/F., 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of COVID-19 at the EGM, including:

- **compulsory wearing of appropriate face masks for all participants; and**
- **no distribution of corporate gifts or refreshments.**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the venue of the EGM. The Company also encourages its shareholders to consider appointing the chairman of the meeting as its/his/her proxy to vote on the relevant resolutions at the EGM as an alternative to attending the meeting in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the current development of COVID-19, the Company will implement the following measures at the EGM:

- (i) all participants (including Shareholders or their proxy) in the EGM are required to wear appropriate face masks at all times during their attendance; and
- (ii) no refreshments will be served, and there will be no corporate gifts. Seating will be arranged to ensure adequate physical distancing between attendees in order to reduce person-to-person contact.

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

Although Shareholders are welcome to attend in person to vote at the EGM, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending in person. The proxy form will be despatched to Shareholders and can be downloaded from the websites of the Stock Exchange and the Company.

DEFINITIONS

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

“Announcement”	the announcement dated 22 February 2021 made by the Company in relation to, among others, the Capital Reorganisation, the Subscription, the Specific Mandate and the Whitewash Waiver
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks are generally open for business in Hong Kong
“Capital Reduction”	the proposed reduction of the issued share capital of the Company through the cancellation of the paid-up capital of the Company to the extent of HK\$0.90 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$1.00 to HK\$0.10
“Capital Reorganisation”	the proposed reorganisation of the share capital of the Company involving the Share Consolidation, the Capital Reduction and the Share Subdivision
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act, Cap. 22 (Act 3 of 1961), of the Cayman Islands as consolidated and revised
“Company”	MH Development Limited, an exempted company incorporated in the Cayman Islands with limited liability, and the Existing Shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules and the word “connected” shall be construed accordingly
“Consolidated Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company immediately after the Share Consolidation becoming effective but prior to the Capital Reduction and the Share Subdivision

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Capital Reorganisation, the Subscription, the Specific Mandate, the Whitewash Waiver and the respective transactions contemplated thereunder
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Share(s)”	ordinary share(s) of HK\$0.10 each in the existing share capital of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Indebted Amount”	the amount owing by the Company to the Subscriber in an aggregate principal amount of approximately HK\$16.4 million as at the date of the Subscription Agreement under the Loans
“Independent Board Committee”	the independent board committee, comprising Mr. Zheng Yilei and Mr. Ross Yu Limjoco, being all the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the Subscription, the Whitewash Waiver and the respective transactions contemplated thereunder
“Independent Financial Adviser” or “BaoQiao”	BaoQiao Partners Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Subscription, the Whitewash Waiver and the respective transactions contemplated thereunder, and a corporation licenced to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	Shareholders other than (i) the Subscriber and its associates; (ii) any parties acting in concert with the Subscriber or Mr. Shen Yang; and (iii) parties involved in or interested in the Subscription, the Whitewash Waiver and the respective transactions contemplated thereunder

DEFINITIONS

“Latest Practicable Date”	26 March 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“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
“Loans”	collectively, (i) pursuant to a loan agreement executed by the Company and the Subscriber dated 18 September 2020, an unsecured loan in the principal amount of HK\$2,000,000 granted by the Subscriber to the Company; (ii) pursuant to a loan agreement executed by the Company and the Subscriber dated 16 October 2020, a secured loan in the principal amount of HK\$13,000,000 granted by the Subscriber to the Company; and (iii) pursuant to a supplemental loan agreement executed by the Company and the Subscriber dated 1 December 2020, an additional secured loan in the principal amount of HK\$5,000,000 granted by the Subscriber to the Company, details of which were included in the announcements of the Company dated 18 September 2020, 16 October 2020, 23 October 2020 and 1 December 2020
“New Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Relevant Period”	the period commencing six months before the date of the Announcement (i.e. 21 August 2020), up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Consolidation”	the proposed consolidation of every 10 issued and unissued Existing Shares into 1 Consolidated Share

DEFINITIONS

“Share Subdivision”	the proposed sub-division of each of the authorised but unissued Consolidated Shares of HK\$1.00 each into 10 New Shares of HK\$0.10 each
“Share Option Scheme”	the share option scheme adopted by the Company on 17 December 2018
“Shareholder(s)”	holder(s) of the Existing Shares and the New Shares
“Specific Mandate”	the mandate to be granted to the Directors to allot and issue the Subscription Shares at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Runjing Holdings Limited, a company wholly-owned by Mr. Shen Yang, an executive Director, as at the Latest Practicable Date
“Subscription”	the conditional allotment and issue of the Subscription Shares by the Company to the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 22 February 2021 entered into between the Company and the Subscriber in respect of the Subscription
“Subscription Price”	HK\$0.183 per Subscription Share
“Subscription Share(s)”	218,689,624 New Shares to be allotted and issued to the Subscriber pursuant to the Subscription Agreement
“Trading Halt Announcement”	the announcement of the Company dated 19 July 2019 in relation to the trading halt in the Existing Shares on the Main Board of the Stock Exchange
“Takeovers Code”	the Code on Takeovers and Mergers
“Whitewash Waiver”	the waiver by the Executive under Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code of the obligation on the part of the Subscriber to make a general offer to the Shareholders for all issued shares of the Company not already owned or agreed to be acquired by the Subscriber or parties acting in concert with it as a result of the allotment and issue of the Subscription Shares to the Subscriber
“%”	per cent.

* For identification purpose only

EXPECTED TIMETABLE

The expected timetable for implementation of the Capital Reorganisation is set out below:

Event	2021
Date of despatch of circular with notice and form of proxy of the EGM	Monday, 29 March
Latest time for lodging transfer documents and relevant share certificates to be eligible to attend and vote at the EGM.....	4:30 p.m. on Monday, 26 April
Closure of register of members for the purpose of ascertaining Shareholders' eligibility to attend and vote at the EGM (both dates inclusive).....	Tuesday, 27 April to Friday, 30 April (both dates inclusive)
Latest time for lodging the form of proxy	10:00 a.m. on Wednesday, 28 April
Expected date and time of the EGM.....	10:00 a.m. on Friday, 30 April
Publication of announcement of results of the EGM.....	Friday, 30 April

All times and dates specified in the timetable above refer to Hong Kong times and dates.

This timetable is indicative only and any subsequent change to the expected timetable will be announced by the Company.



美好發展集團

MH DEVELOPMENT

MH Development Limited

美好發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2662)

Executive Directors:

Ms. Liu Hui
Mr. Guo Ben
Mr. Shen Yang

Independent non-executive Directors:

Mr. Ross Yu Limjoco
Mr. Zheng Yilei

Registered office:

Governor Square, P.O. Box 30746
Seven Mile Beach, Grand Cayman
KY1-1203
Cayman Islands

*Head office and principal place
of business in Hong Kong*

Unit 1904, 19/F
Podium Plaza, 5 Hanoi Road
Tsim Sha Tsui, Kowloon
Hong Kong

29 March 2021

**(1) PROPOSED CAPITAL REORGANISATION;
(2) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION
OF NEW SHARES UNDER SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

To the Shareholders

Dear Sir or Madam,

I. INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Capital Reorganisation, the Subscription, the Specific Mandate and the Whitewash Waiver.

LETTER FROM THE BOARD

The purpose of this circular is to provide you, among other things, (i) further details of the Capital Reorganisation; (ii) further details of the Subscription; (iii) a letter of recommendation from the Independent Board Committee in relation to the Subscription, the Whitewash Waiver and the transactions contemplated thereunder; (iv) a letter of advice from the Independent Financial Adviser in relation to the Subscription, the Whitewash Waiver and the transactions contemplated thereunder; and (v) a notice convening the EGM.

II. PROPOSED CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation which involves the following:

(1) Proposed Share Consolidation

The Share Consolidation will be effected pursuant to which every 10 issued and unissued Existing Shares of HK\$0.10 each will be consolidated into 1 Consolidated Share of HK\$1.00 each. Fractional Consolidated Shares will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company.

(2) Proposed Capital Reduction and Share Subdivision

- (a) The issued share capital of the Company will be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.90 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$1.00 to HK\$0.10;
- (b) immediately following the Capital Reduction, each authorised but unissued Consolidated Share of HK\$1.00 each will be sub-divided into 10 New Shares of HK\$0.10 each; and
- (c) the credits arising in the books of the Company from the Capital Reduction of approximately HK\$96,941,520 will be credited to the distributable reserve account of the Company which will be utilised by the Company in any manner as the Board may deem fit and permitted under all applicable laws and the memorandum and articles of association of the Company.

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$300,000,000 divided into 3,000,000,000 Existing Shares of HK\$0.10 each, of which 1,077,128,000 Existing Shares are allotted and issued as fully paid or credited as fully paid.

Immediately following the Capital Reorganisation, the authorised share capital of the Company will be HK\$300,000,000 divided into 3,000,000,000 New Shares of HK\$0.10 each, of which 107,712,800 New Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will be HK\$10,771,280, assuming that there are no other changes in the issued share capital of the Company from the Latest Practicable Date up to the effective date of the Capital Reorganisation.

LETTER FROM THE BOARD

A credit of approximately HK\$96,941,520 will arise as a result of the Capital Reduction. Such credit will be transferred to the distributable reserve account of the Company which will be utilised by the Company in any manner as the Board may deem fit and permitted under all applicable laws and the memorandum and articles of association of the Company.

Shareholders and potential investors should note that the credits arising in the books of the Company from the Capital Reorganisation will be subject to change depending on the number of the Existing Shares in issue immediately prior to the Capital Reorganisation becoming effective.

Assuming that there are no other changes in the issued share capital of the Company from the Latest Practicable Date and until the effective date of the Capital Reorganisation, the share capital structure of the Company will be as follows:

	As at the Latest Practicable Date	Immediately after the Share Consolidation becoming effective	Immediately after the Capital Reorganisation becoming effective
Amount of authorised share capital	HK\$300,000,000	HK\$300,000,000	HK\$300,000,000
Nominal value	HK\$0.10 per Existing Share	HK\$1.00 per Consolidated Share	HK\$0.10 per New Share
Number of authorised shares	3,000,000,000 Existing Shares	300,000,000 Consolidated Shares	3,000,000,000 New Shares
Amount of issued share capital	HK\$107,712,800	HK\$107,712,800	HK\$10,771,280
Number of issued shares	1,077,128,000 Existing Shares	107,712,800 Consolidated Shares	107,712,800 New Shares
Amount of unissued share capital	HK\$192,287,200	HK\$192,287,200	HK\$289,228,720
Number of unissued shares	1,922,872,000 Existing Shares	192,287,200 Consolidated Shares	2,892,287,200 New Shares

All New Shares will rank pari passu in all respects with each other.

LETTER FROM THE BOARD

Fractional entitlement to New Shares

No Shareholder will be entitled to receive any fraction of a New Share. Fractions of the New Shares, if any, arising from the Capital Reorganisation will be aggregated and sold (if a premium, net of expenses, can be obtained) for the benefit of the Company.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional on:

- (1) the passing of the necessary special resolution by the Shareholders to approve the Capital Reorganisation at the EGM;
- (2) the Stock Exchange granting the listing of, and the permission to deal in, the New Shares arising from the Capital Reorganisation;
- (3) the compliance with the relevant procedures and requirements under the laws of the Cayman Islands and the Listing Rules to effect the Capital Reorganisation;
- (4) the Grand Court of the Cayman Islands granting an order confirming the Capital Reduction;
- (5) compliance with any conditions which the Grand Court of the Cayman Islands may impose in relation to the Capital Reduction; and
- (6) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

Effects of the Capital Reorganisation

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Board believes that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group and that on the date the Capital Reorganisation is to be effected, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due.

No equity will be lost as a result of the Capital Reorganisation and, except for the expenses involved in relation to the Capital Reorganisation which are expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Company will remain unchanged before and after the Capital Reorganisation becoming effective. The Capital Reorganisation does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company nor will it result in any change in the relative rights of the Shareholders.

LETTER FROM THE BOARD

Listing and dealings

Application will be made to the Stock Exchange for the granting of the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation.

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

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, the New 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 New 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 settlement 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 New Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may, within a designated period, submit share certificates for the Existing Shares to the Hong Kong branch share registrar of the Company, Boardroom Share Registrars (HK) Limited on 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, to exchange at the expense of the Company, for new share certificates of the New Shares (on the basis of ten (10) Existing Shares for one (1) New Share). Thereafter, share certificates of 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 New Shares, whichever the number of certificates cancelled/issued is higher. After close of business on a designated day, share certificates for the Existing Shares will only remain effective as documents of title and may be exchanged for certificates for the New Shares at any time but will not be accepted for delivery, trading and settlement purposes.

Further details on the arrangement of free exchange of share certificates and the colour of the new share certificates for the New Shares will be announced by the Company as and when appropriate.

LETTER FROM THE BOARD

No change in board lot size

The New Shares will remain to be traded in board lot of 2,000 New Shares after the Capital Reorganisation having become effective.

At present, the Existing Shares are traded in board lots of 2,000. Based on the Subscription Price of HK\$0.183 per New Share, the value of each board lot of 2,000 Existing Shares is HK\$366. Based on the closing price of HK\$11.60 per New Share on the day immediately preceding the date of the Trading Halt Announcement, the value of each board lot of 2,000 Existing Shares is HK\$23,200. Upon the Capital Reorganisation becoming effective, the board lot size for trading of the New Shares will remain unchanged at 2,000.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Capital Reorganisation, the Company will appoint an agent to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares during a designated period. Shareholders who wish to take advantage of this facility should contact such agent during such period. Holders of odd lots of the New Shares should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lot arrangement, is recommended to consult his/her/its own professional advisers.

Further details on the arrangement on odd lot trading will be announced by the Company as and when appropriate.

Shareholders or potential investors should note that (i) odd lots will be created after the Capital Reorganisation; (ii) odd lots arrangements do not guarantee successful matching of all odd lots at the relevant market price; and (iii) odd lots might be sold below the market price in the market.

Reasons for the Capital Reorganisation

Under the Companies Act, the Company is restricted in its ability to issue shares at a price lower than their par value. The Capital Reduction will reduce the par value of the Consolidated Shares, which will provide the Company with greater flexibility to accommodate the issue of New Shares under the Subscription Agreement, and in the future when necessary.

The Board also considers that the credit arising from the Capital Reduction could be transferred to the distributable reserve account of the Company and applied to set off against any future accumulated losses of the Company. Accordingly, it will allow greater flexibility for the Company to consider any declaration of dividends to the Shareholders

LETTER FROM THE BOARD

if and when the Company's financial position allows and the Board considers appropriate in the future, although there is no guarantee that dividend will be declared or paid upon the Capital Reorganisation becoming effective or at any time in the future.

The Board considers that the Capital Reorganisation is beneficial to and in the interests of the Company and the Shareholders as a whole.

III. SUBSCRIPTION OF NEW SHARES

On 22 February 2021, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 218,689,624 New Shares at the Subscription Price of HK\$0.183 per Subscription Share to the Subscriber.

The Subscription Agreement

Date

22 February 2021

Parties

- (a) the Company (as issuer); and
- (b) the Subscriber (as subscriber).

As at the Latest Practicable Date, the Subscriber is a company wholly-owned by Mr. Shen Yang, an executive Director. As at the Latest Practicable Date, the Subscriber, its ultimate beneficial owner and each of their associates and parties acting in concert with any of them do not hold any Existing Shares.

The Subscription Shares

The Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 218,689,624 New Shares at the Subscription Price of HK\$0.183 per Subscription Share to the Subscriber, with an aggregate consideration of approximately HK\$40.0 million payable by the Subscriber pursuant to the following:

- (a) approximately HK\$16.4 million of the Subscription consideration shall be applied to set off the Indebted Amount; and
- (b) the remaining Subscription consideration of approximately HK\$23.6 million shall be payable by cheque or bank transfer to the Company upon Completion of the Subscription.

References are made the announcements of the Company dated 18 September 2020, 16 October 2020, 23 October 2020 and 1 December 2020, in relation to the granting of the Loans to the Company by the Subscriber to support the Company's business and daily operations. The Loans comprised (i) an unsecured loan of HK\$2,000,000 carrying interest

LETTER FROM THE BOARD

of 10% per annum; and (ii) a secured loan of HK\$18,000,000 carrying interest of 10% per annum. The Loans are repayable on either (i) 31 May 2021; or (ii) the date of the delisting of the Company by the Stock Exchange; or (iii) when an extension of time for resumption on trading of shares of the Company is not granted by the Stock Exchange, whichever is earlier, subject to the discretion of the Subscriber to extend the repayment date under the Loans. For the unsecured loan, there is no penalty charge for late repayment. For the secured loan, if there is late repayment by the Company, interest will be accrued daily at the interest rate of 10% per annum as penalty charge. As at the Latest Practicable Date, the Company is indebted to the Subscriber a total principal amount of HK\$16.4 million (i.e. the Indebted Amount) and accrued interest fees of approximately HK\$0.6 million.

Pursuant to the Subscription Agreement, the Subscriber shall waive the full amount of the accrued interest fees of the Loans (i.e. approximately HK\$0.6 million as at the Latest Practicable Date) payable by the Company if the Subscription is completed. If the Company has not been delisted by the Stock Exchange on 31 May 2021, the Subscriber shall extend the repayment date of the Loans until (i) the date of the delisting of the Company by the Stock Exchange; or (ii) when an extension of time for resumption of the Company is not granted by the Stock Exchange, whichever is earlier, such that any late repayment of the Loans by the Company after 31 May 2021 shall not be considered as default under the Loans.

The Subscription Shares represent (i) approximately 203.0% of the existing issued share capital adjusted for the effect of the Capital Reorganisation; and (ii) approximately 67.0% of the then enlarged issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and adjusted for the effect of the Capital Reorganisation, assuming there will be no other change in the number of issued Existing Shares and New Shares between the Latest Practicable Date and Completion, save for the Capital Reorganisation and the Subscription.

Upon Completion, the Subscriber will hold 218,689,624 New Shares, representing approximately 67.0% of the then issued share capital of the Company as enlarged by the Subscription and adjusted for the effect of the Capital Reorganisation (assuming there will be no other change in the number of issued Existing Shares and New Shares between the Latest Practicable Date and Completion, save for the Capital Reorganisation and the Subscription). The aggregate nominal value of share capital for the Subscription Shares is approximately HK\$21,868,962.4.

Subscription Price

The Subscription Price of HK\$0.183 per Subscription Share represents:

- (i) a discount of approximately 98.42% to the adjusted closing price per share of the Company of HK\$11.60 as quoted on the Stock Exchange on 18 July 2019, being the last trading day preceding (i) the date of the Trading Halt Announcement and adjusted for the effect of the Capital Reorganisation; and (ii) the Latest Practicable Date;

LETTER FROM THE BOARD

- (ii) a discount of approximately 97.41% to the adjusted average closing price per share of the Company of HK\$7.06 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Trading Halt Announcement and adjusted for the effect of the Capital Reorganisation; and
- (iii) a discount of approximately 98.30% to the adjusted average closing price per share of the Company of HK\$10.76 as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the date of the Trading Halt Announcement and adjusted for the effect of the Capital Reorganisation.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber taking into account, among others:

- (i) the financial position of the Group (i.e. (a) the Group's revenue dropped from approximately HK\$2.9 billion for the year ended 30 June 2018 (“FY2018”) to approximately HK\$2.7 billion for the year ended 30 June 2019 (“FY2019”) and to approximately HK\$9.7 million for the year ended 30 June 2020 (“FY2020”); and (b) the Group made loss of approximately HK\$634.5 million and HK\$75.6 million for FY2019 and FY2020 respectively, and recorded net liabilities of approximately HK\$182.7 million and HK\$215.7 million as at 30 June 2020 and 31 December 2020 respectively, as compared to profit of approximately HK\$86.0 million for FY2018 and net assets of approximately HK\$486.5 million as at 30 June 2018);
- (ii) the fund required for the continuing operation and development of the Group;
- (iii) the Subscriber's waiver of all interest fees payable by the Company under the Loans if the Subscription is completed; and
- (iv) the suspension (the “**Suspension**”) of trading in the Existing Shares on the Stock Exchange.

Although the Subscription Price represents a deep discount of approximately 98% of the latest adjusted closing price of the Existing Shares, the Board considers that the Subscription Price is fair and reasonable. The latest adjusted closing price per Existing Share was in fact the closing price of the Existing Shares on the last trading day preceding the Suspension. The financial and operational conditions of the Group, as well as the investors' confidence in the performance of the Group have been significantly and adversely affected since the Suspension. As disclosed in the announcement of the Company dated 18 January 2021, the Group has been taking active steps to address and comply with the resumption guidance (the “**Resumption Guidance**”) issued by the Stock Exchange, with the aim to resume the trading of the Existing Shares on the Stock Exchange (the “**Resumption**”). One of the Resumption Guidance requires the Company to demonstrate its compliance with Rule 13.24 of the Listing Rules in order to warrant the continued listing of the Existing Shares. In order to fulfill the above condition, the Group has been re-commencing its existing operations in the IP related businesses, which require significant amount of working capital for the Group to invest in resources such as

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staff and operational costs. The Board considers that the working capital required is crucial to develop the Group's business so as to fulfill the Resumption Guidance. However, due to the Suspension, the Company is having difficulties in obtaining other alternative debt and equity financings. Taking into account the importance of the funds required by the Group to warrant the Resumption, the Subscription offered by the Subscriber provides not only funds required by the Group but also support to the Resumption. As such, the Directors (excluding Mr. Shen Yang who abstained from voting on the Board resolutions approving the Subscription Agreement and the transactions contemplated thereunder) consider that the terms of the Subscription Agreement (including the issue price of the Subscription Shares) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The gross proceeds from the Subscription are expected to be approximately HK\$40.0 million in aggregate, among which, approximately HK\$16.4 million of the Subscription consideration will be settled by setting off the Indebted Amount, and the remaining Subscription consideration of approximately HK\$23.6 million will be settled by the Subscriber in cash. After deducting related professional fees and all related expenses of about HK\$1.5 million which will be borne by the Company, the net proceeds of the Subscription will amount to approximately HK\$22.1 million.

Conditions precedent to the Subscription

Completion is conditional upon fulfillment of the following conditions:

- (i) completion of the Capital Reorganisation;
- (ii) resumption on trading of the Existing Shares and the New Shares on the Stock Exchange;
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Subscription Shares;
- (iv) the Executive granting the Whitewash Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code to the Subscriber;
- (v) the Independent Shareholders approving the Subscription and the related transactions contemplated thereunder by ordinary resolution(s) and by way of poll;
- (vi) the Independent Shareholders approving the Whitewash Waiver by special resolution(s) and by way of poll; and
- (vii) all the warranties by the Company as issuer under the Subscription Agreement remain true, accurate and not misleading in all material respects at all times from the date of the Subscription Agreement up to Completion.

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All conditions set out above cannot be waived by the Company or the Subscriber, save for condition (vii) above which may be waived by the Subscriber at its absolute discretion. In the event that any of the conditions of the Subscription is not fulfilled or waived on or before 31 December 2021 (or such later date as may be agreed between the Company and the Subscriber in writing), the Subscription Agreement will terminate and all obligations of the Company and the Subscriber under the Subscription Agreement shall cease and determine and neither the Company nor the Subscriber shall have any claim against the other in respect of any matter arising out of or in connection with the Subscription Agreement, except for any antecedent breach of any obligation and any liabilities under the Subscription Agreement.

Regarding condition (ii) above, the Company has continued to take active steps to address and comply with the resumption guidance of the Company, details of which are set out under section headed “Update on Resumption Progress” in the Company’s announcement dated 18 January 2021 in respect of quarterly update on status of resumption.

None of the conditions precedent has been fulfilled as at the Latest Practicable Date.

Completion of the Subscription Agreement

Completion will take place on the fifth Business Day after the date on which all the conditions of the Subscription are fulfilled or waived (or such other date as may be agreed between the Company and the Subscriber in writing).

Lock-up arrangement for the Subscription Shares

Pursuant to the Subscription Agreement, the Subscriber undertook that, without the prior written consent of the Company, during a period commencing from and including the date of Completion and ending on and including the date which is one year from the date of Completion, the Subscriber shall not, and shall procure that none of its associates or companies controlled by it or nominees or trustees holding in trust for it shall sell, transfer or otherwise dispose of (or enter into any agreement to dispose of) any Subscription Shares held by the Subscriber, nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of their direct or indirect interests in such Subscription Shares.

Specific Mandate

The Subscription Shares will be allotted and issued under the Specific Mandate to allot, issue and deal with New Shares by an ordinary resolution to be proposed for passing by the Independent Shareholders at the EGM.

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IMPLICATIONS OF THE LISTING RULES AND THE TAKEOVERS CODE

As at the Latest Practicable Date, the Subscriber is a company wholly-owned by Mr. Shen Yang, an executive Director. Accordingly, the Subscriber is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Hence, the Subscription will constitute a connected transaction for the Company, and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Subscription Agreement at the EGM.

The Subscription will result in a theoretical dilution effect of approximately 65.94%, which is over the 25% threshold as specified under Rule 7.27B of the Listing Rules. However, given the Suspension and the Group's financial difficulties, and the Subscription forms part of the rescue plan of the Resumption for the Company in light of the imminent possible delisting of the Existing Shares, the Board is satisfied that there are exceptional circumstances for the Company to undertake the Subscription resulting in a theoretical dilution effect of over 25%.

As at the Latest Practicable Date, neither the Subscriber nor its parties acting in concert holds any Existing Shares. Upon Completion, the shareholding of the Subscriber will increase to approximately 67.0% of the then issued share capital of the Company as enlarged by the Subscription, hereby triggering a general offer obligation under the Takeovers Code.

An application has been made by the Subscriber to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to the respective approval of the Independent Shareholders on the Subscription and the Whitewash Waiver taken on a poll at the EGM. As the Whitewash Waiver is one of the non-waivable conditions precedent to the Subscription Agreement, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Independent Shareholders. Each of the Subscription and the Whitewash Waiver is required to be approved by ordinary resolution(s) and special resolution(s), respectively, by the Independent Shareholders at the EGM.

The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll. The Subscriber and parties acting in concert with it and any Shareholders who are interested in or are involved in the Subscription Agreement and the transactions contemplated thereunder and/or the Whitewash Waiver and their respective associates shall abstain from voting on the resolutions approving the Subscription and the transactions contemplated thereunder and the Whitewash Waiver at the EGM.

None of the Subscriber or Mr. Shen Yang or any person acting or presumed to be acting in concert with any of them owns or has control or direction over any voting right in or rights over any Existing Shares or any convertible securities, warrants or options in respect of the Existing Shares, or has entered into any outstanding derivatives in respect of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; nor is there any arrangement (whether by way of option, indemnity or otherwise) in relation to the Existing Shares or shares of the Subscriber which might be material to the transactions

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contemplated under the Subscription Agreement and the Whitewash Waiver, or any agreements or arrangements to which the Subscriber, Mr. Shen Yang or any person acting or presumed to be acting in concert with any of them is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver.

None of the Subscriber, Mr. Shen Yang or any persons acting or presumed to be acting in concert with any of them has received an irrevocable commitment to vote for or against the resolutions relating to the Subscription Agreement and/or the Whitewash Waiver.

Further, none of the Subscriber, Mr. Shen Yang or any persons acting or presumed to be acting in concert with any of them has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

The Subscriber, Mr. Shen Yang or any persons acting in concert with any of them had not acquired voting rights in the Company during the six months prior to the Announcement. There was no disqualifying transaction (as described in paragraph 3 of Schedule VI to the Takeovers Code) by the Subscriber or any person acting in concert with it in the six months prior to the Announcement.

As at the Latest Practicable Date, apart from the Subscription consideration of approximately HK\$40.0 million, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the Subscriber, Mr. Shen Yang and parties acting in concert with any of them to the Company in connection with the Subscription.

As at the Latest Practicable Date, there is no understanding, arrangement, agreement, or special deal (as defined under Rule 25 of the Takeovers Code) between (1) any Shareholder; and (2) (a) the Subscriber, Mr. Shen Yang and parties acting in concert with any of them, or (b) the Company, its subsidiaries or associated companies. Furthermore, as at the Latest Practicable Date, save as the Subscription Agreement and the Loans, there is no arrangement, understanding or undertaking (whether formal or informal and whether express or implied) between (1) the Subscriber and Mr. Shen Yang; and (2) the Company and any of its connected person.

As at the Latest Practicable Date, the Company does not believe that the proposed transactions give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the proposed transactions do not comply with other applicable rules and regulations.

If the Whitewash Waiver is approved by the Independent Shareholders, the potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with it resulting from the Subscription will exceed 50% of the voting rights of the Company. The Subscriber may further increase its holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

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FORMATION OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Zheng Yilei and Mr. Ross Yu Limjoco, both being the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Subscription, the Whitewash Waiver and the respective transactions contemplated thereunder.

BaoQiao has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee, to advise the Independent Board Committee and the Independent Shareholders on the Subscription, the Whitewash Waiver and the respective transactions contemplated thereunder.

Application for listing

The Subscription Shares will be allotted and issued under the Specific Mandate to allot, issue and deal with New Shares by an ordinary resolution to be proposed for passing by the Independent Shareholders at the EGM.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Subscriber is a company incorporated in the British Virgin Islands with limited liability, which is an investment holding company. The Subscriber is wholly-owned by Mr. Shen Yang, who was appointed as an executive Director on 16 October 2020.

Mr. Shen has over five years of experience in investment and operation management in the pan-cultural entertainment industry. Mr. Shen has been the president of Jiangsu Xinde Holdings Co., Ltd.* (江蘇信德控股有限公司) (“**Jiangsu Xinde**”) since 2014, the supervisor of Shanghai Lianchen Investment Management Co., Ltd.* (上海聯臣投資管理有限公司) (“**Shanghai Lianchen**”) since May 2016, and the president of Shanghai Xinde Hongye Enterprise Management Group Co., Ltd.* (上海信德鴻業企業管理集團有限公司) (“**Shanghai Xinde**”) (a company held by Jiangsu Xinde and Shanghai Liyumen Supply Chain Management Co., Ltd.* (上海鯉魚門供應鏈管理股份有限公司) (“**Shanghai Liyumen**”) as to 60% and 40%, respectively) since January 2017. From August 2016 to January 2017, Mr. Shen also served as the chairman of Shanghai Liyumen. Mr. Shen is currently a shareholder of Shanghai Liyumen. Mr. Shen was responsible for determining strategic directions, making major decisions and the overall operations and management of Jiangsu Xinde, Shanghai Xinde and Shanghai Liyumen, and he was responsible for supervising the senior management and the overall operations in Shanghai Lianchen.

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Mr. Shen has years of experience in the pan-cultural entertainment industry, through his investments and operation management experience in businesses regarding cultural, film and television, and fast-moving consumer goods industries. In particular, one of the subsidiaries of Shanghai Xinde, namely Beijing Jixiang Impression Media Co., Ltd.* (北京吉祥印象傳媒有限公司) (“**Beijing Jixiang**”), is a well-known film and television production company in the PRC and has invested in a number of film and television productions such as “The Thunder (破冰行動)”, which is a popular web television series in the PRC. Beijing Jixiang has also cooperated with a number of cultural and literature industry companies such as (i) Nanjing Dazhong Web Book Culture Co., Ltd.* (南京大眾書網圖書文化有限公司) which operates “LinkSure Literature (連尚文學)”, a platform that integrates network literature and comics, copyrights cooperation and cultivation of intellectual property rights; and (ii) Beijing Fengyue Culture Technology Co., Ltd.* (北京鳳閱文化科技有限公司) which operates a popular web novel site known as “Fread.com (翻閱小說)”. In addition, Mr. Shen has also invested in business that cooperates with Shanghai Free Trade Zone International Cultural Investment Development Co., Ltd.* (上海自貿區國際文化投資發展有限公司), a wholly-owned subsidiary of Shanghai Waigaoqiao Free Trade Zone Group Co., Ltd. (上海外高橋集團股份有限公司, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600648.SH)).

The Group’s business operations mainly comprise (A) IP licensing and comprehensive services which include provision of services in respect of (1) IP licensing (including IP co-branded credit card); (2) IP content creation; and (3) IP marketing; and (B) sale and distribution of IP derived products and mobile devices (the “**IP Related Business**”). It is expected that Mr. Shen’s past cooperation with the abovementioned companies and platforms may help the Group expand and develop its business through possible introduction of IP rights in relation to the cultural, film and television and literature industries, and other IP derived cultural and creative products to the Company in future, which is in line with the Group’s overall business operations, development and strategy. Mr. Shen has high expectations on the Group’s performance in the future, especially under his leadership and with his relevant experience, and therefore he decided to invest in the Group by way of the Subscription.

As disclosed in the quarterly update announcement of the Company dated 18 January 2021, the Company has continued to take active steps to address and comply with the resumption guidance of the Company, one of which is to demonstrate its compliance with Rule 13.24 of the Listing Rules to warrant the continued listing of the Existing Shares.

Regarding the above, the Group has continued to use its best endeavours to resume and expand its operations regarding its IP Related Business. As at the Latest Practicable Date, the Group has entered into a number of contracts with its customers, which will bring sales to the Group. As such, the operations of the Group in the PRC (including Hong Kong) require further capital injection to maintain the cash flow position and for general working capital purposes. Due to the current suspension in trading of the Existing Shares on the Stock Exchange, the Company faced difficulties in obtaining debt financing for its operations. The Directors consider that the Subscription represents an opportunity to raise capital for the Company in order to maintain the cash flow position of the Group and to enhance the capital base of the Company. The Board believes that the proceeds from the Subscription will enable the Group to continue and expand its current operations, which will in turn demonstrate its compliance with Rule 13.24 of the Listing Rules.

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Although the Subscription will result in substantial dilution of existing shareholding interests in the Company, the Board believes that the Company is under exceptional circumstances to undertake the Subscription. The Subscription forms part of the rescue plan of the Company from the Suspension. As explained above, the Group requires funds to fulfill the Resumption Guidance, which includes re-commencing its current IP Related Business, and engaging professional advisers. Given the Suspension, the loss making track record after the Suspension and the net liabilities position of the Group, the Company has difficulties in obtaining alternative financing. The Subscription not only enables the Group to raise funds, but also boosts investors' confidence through further investment of capital by the Subscriber. In addition, given that the trading of the Existing Shares on the Stock Exchange has been suspended since 19 July 2019, there would be practicable difficulties in raising funds via equity means without a substantial discount. It should be noted that if the Subscription fails to proceed, the Group may not have sufficient working capital to fund the continuation and development of its existing IP Related Business, which may in turn result in the failure to comply with the Resumption Guidance. In such case, the Existing Shares may be delisted from the Stock Exchange, and the Existing Shares held by the existing Shareholders (including the minority Shareholders from the general public) would lose liquidity and corresponding value. For further details of the exceptional circumstances, please refer to the paragraph headed "Dilution effect of the Subscription and exceptional circumstances" below. The Board considers that the Subscription is essential to rescue the Company from the Suspension and support the Resumption. Despite the substantial discount of the Subscription Price and the substantial dilution effect of the Existing Shares, the Board is of the view that the Subscription is in the interest of the Company and its Shareholders as a whole.

In addition, the Directors consider that the Subscription will allow the Company to settle the Indebted Amount, and all the accrued interest fees payable by the Company under the Loans will be waived, without utilising existing financial resources of the Company while reducing the gearing level of the Group and hence can strengthen the financial position of the Group.

In view of the above, the Directors (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser, but excluding Mr. Shen Yang who abstained from voting on the Board resolutions approving the Subscription Agreement) consider that the terms of the Subscription Agreement is on normal commercial terms and that the Subscription is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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USE OF PROCEEDS

The gross proceeds from the Subscription are expected to be approximately HK\$40.0 million in aggregate, among which, approximately HK\$16.4 million of the Subscription consideration will be settled by setting off the Indebted Amount, and the remaining Subscription consideration of approximately HK\$23.6 million will be settled by the Subscriber in cash. After deducting related professional fees and all related expenses of about HK\$1.5 million which will be borne by the Company, the net proceeds of the Subscription will amount to approximately HK\$22.1 million. The net proceeds from the Subscription will be applied for the following purposes:

- (i) approximately 25%, or approximately HK\$5.5 million, will be utilised for investing in IP licensing and comprehensive services business, it is expected that the Company will involve in at least two IP projects using self-owned IP resources of the Group;
- (ii) approximately 25%, or approximately HK\$5.5 million, will be utilised for settling professional fees and other expenses in relation to the compliance with the resumption conditions of the Company;
- (iii) approximately 15%, or approximately HK\$3.3 million, will be utilised for expanding the offices of the Group, including hiring additional staff and experienced personnel, and leasing new offices in Hong Kong and the PRC;
- (iv) approximately 13%, or approximately HK\$2.9 million, will be utilised for the sale and distribution of IP derived products and mobile devices business, which requires the Group to pay its suppliers before receiving payments from the Group's customers;
- (v) approximately 12%, or approximately HK\$2.7 million, will be utilised for settling trade payables when they fall due; and
- (vi) approximately 10%, or approximately HK\$2.2 million, will be utilised for the Company's general working capital purposes.

The net Subscription Price (calculated as the total Subscription consideration (after deducting related professional fees and all related expenses) divided by the number of Subscription Shares) is approximately HK\$0.176 per Subscription Share.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities in the past 12 months immediately before Latest Practicable Date.

LETTER FROM THE BOARD

CHANGES TO THE SHAREHOLDING STRUCTURE AS A RESULT OF THE CAPITAL REORGANISATION AND THE SUBSCRIPTION

As at the Latest Practicable Date, the Company has 1,077,128,000 Existing Shares in issue. Set out below is a table showing the shareholding structure of the Group (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Capital Reorganisation; and (iii) immediately upon completion of the Capital Reorganisation and the Subscription (assuming there will be no other change in the issued share capital of the Company, save for the Capital Reorganisation and the Subscription).

Shareholder	As at the Latest Practicable Date		Immediately upon completion of the Capital Reorganisation		Immediately upon completion of the Capital Reorganisation and the Subscription	
	No. of shares	%	No. of shares	%	No. of shares	%
The Subscriber (<i>Note 1</i>)	—	—	—	—	218,689,624	67.0
China Base Group Limited ("China Base")						
(<i>Notes 2 & 4</i>)	281,210,150	26.1	28,121,015	26.1	28,121,015	8.6
Creative Elite Holdings Limited (<i>Notes 3 & 4</i>)	21,905,802	2.0	2,190,580	2.0	2,190,580	0.7
Other public Shareholders	<u>774,012,048</u>	<u>71.9</u>	<u>77,401,205</u>	<u>71.9</u>	<u>77,401,205</u>	<u>23.7</u>
Total	<u>1,077,128,000</u>	<u>100.0</u>	<u>107,712,800</u>	<u>100.0</u>	<u>326,402,424</u>	<u>100.0</u>

Notes:

- The entire issued share capital of the Subscriber is legally owned by Mr. Shen Yang, an executive Director.
- The entire issued share capital of China Base is, to the best knowledge and belief of the Directors, legally owned by Ms. Lo Ching (a former chairman of the Board and executive Director). As disclosed in the announcement of the Company dated 28 July 2020, pursuant to a facility agreement dated 9 August 2018 entered into between China Base (as borrower), Ms. Lo Ching (as guarantor), Founder Securities (Hong Kong) Capital Company Limited and Changjiang Finance (HK) Limited (as arrangers), Founder Securities (Hong Kong) Capital Company Limited (as facility agent) and Founder Securities (Hong Kong) Limited ("FSHK") (as security agent), an event of default occurred on 5 July 2019 which was triggered by the borrower and the guarantor. As a result, the facility agent sent a notice to the borrower and the guarantor on 9 July 2019, informing them the occurrence of an event of default. Accordingly, FSHK has been empowered to act for China Base pursuant to a Deed of Appointment of Proxy and Attorney which provides FSHK with authorisation to represent China Base and act in the name of China Base to exercise the rights to the shares in the Company held by China Base. As such, to the best knowledge and belief of the Directors, the Existing Shares held by China Base and the voting rights attached thereto were under the control of FSHK as at the Latest Practicable Date.
- The entire issued share capital of Creative Elite Holdings Limited is, to the best knowledge and belief of the Directors, legally owned by Ms. Lo Ching (a former chairman of the Board and executive Director).
- China Base and Creative Elite Holdings Limited will be regarded as public Shareholders upon Completion of the Subscription.

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DILUTION EFFECT OF THE SUBSCRIPTION AND EXCEPTIONAL CIRCUMSTANCES

Pursuant to Rule 7.27B of the Listing Rules, the Company may not undertake the Subscription if that would result in a theoretical dilution effect of 25% or more, unless the Stock Exchange is satisfied that there are exceptional circumstances. The Subscription will result in a theoretical dilution effect of 65.94%, which is calculated based on the discount of the theoretical diluted price of the New Shares (i.e. HK\$3.95) to the benchmarked price of the Existing Shares (adjusted for the effect of the Capital Reorganisation (i.e. HK\$11.60) as stipulated under Rule 7.27B of the Listing Rules). The dilution effect of the Subscription is over the 25% threshold as specified under Rule 7.27B of the Listing Rules, however, the Company considers that there are exceptional circumstances for the Group based on the following reasons:

(i) **Rescue plan of the Company regarding the Resumption**

Trading in the Shares on the Stock Exchange has been suspended since 19 July 2019, and the Company is facing imminent possibility of the Existing Shares being delisted, as 18 months have passed on 18 January 2021 pursuant to Rule 6.01A(1) of the Listing Rules. The Stock Exchange has set out the Resumption Guidance, and the Company has to satisfy each of the Resumption Guidance in order to warrant the continued listing of the Existing Shares on the Stock Exchange.

One of the Resumption Guidance requires the Company to demonstrate its compliance with Rule 13.24 of the Listing Rules in order to warrant the continued listing of the Existing Shares. In order to fulfill the above condition, the Group has been re-commencing its existing operations in the IP Related Business, which require significant amount of working capital for the Group to invest in resources such as staff and operational costs. In addition, in order to fulfill the Resumption Guidance, the Group has incurred additional expenses on the engagement of professional advisers to (i) conduct independent investigation and/or searches on, among others, the Company's shareholding structure, the details of Ms. Ms. Lo Ching's custody, and the Group's internal control system; (ii) advise on the suitable corporate restructuring of the Group; and (iii) prepare and issue all outstanding financial results and address audit modifications. In order to fulfill the Resumption Guidance and continue with the Group's existing operations, the Group requires large amount capital for investment in resources such as engaging professional advisers, hiring sufficient staff members, investing in IP licensing and comprehensive services business, expanding the offices of the Group and paying the Group's suppliers. The Board considers that the Subscription provides funds required by the Group to fulfill the Resumption Guidance, and ultimately act as part of the rescue plan of the Company to resume trading of the Existing Shares.

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(ii) Adverse financial position of the Group

Since the Suspension, the operations of the Group in the PRC had been halted for at least one year. As aforementioned, (a) the Group's revenue decreased from approximately HK\$2.9 billion for FY2018 to approximately HK\$2.7 billion for FY2019 and to approximately HK\$9.7 million for FY2020; and (b) the Group made loss of approximately HK\$634.5 million and HK\$75.6 million for FY2019 and FY2020 respectively, and recorded net liabilities of approximately HK\$182.7 million and HK\$215.7 million as at 30 June 2020 and 31 December 2020 respectively, as compared to profit of approximately HK\$86.0 million for FY2018 and net assets of approximately HK\$486.5 million as at 30 June 2018. Given the Group has incurred substantial losses in the past financial years since the Suspension, the Group was in financial difficulties.

In order to satisfy the Resumption Guidance, the Group has used its best endeavours to continue with its operations, including obtaining the Loans from the Subscriber for the purpose of working capital in order to continue with its existing IP Related Business. With the Loans, the Group had successfully resumed its operations in the PRC after the Suspension. However, it is expected that the Group will require more funds to continue with and further expand its operations. The Board believes that further investments and funding in operational resources will enable the Group to further expand its business, and in turn satisfy the Resumption Guidance. Thus, the Subscription forms part of the rescue plan of the Company which is essential for the Resumption.

(iii) Difficulties in obtaining financing

The Group has explored alternative financings to satisfy its funding requirements. In particular, the Group has experienced difficulties in obtaining debt financing. This may be due to the fact that the Group recorded net liabilities of approximately RMB215.7 million as at 31 December 2020, and potential lenders are reluctant to finance the Group as the net liabilities position, as well as the Suspension, which imposes significant risks on the lenders. The Group has also considered other equity fund raising alternatives, however given the Suspension and the financial performance of the Group, the Company considers that it is difficult to engage placing agent or underwriters to assist the Company in equity fund raising activities such as placing of new shares, rights issue or open offer.

The Board believes that the Subscription offers the best available way for the Group to raise funds, as (i) there is difficulties for the Group to obtain financing from other sources; and (ii) the willingness to invest in the Group by the Subscriber and Mr. Shen Yang shows that Mr. Shen Yang not only is determined and motivated to rescue the Group as an executive Director, but also is confident in his ability to lead the management team and improve future operation of the Group. This will in turn boost confidence of investors and public which is beneficial to the Group after such long period of Suspension.

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(iv) The Suspension and interest of the Shareholders

The Subscription forms an integral part of the rescue plan of the Company from the Suspension, as it provides funds to the Group to continue and expand its existing businesses.

Given that the trading of the Existing Shares on the Stock Exchange has been suspended since 19 July 2019, there would be practicable difficulties in raising funds via equity means without a substantial discount.

However, it should be noted that if the Subscription fails to proceed, the Group may not have sufficient working capital to fund the continuation and development of its existing IP Related Business, which may in turn result in the failure to comply with one of the Resumption Guidance, i.e. to demonstrate the compliance with Rule 13.24 of the Listing Rules. In such case, the Existing Shares may be delisted from the Stock Exchange, and the Existing Shares held by the existing Shareholders (including the minority Shareholders from the general public) would lose liquidity and corresponding value.

The Board considers that the Subscription is essential to rescue the Company from the Suspension and warrant the Resumption. Despite exceeding the 25% theoretical dilution threshold as stipulated under Rule 7.27B of the Listing Rules, the Company is of the view that the Subscription is in the interest of the Company and its Shareholders as a whole.

In light of the above, there are practical difficulties to issue the Subscription Shares without a substantial discount. Further, the Subscription will provide working capital for the Group to continue to expand and develop its existing IP Related Business, so as to demonstrate the compliance of Rule 13.24 of the Listing Rules as one of the Resumption Guidance, and will ultimately facilitate the resumption of trading in the Existing Shares on the Stock Exchange. As such, the Board considers that there are exceptional circumstances for the Company to undertake the Subscription resulting in a theoretical dilution effect of over 25%. Your attention is also drawn to the paragraph headed “Further information” below.

IV. INFORMATION ON THE GROUP

The Company is an investment holding company, which together with its subsidiaries, is principally engaged in (A) IP licensing and comprehensive services which include provision of services in respect of (1) IP licensing (including IP co-branded credit card); (2) IP content creation; and (3) IP marketing; and (B) sale and distribution of IP derived products and mobile devices.

V. INFORMATION ON THE SUBSCRIBER

The Subscriber is a company incorporated in the British Virgin Islands with limited liability, which is an investment holding company. The Subscriber is wholly-owned by Mr. Shen Yang, an executive Director.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Subscriber intends to continue the listing of the Company. The Subscriber also intends to continue the existing business of the Group and does not intend to introduce any major changes to the existing operation and business of the Company, or dispose of or redeployment of any of the assets of the Group, or to discontinue the employment of the employees of the Group other than in the ordinary course of business.

VI. EGM

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving, among other things, the Capital Reorganisation, the Subscription, the Specific Mandate, the Whitewash Waiver and the respective transactions contemplated thereunder.

A notice convening the EGM to be held at Main Conference room, Basement 1/F., Building 28-29, 383 Zizhu Road, Pudong New District, Shanghai, China on Friday, 30 April 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Ordinary resolutions and special resolutions will be proposed at the EGM to consider and, if deemed appropriate, approving, among other things, (i) the Subscription and the Specific Mandate and the respective transactions contemplated thereunder; and (ii) the Capital Reorganisation and the Whitewash Waiver and the respective transactions contemplated thereunder, respectively.

To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the Capital Reorganisation and the transactions contemplated thereunder, and will be required to abstain from voting on the resolution(s) to approve the Capital Reorganisation and the transactions contemplated thereunder at the EGM. No Director was considered to have a material interest in the Capital Reorganisation and the transactions contemplated thereunder, and therefore no Director was required to abstain from voting on the Board resolutions approving the Capital Reorganisation and the transactions contemplated thereunder.

In accordance with the Listing Rules and the Takeovers Code, (i) the Subscriber and its associates; (ii) any parties acting in concert with the Subscriber; and (iii) the Shareholders involved or interested in the Subscription, the Specific Mandate or the Whitewash Waiver, will be required to abstain from voting on the resolution(s) to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the respective transactions contemplated thereunder at the EGM. To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the Subscription, the Specific Mandate, the Whitewash Waiver and the respective transactions contemplated thereunder, and will be required to abstain from voting on the resolution(s) to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the respective transactions contemplated thereunder at the EGM.

As at the Latest Practicable Date, Mr. Shen Yang, an executive Director, was the ultimate beneficial owner of the Subscriber. Accordingly, Mr. Shen Yang was considered to have a material interest in the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder by virtue of his interest in the Subscriber, and had abstained from voting on the Board resolutions approving the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder.

LETTER FROM THE BOARD

In accordance with the Takeovers Code, an independent board committee comprising all non-executive Directors should be formed to advise the Independent Shareholders in respect of the Subscription, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder. Accordingly, the Independent Board Committee was formed comprising Mr. Zheng Yilei and Mr. Ross Yu Limjoco, each of them being an independent non-executive Director.

VII. RECOMMENDATION

Capital Reorganisation

The Directors consider that the proposed Capital Reorganisation is in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution at the EGM.

The Subscription

The Directors consider that, (i) the terms of the Subscription and transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) although the Subscription and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the Subscription and the transactions contemplated thereunder (including the Whitewash Waiver) are fair and reasonable so far as the Shareholders (including the Independent Shareholders) and in the interests of the Company and the Shareholders (including Independent Shareholders) as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate and the Whitewash Waiver and the transactions contemplated thereunder.

Your attention is drawn to:

- (a) this letter from the Board;
- (b) the letter of recommendation from the Independent Board Committee is set out on pages 31 to 32 of this circular; and
- (c) the letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 53 of this circular.

LETTER FROM THE BOARD

VIII. FURTHER INFORMATION

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

Trading in the Existing Shares on the Stock Exchange has been suspended since 19 July 2019. The Stock Exchange has set the Resumption Guidance and required the Company to fulfil it to the Stock Exchange's satisfaction before trading is allowed to resume. Given that the resumption deadline expired on 18 January 2021, the Stock Exchange is entitled to delist the Company under the Listing Rules. The publication of this circular does not indicate any decision or conclusion from the Stock Exchange not to delist the Company nor warrant any approval from the Stock Exchange on the resumption of trading in the Existing Shares on the Stock Exchange. Shareholders and potential investors should note that the transactions contemplated under the Capital Reorganisation, the Subscription, the Specific Mandate and the Whitewash Waiver are subject to certain conditions including but not limited to the resumption of trading in the Existing Shares on the Stock Exchange and may or may not proceed.

The Company will disclose any updates on the satisfaction of Resumption Guidance by way of announcement, as and when appropriate.

Shareholders and potential investors of the Company should exercise caution when dealing in the Existing Shares, and if they are in any doubt about their positions, they should consult their professional adviser(s).

Yours faithfully,
By order of the Board
MH Development Limited
Liu Hui
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder:



美好發展集團

MH DEVELOPMENT

MH Development Limited

美好發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2662)

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION
OF NEW SHARES UNDER SPECIFIC MANDATE; AND
(2) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular dated 29 March 2021 (the “**Circular**”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. BaoQiao has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons that BaoQiao has taken into consideration in giving such advice, are set out in the “Letter from the Independent Financial Adviser” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices thereto.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder and the advice of BaoQiao, we are of the opinion that (i) the terms of the Subscription and transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) although the Subscription and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the Subscription and the transactions contemplated thereunder (including the Whitewash Waiver) are fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned and in the interests of the Company and the Shareholders (including Independent Shareholders) as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate and the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Zheng Yilei
Independent non-executive Director

Ross Yu Limjoco
Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 2803–2805, 28/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

29 March 2021

*To the Independent Board Committee and
the Independent Shareholders of MH Development Limited*

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 29 March 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the Announcement and the Letter from the Board, that, on 22 February 2021, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 218,689,624 New Shares at the Subscription Price of HK\$0.183 per Subscription Share to the Subscriber.

The Subscriber is a company wholly-owned by Mr. Shen Yang (“**Mr. Shen**”), an executive Director and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company, and is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, neither the Subscriber nor its party(ies) acting in concert holds any Existing Shares. Upon Completion, the Subscriber will hold approximately 67.0% of the then issued share capital of the Company as enlarged by the Subscription, hereby triggering a general offer obligation.

An application has been made by the Subscriber to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to the respective approval of the Independent Shareholders on the Subscription and the Whitewash Waiver taken on a poll at the EGM. As the Whitewash Waiver is one of the non-waivable conditions precedent to the Subscription Agreement, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Independent Shareholders.

The Independent Board Committee comprising Mr. Zheng Yilei and Mr. Ross Yu Limjoco, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. We, BaoQiao Partners Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Group, the Subscriber and their respective associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. As such, we consider that we are independent pursuant to Rule 2.6 of the Takeovers Code and Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Announcement, the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (collectively, the “**Management**”). We have reviewed, among others, the Subscription Agreement, the annual reports of the Company for the years ended 30 June 2019 and 30 June 2020, the special audit results announcement of the Company for the seven months ended 31 January 2021, certain corporate and financial information of the Company, and the information set out in the Announcement and the Circular. We have assumed that all information and representations that have been provided by the Management, for which they

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and representations made by the Management in the Circular and/or discussed with/provided to us were reasonably made after due enquiries and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Management, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than information relating to the Subscriber) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

The sole director of the Subscriber accepts full responsibility for the accuracy of the information contained in the Circular (other than information relating to the Group) and confirms, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statements in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group, the Subscriber and their respective associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscription and the Whitewash Waiver. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date and Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the Subscription and the Whitewash Waiver, and this letter, except for its inclusion in the Circular and for inspection as required under the Listing Rules and the Takeovers Code, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, we have taken into consideration the following factors and reasons:

1. Background Information of the Group and the Subscriber

(a) The Group

The Group's business operations mainly comprise (A) IP licensing and comprehensive services which include provision of services in respect of (1) IP licensing (including IP co-branded credit card); (2) IP content creation; and (3) IP marketing; and (B) sale and distribution of IP derived products and mobile devices (the "**IP Related Business**").

Trading in the Existing Shares on the Stock Exchange has been suspended since 19 July 2019.

References are made to various announcements of the Company since 5 July 2019 and up to 18 January 2021 (collectively, the "**Update Announcements**"), in relation to, among others, (i) the holding of Ms. Lo Ching ("**Ms. Lo**"), the former Chairman and an executive Director in criminal custody by the Yangpu Branch of the Shanghai Public Security Bureau* (上海市公安局楊浦分局) in the PRC and the seizure of certain accounting records of the Group's subsidiaries in the PRC by the police during the search of an office premises of Ms. Lo in the PRC ("**Ms. Lo's Incident**"); (ii) the resumption guidance ("**Resumption Guidance**") of the Company; and (iii) the business update of the Group and various steps that have been taken by the Company to address and comply with the Resumption Guidance.

As disclosed in the Update Announcements, there are six Resumption Guidance, including (1) disclose information and impact on Ms. Lo's Incident to the Group; (2) demonstrate there is no regulatory concern about management integrity; (3) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; (4) clarify the Company's shareholding structure; (5) announce all material information for Shareholders and investor to appraise the Company's position; and (6) publish all outstanding financial results and address any audit modifications.

As disclosed in the Company's announcement dated 11 December 2020, the Stock Exchange has confirmed that, subject to further developments or any issues arising from any changes of situation in future, the Company has satisfied Resumption Guidance (4). As at the Latest Practicable Date, save for Resumption Guidance (4), the Stock Exchange has not yet confirmed that the Company has satisfied other paragraphs of the Resumption Guidance. Based on our discussion with the Management, the Company has continued to take active steps to address the Stock Exchange's concerns over and comply with the Resumption Guidance and it considers that each of Resumption Guidance (1), (2), (4), (6) has been fulfilled. In respect of Resumption Guidance (5), the Company has from time to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

time announced the material information and the resumption progress of the Group for Shareholders and investor to appraise its position and the Company considers Resumption Guidance (5) will be fulfilled.

Resumption Guidance (3) is to demonstrate the Company's compliance with Rule 13.24 of the Listing Rules to warrant the continued listing of the Existing Shares and the New Shares. As disclosed in the Update Announcements, the Group's business shrank significantly (i.e. revenue dropped from HK\$2,662.3 million for the year ended 30 June 2019 to HK\$9.7 million (all generated by Pow! Entertainment, Inc (“**POW**”)) for the year ended 30 June 2020) due to Ms. Lo's Incident. The Group's business except for POW halted in the financial year ended 30 June 2020.

POW is a subsidiary of the Company in the US and based on the website of POW (powentertainment.com), it is a multimedia entertainment production company founded in 2001 by iconic comic book creator Stan Lee (an American comic book writer, editor, publisher and producer, who in collaboration with other at Marvel, cocreated numerous popular fictional characters, including superheroes Spider-Man, X-Men, Iron Men, Thor, Hulk, etc.) with his friend and business partner Gill Champion, who is the president of POW today, to create and license intellectual properties for entertainment media, including: feature length films, television, merchandising, branded content and other related ancillary markets as well as to exclusively maintain and protect the ownership of Stan Lee's name, likeness, voice, trademarks and publicity rights throughout the world.

POW owns a large number of IP resources, which in addition to its own business operations, can facilitate the development of the Group's other IP Related Business, for example, POW has authorised a Group company in the PRC to use its IPs on IP derived products business.

As disclosed in the announcement of the Company dated 18 January 2021, for the purpose of clear separation of the subsidiaries affected by Ms. Lo Incident (the “**Affected Subsidiaries**”) in the PRC from other operating subsidiaries, new subsidiaries have been established to continue the Group's existing IP Related Business and the Affected Subsidiaries had been disposed of to an independent third party on 15 January 2021. In addition, as advised by the Management, in addition to POW, the Group has resumed its business operations in the PRC (including Hong Kong) and has been actively seeking cooperation opportunities with various business partners to continue engaging in its existing IP business. Since November 2020, the Group has entered into 16 contracts which are mostly long-term business contracts with independent third party customers, including 2 contracts for IP licensing business, 6 contracts for IP marketing business, and 8 contracts for sale and distribution of IP derived products and mobile devices business. These contracts locked a total amount of approximately HK\$50.6 million revenue and critical for the Group's business operations. As such, the Directors believes that the Subscription represents an opportunity to raise fund and maintain cash flow position for the continuing development of the Group's business operations, which in turn demonstrate its compliance with Rule 13.24 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Details of the progress and status of the resumption progress are set out under section headed “Update on Resumption Progress” in the Company’s announcement dated 18 January 2021.

Shareholders should note that the transactions contemplated under the Subscription Agreement are subject to fulfillment of a number of condition precedents as set out in the Circular including, but not limited to, the grant of Whitewash Waiver by the Executive, the passing of the relevant resolution(s) at the EGM, the resumption of trading of Existing Shares and the New Shares on the Stock Exchange. The release of the Circular is not an indication that the Subscription Agreement will be successfully implemented and does not necessarily indicate the fulfillment of Resumption Guidance in relation to the compliance with Rule 13.24 of the Listing Rules.

Set out below are extracts of financial information of the Group for the years ended 30 June 2019 (“FY2019”) and 30 June 2020 (“FY2020”) as extracted from the annual report of the Company for the year ended 30 June 2020 (“2020 Annual Report”), and for the seven months ended 31 January 2021 (“7M2021”) and 31 January 2020 (“7M2020”) as extracted from the special audit results announcement of the Company for 7M2021 (“2021 Special Audit Results Announcement”):

	7M2021 (audited) <i>HK\$’000</i> <i>(Note)</i>	7M2020 (unaudited) <i>HK\$’000</i>	FY2020 (audited) <i>HK\$’000</i> <i>(Note)</i>	FY2019 (audited) <i>HK\$’000</i> <i>(Note)</i>
Revenue	21,060	7,574	9,732	2,662,267
– IP licensing and content creation	2,541	7,574	9,732	31,146
– Theme events services	—	—	—	95,849
– Marketing services	8,755	—	—	42,799
– Sales and distribution of IP derived products and mobile devices	9,764	—	—	2,492,473
Costs of sales	17,173	5,061	(8,632)	(2,400,317)
Gross profit	3,887	2,513	1,100	261,950
Profit/(Loss) for the year/ period	170,041	60,590	(75,591)	(634,488)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
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	As at 31 January 2021 <i>HK\$'000</i> (audited) <i>(Note)</i>	As at 30 June 2020 <i>HK\$'000</i> (audited) <i>(Note)</i>	As at 30 June 2019 <i>HK\$'000</i> (audited) <i>(Note)</i>
Total assets	51,688	44,811	95,288
Total liabilities	90,083	227,493	213,485
Net liabilities	(38,395)	(182,682)	(118,197)

Note: We note from the 2020 Annual Report that the Company's auditor has given a "disclaimer of opinion" on the consolidated financial statements of the Group for the years ended 30 June 2020 and 30 June 2019 on the basis including, among others, the insufficiency of supporting documentations and explanations for accounting books and records and the existence of material uncertainty on the Group's ability to continue as going concern. In addition, the Company's auditor has given a "disclaimer of opinion" on the consolidated financial statements of the Group for the seven months ended 31 January 2021 in the Special Audit Results Announcement on the basis of limiting accounting books and records.

FY2020 vs FY2019

As shown in the above table, the Group's revenue significant decreased from approximately HK\$2,662.3 million for FY2019 to HK\$ 9.73 million for FY2020 due to Ms. Lo's Incident. As disclosed in the 2020 Annual Report, Ms. Lo's Incident affected the Group's operations in the PRC and Hong Kong and the relevant operations of marketing services, theme events services, sales and distribution of IP derived products and mobile devices were inactive during FY2020. The only source of the Group's revenue of approximately HK\$9.7 million for FY2020 was contributed by the IP licensing and content creation business remained in operations with POW.

The decrease in the business scale of Group lowered the overall cost structure (i.e. cost of sales, distribution and administrative expenses) of the Group for FY2020. The cost of sales decreased from approximately HK\$2,400.3 million to approximately HK\$8.6 million, resulting to reported gross profit of approximately HK\$1.10 million or gross margin of approximately 11.3% for FY2020 as compared to approximately HK\$261.95 million or gross margin of approximately 9.8% for FY2019. The aggregate amount of the distribution costs and administrative expenses decreased from approximately HK\$75.0 million for FY2019 to approximately HK\$28.3 million for FY2020.

Loss for the year was approximately HK\$75.6 million for FY2020 as compared to approximately HK\$634.5 million for FY2019. The improvement in loss was mainly due to the decrease in the impairment loss on trade and other receivables from approximately HK\$676.7 million for FY2019 to approximately HK\$7.5 million for FY2020. Such impairment loss for FY2019 was related to the Affected Subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's financial position remained tight with net liabilities and total liabilities (mainly consisted of trade and other payables of approximately HK\$155.4 million) of approximately HK\$182.7 million and approximately HK\$227.5 million as at 30 June 2020 and its gearing ratio (expressed as a percentage of total liabilities to total assets) deteriorated further from approximately 2.2 as at 30 June 2019 to approximately 5.1 as at 30 June 2020. The Group had total assets of HK\$44.8 million as at 30 June 2020, of which cash and bank balances amounted to approximately HK\$752,000 and the Group reported negative operating cash flows of approximately HK\$128.5 million and HK\$7.4 million for FY2019 and FY2020 respectively.

7M2021 vs 7M2020

During 7M2021, the scale of the Group's operations was recovering but remained small. As set out in 2021 Special Audit Results Announcement and the background information of the Group above, the Company entered into new business contracts and resumed its business operations in the PRC and the Group recorded an increase in turnover to HK\$21.1 million from approximately HK\$7.6 million for the same period last year.

The Group has posted a net profit of HK\$170.0 million for 7M2021, following a loss of HK\$60.6 million for the corresponding period last year. The turnaround from loss to profit was mainly due to (i) the absence of impairment losses on inventories, property, plant and equipment, and trade and other receivables of approximately HK\$29.8 million as well as loss of assets of approximately HK\$7.2 million and prepayments write-off of approximately HK\$3.2 million relating to the Affected Subsidiaries during 7M2020; and (ii) the recognition of gains on disposal of subsidiaries of HK\$170.4 million and deregistration of subsidiaries of HK\$9.5 million during 7M2021.

The Group's financial position improved but remained tight with net current liabilities and net liabilities of HK\$62.2 million and HK\$38.4 million respectively as at 31 January 2021 as compared to that of HK\$210.1 million and HK\$182.7 million as at 30 June 2020. The Group had total assets of HK\$51.7 million as at 31 January 2021, of which cash and bank balances amounted to approximately HK\$5.1 million.

(b) The Subscriber

The Subscriber is a company incorporated in the British Virgin Islands with limited liability, which is an investment holding company. The Subscriber is wholly-owned by Mr. Shen, who was appointed as an executive Director on 16 October 2020.

As disclosed in the Letter from the Board and as advised by the Management, Mr. Shen has over five years of experience in investment and operation management in the pan-cultural entertainment industry, through his investments and operation management experience in businesses regarding cultural, film and television, and fast-moving consumer goods industries. In particular, Mr. Shen has been the president of Shanghai

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Xinde Hongye Enterprise Management Group Co., Ltd.* (上海信德鴻業企業管理集團有限公司) (“**Shanghai Xinde**”) since January 2017, and one of the subsidiaries of Shanghai Xinde, namely Beijing Jixiang Impression Media Co., Ltd.* (北京吉祥印象傳媒有限公司) (“**Beijing Jixiang**”), is a film and television production company in the PRC and has invested in film and television productions such as “The Thunder (破冰行動)” and “Over the Sea I Come to You (帶着爸爸去留學)”, which are popular television series in the PRC. Mr. Shen, through Beijing Jixiang, maintains business network with a number of cultural and literature industry companies such as (i) Nanjing Dazhong Web Book Culture Co., Ltd.* (南京大眾書網圖書文化有限公司) which operates “LinkSure Literature (連尚文學)”, a platform that integrates network literature and comics, copyrights cooperation and cultivation of intellectual property rights; and (ii) Beijing Fengyue Culture Technology Co., Ltd.* (北京鳳閱文化科技有限公司) which operates a popular web novel site known as “Fread.com (翻閱小說)”.

Details of Mr. Shen’s biographical information has been disclosed in section headed “Reasons for and Benefits of the Subscription” in the Letter from the Board.

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it did not own any Shares.

Future intentions of the Subscriber regarding the Group

As disclosed in the Letter from the Board, the Subscriber intends to continue the listing of the Company. The Subscriber also intends to continue the existing business of the Group and does not intend to introduce any major changes to the existing operation and business of the Company or dispose of or redeployment of any of the assets of the Group or to discontinue the employment of the employees of the Group other than in the ordinary course of business.

2. Equity fund raising activities in the past twelve months from the date of the Latest Practicable Date

The Company had not carried out any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

3. Proposed Capital Reorganisation

The Company proposed to implement a Capital Reorganisaion, involving Share Consolidation, Capital Reduction and Share Subdivision, details of which are set out in the section headed “Proposed Capital Reorganisation” in the Letter from the Board.

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$300,000,000 divided into 3,000,000,000 Existing Shares of HK\$0.10 each, of which 1,077,128,000 Existing Shares are allotted and issued as fully paid or credited as fully paid. Immediately following completion of the Capital Reorganisation, the authorised share capital of the Company will be HK\$300,000,000 divided into 3,000,000,000 New Shares of HK\$0.10 each, of which 107,712,800 New Shares will be in issue and the aggregate nominal value of

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the issued share capital of the Company will be HK\$10,771,280, assuming that there are no other changes in the issued share capital of the Company from the Latest Practicable Date up to the effective date of the Capital Reorganisation.

We note that the Subscription is conditional on completion of the Capital Reorganisation. Based on our discussion with the Management and as disclosed in the Letter from the Board, the implementation of the Capital Reorganisation (other than the necessary professional expenses to be incurred by the Company) will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of Shareholders as a whole.

4. Reasons for and benefits of the Subscription and the use of proceeds

The Group's business operations mainly comprise (A) IP licensing and comprehensive services which include provision of services in respect of (1) IP licensing (including IP co-branded credit card); (2) IP content creation; and (3) IP marketing; and (B) sale and distribution of IP derived products and mobile devices.

As disclosed in the Update Announcements and as discussed in the section headed "Background Information of the Group and the Subscriber — The Group" in this letter, the Group's business has been negatively affected by Ms. Lo's Incident and it is facing a substantial deterioration in its financial position during FY2020.

The Group is committed to continue and expand its business operations and new funds are required to finance and maintain its operating working capital needs. As disclosed in the Letter from the Board, the Company expects that Mr. Shen's past cooperation with the companies and platforms mentioned in the section headed "1. Background Information of the Group and the Subscriber — The Subscriber" in this letter may help the Group expand and develop its business through possible introduction of IP rights in relation to the cultural, film and television and literature industries, and other IP derived cultural and creative products to the Company in future, which is in line with the Group's overall business operations, development and strategy.

Based on our discussion with the Management, we understand that, leveraging Mr. Shen's network in the cultural, film and television and fast-moving consumer goods industries, the Company has successfully secured a total of 16 contracts for the IP Related Business in a total contract value of approximately HK\$50.6 million in November and December 2020 for the terms of maximum 12 months, it is expected that there will be advantages and benefits to the business of the Group which may result from his extensive business network in the industries.

In addition, Mr. Shen has high expectations on the Group's performance in the future, especially under his leadership and with his relevant experience, and therefore he decided to invest in the Group by way of the Subscription. From our discussion with the Management, we understand that the Subscription reflects Mr. Shen's (the executive Director) confidence in and commitment to support the Group's business and we agree with the Company that the Subscription will further give the market confidence as to the Company's prospect.

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Given the financial situation of the Group and the willingness of Mr. Shen to finance the Group, the Directors consider that the entering into the Subscription Agreement represents an opportunity to raise capital for the Company in order to maintain the cash flow position of the Group. As disclosed in “1. Background Information of the Group and the Subscriber — The Group” in this letter, the audited cash and bank balances of the Group were approximately HK\$752,000 as at 30 June 2020 and approximately HK\$5,101,000 as at 31 January 2021. The increase in the Group’s cash and bank balances corresponds to the grant of the Loans by the Subscriber during the fourth quarter of year 2020.

References are made the announcements of the Company dated 18 September 2020, 16 October 2020, 23 October 2020 and 1 December 2020, in relation to the granting of the Loans to the Company by the Subscriber to support the Company’s business and daily operations. The Loans comprised (i) an unsecured loan of HK\$2,000,000 carrying interest of 10% per annum; and (ii) a secured loan of HK\$18,000,000 carrying interest of 10% per annum. The Loans are repayable on either (i) 31 May 2021; or (ii) the date of the delisting of the Company by the Stock Exchange; or (iii) when an extension of time for resumption of the Company is not granted by the Stock Exchange, whichever is earlier, subject to the discretion of the Subscriber to extend the repayment date under the Loans. As at the Latest Practicable Date, the Company is indebted to the Subscriber a total principal amount of HK\$16.4 million (i.e. the Indebted Amount) and accrued interest fees of approximately HK\$0.6 million.

Pursuant to the Subscription Agreement, the Subscriber shall waive the full amount of the accrued interest fees of the Loans (i.e. approximately HK\$0.6 million as at the Latest Practicable Date) payable by the Company if the Subscription is completed. If the Company has not been delisted by the Stock Exchange on 31 May 2021, the Subscriber shall extend the repayment date of the Loans until (i) the date of the delisting of the Company by the Stock Exchange; or (ii) when an extension of time for resumption of the Company is not granted by the Stock Exchange, whichever is earlier, such that any late repayment of the Loans by the Company after 31 May 2021 shall not be considered as default under the Loans.

In addition, as disclosed in section headed “Use of Proceeds” in the Letter from the Board, part of the proceeds from the Subscription will be settled by setting off the Indebted Amount (i.e. HK\$16.4 million) (the “**Set-off**”) and the remaining proceeds of approximately HK\$22.1 million) will be applied for the business operations and general working capital purposes.

In light of the above and having considered the intended use of the proceeds (as disclosed below) from the Subscription by the Group and the resumption progress of the Company, in particular, the latest business development of the Group, we agree with the Directors that the Subscription would strengthen the quality of the Company’s financial resources and liquidity position so that the Company will be in a better financial position to capture more business opportunities associated with its principal business ahead, and satisfying its needs to maintain sufficient working capital level for its operations and potential business expansion, which may help to demonstrate the compliance with Rule 13.24 of the Listing Rules. In addition, we agree that the Set-off, without utilising existing financial resources of the Company while reducing the gearing level of the Group, can strengthen the financial position of the Group.

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As stated in the section headed “Use of Proceeds” in the Letter from the Board, the gross proceeds from the Subscription are expected to be approximately HK\$40.0 million in aggregate, among which, approximately HK\$16.4 million will be settled by setting off the Indebted Amount, and the remaining Subscription consideration of approximately HK\$23.6 million will be settled by the Subscriber in cash. After deducting related professional fees and all related expenses of about HK\$1.5 million which will be borne by the Company under the Subscription, the net proceeds of the Subscription will amount to approximately HK\$22.1 million. The net proceeds from the Subscription will be applied for the following purposes:

- (i) approximately 25%, or approximately HK\$5.5 million, will be utilised for investing in IP licensing and comprehensive services business, it is expected that the Company will involve in at least two IP projects using self-owned IP resources of the Group;
- (ii) approximately 25%, or approximately HK\$5.5 million, will be utilised for settling professional fees and other expenses in relation to the compliance with the resumption conditions of the Company;
- (iii) approximately 15%, or approximately HK\$3.3 million, will be utilised for expanding the offices of the Group, including hiring additional staff and experienced personnel, and leasing new offices in Hong Kong and the PRC;
- (iv) approximately 13%, or approximately HK\$2.9 million, will be utilised for the sale and distribution of IP derived products and mobile devices business, which requires the Group to pay its suppliers before receiving payments from the Group’s customers;
- (v) approximately 12%, or approximately HK\$2.7 million, will be utilised for settling trade payables when they fall due; and
- (vi) approximately 10%, or approximately HK\$2.2 million, will be utilised for the Company’s general working capital purposes.

4. Financing alternatives of the Group

The Directors have also considered other ways of fundraising, including bank borrowings, rights issue or open offer while they are of the view that, among other things, the Subscription is the most viable option for the Company.

We are given to understand that the Directors have considered the possibility of a rights issue or an open offer exercise as it is offered to all Shareholders on a pro-rata basis. However, the Directors are of the view that they are not the best fund-raising options for the Group at the moment, having taken into account that (i) trading of the Existing Shares has been suspended since 18 July 2019; (ii) the negative financial and business performance of the Group together with the negative news as a result of Ms. Lo’s Incident hindered the Group’s ability to procure underwriting offers for a rights issue or open offer from securities firms; (iii) a rights issue or an open offer exercise will require relatively lengthy process including but not limited to, the preparation of the requisite compliance and legal documentation such as

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announcements, circulars, prospectus etc.; and (iv) the administrative costs involved would be higher due to the need to issue prospectus and application forms and underwriting fee/placing commission would be incurred.

We have further discussed with the Management for the possibility of bank borrowings. For the same reasons in relation to the current business and financial situation of the Group, the Management is of the view that it will be difficult for the Company to obtain bank financings and the Group currently relies on the interest-bearing loan financings (i.e. the Loans) from the Subscriber to finance the business operations of the Group. Based on the information provided by the Company, the Group has approached banks in Hong Kong for opening of new bank accounts and the banks expressed that they were unlikely to offer any banking services to the Group at the time being due to the negative impact of Ms. Lo's Incident to the Group and the trading suspension of the Existing Shares. As such, bank financing is not a feasible option to the Company.

In view of the above and the fact that the Subscriber agreed to waive the full amount of the accrued interest fees of the Loans, the extension of the repayment of the Loans as well as the Set-off, which will alleviate the liquidity pressure and reduce the gearing level of the Group without utilising existing financial resources of the Company, the Directors consider, and we concur, that the Subscription is currently the most appropriate and viable fund raising method available to the Company.

5. Principal terms of the Subscription Agreement

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

The Subscription Agreement

Set out below are the summary of principal terms of the Subscription Agreement as extracted from the Letter from the Board:

Date

22 February 2021

Parties

- (a) the Company (as issuer); and
- (b) the Subscriber (as subscriber).

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The Subscription Shares

The Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 218,689,624 New Shares at the Subscription Price of HK\$0.183 per Subscription Share to the Subscriber, with an aggregate consideration of approximately HK\$40.0 million payable by the Subscriber pursuant to the following:

- (a) HK\$16.4 million of the Subscription consideration shall be applied to set off the Indebted Amount; and
- (b) the remaining Subscription consideration of approximately HK\$23.6 million shall be payable by cheque or bank transfer to the Company upon Completion of the Subscription.

The Subscription Shares represent (i) approximately 203.0% of the existing issued share capital adjusted for the effect of the Capital Reorganisation; and (ii) approximately 67.0% of the then enlarged issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and adjusted for the effect of the Capital Reorganisation, assuming there will be no other change in the number of issued Existing Shares and New Shares between the Latest Practicable Date and Completion, save for the Capital Reorganisation and the Subscription.

Upon Completion, the Subscriber will then hold 218,689,624 New Shares, representing approximately 67.0% of the then issued share capital of the Company as enlarged by the Subscription and adjusted for the effect of the Capital Reorganisation (assuming there will be no other change in the number of issued Existing Shares and New Shares between the Latest Practicable Date and Completion, save for the Capital Reorganisation and the Subscription). The aggregate nominal value of share capital for the Subscription Shares is approximately HK\$21,868,962.4.

For details on the principal terms of the Subscription, please refer to sections titled “The Subscription Agreement” in the Letter from the Board.

6. Evaluation of the Subscription Price

The Subscription Price of HK\$0.183 per Subscription Share, which represents:

- (i) a discount of approximately 98.42% to the adjusted closing price per Share of HK\$11.60 as quoted on the Stock Exchange on 18 July 2019, being the last trading day preceding the date of the Trading Halt Announcement and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 97.41% to the adjusted average closing price per Share of HK\$7.06 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Trading Halt Announcement and adjusted for the effect of the Capital Reorganisation; and

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- (iii) a discount of approximately 98.30% to the adjusted average closing price per Share of HK\$10.76 as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the date of the Trading Halt Announcement and adjusted for the effect of the Capital Reorganisation.

The net Subscription Price (calculated as the total Subscription consideration (after deducting related professional fees and all related expenses) divided by the number of Subscription Shares) is approximately HK\$0.176 per Subscription Share.

As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Subscriber taking into account, among others, (i) the financial position of the Group (i.e. (a) the Group's revenue dropped from approximately HK\$2.9 billion for FY2018 to approximately HK\$2.7 billion for FY2019 and to approximately HK\$9.7 million for FY2020); and (b) the Group made loss of approximately HK\$634.5 million for FY2019 and approximately HK\$75.6 million for FY2019 and FY2020 respectively, and recorded net liabilities of approximately HK\$182.68 million and HK\$215.67 million as at 30 June 2020 and 31 December 2020 respectively, as compared to profit of approximately HK\$86.0 million for FY2018 and net assets of approximately HK\$486.5 million as at 30 June 2018); (ii) the fund required for the continuing operation and development of the Group; (iii) the Subscriber's waiver of all interest fees payable by the Company under the Loans if the Subscription is completed; and (iv) the suspension of trading in the Existing Shares on the Stock Exchange.

Although the Subscription Price represents a significant discount to prevailing market price of the Existing Shares prior to the Trading Halt Announcement (the "**Pre-Suspension Market Price**"), in view of trading of the Shares on the Stock Exchange has been suspended since 18 July 2019, which is more than a year, we consider that it is inappropriate to use the closing price of the Shares prior to the suspension of trading as reference for the evaluation of the Subscription Price as the Pre-Suspension Market Price would not reflect the current financial condition and value of the Company. In addition, the Pre-Suspension Market Price measured the Company's market value at a P/E (price-to-earnings) ratio and a P/B (price-to-book) ratio of approximately 14.4 and 2.1 respectively at the time before the Trading Halt Announcement. The Company's Existing Shares has been under prolonged suspension and the Company is in a loss making and net liabilities position, such market value (i.e. based on P/E and P/B ratios) is not applicable and not an apples-to-apples comparison in interpreting the current value of the Company. As such, we consider that it is inappropriate and not meaningful to evaluate the fairness and reasonableness of the Subscription Price with reference to the extent of the discount to the Pre-Suspension Market Price.

In order to further assess the fairness and reasonableness of the Subscription Price, we have considered to search for similar transactions (i.e. subscription of new shares under specific mandate for cash and application for whitewash waiver) conducted by companies listed on the Stock Exchange with its shares suspended and reported net liabilities based on the latest published results before the announcement of the relevant transactions during the 12-month period preceding the date of the Subscription Agreement (i.e. from 23 February 2020 up to and including 22 February 2021, being the date of the Subscription Agreement) (the "**Comparable Transaction(s)**").

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There was only one Comparable Transaction carried out by China Oil Gangran Group Holdings Limited (“**China Oil Gangran**”) (Stock code: 8132) with its shares suspended since 2 July 2019 and reported net liabilities of HK\$ 99,391,000 based on the latest published results before the announcement of the relevant transaction on 23 December 2020. China Oil Gangran subsequently entered into a supplemental agreement to amend certain terms, including the subscription price, of the original subscription agreement on 15 March 2021. The initial subscription price of the Comparable Transaction was HK\$0.0307693 per share and it was reduced to HK\$0.01941712 per share pursuant to the supplemental agreement, representing a discount of 80.28% and 87.55% respectively to the closing price per share as quoted on the last trading day preceding the date of the suspension of trading in the shares of China Oil Gangran. The transaction has yet to complete as the Latest Practicable Date.

Given the fact that there is only one Comparable Transaction can be identified, we consider that that it may not be able to provide a comprehensive comparison in the market for the assessment of the fairness and reasonableness of the Subscription Price. In addition we consider that the comparison of the Subscription Price with those for other companies, including those with financial difficulties and the shares of which have been suspended for trading may not be representative as different proposals have different terms and conditions such as the amount of investment to be injected by the relevant investors, the percentage of shareholdings to be held by such investors after the respective transactions has been completed, the use of proceeds, which may be factors for determining the subscription prices.

On the other hand, we noted that the Company had net liabilities position prior to Completion and hence a theoretical consolidated net liabilities attributable to owners of the Company per New Share of approximately HK\$0.349 per New Share based on the unaudited net liabilities attributable to owners of the Company as at 31 January 2021 of approximately HK\$37.6 million and 107,712,800 New Shares upon the Capital Reorganisation becoming effective. Accordingly, the Subscription Price of HK\$0.183 represents a substantial premium of approximately HK\$0.532 per New Share over the theoretical consolidated net liabilities per New Share.

After considering (i) the financial position of the Group as disclosed in the section headed “Background Information of the Group and the Subscriber — The Group”; (ii) the fund required for the continuing operation and development of the Group; (iii) the Subscriber’s waiver of all interest fees payable by the Company under the Loans if the Subscription is completed; (iv) the suspension of trading in the Existing Shares on the Stock Exchange since 19 July 2019; and (v) the Subscription Price represents a substantial premium over the consolidated net liabilities per New Share, we are of the view that the Subscription, including the Subscription Price, are 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.

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7. Effect on the shareholding structure of the Company

As at the Latest Practicable Date, the Company has 1,077,128,000 Existing Shares in issue. Set out below is a table showing the shareholding structure of the Group (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Capital Reorganisation; and (iii) immediately upon completion of the Capital Reorganisation and the Subscription (assuming there will be no other change in the issued share capital of the Company, save for the Capital Reorganisation and the Subscription).

Name of Shareholder	At Latest Practicable Date		Immediately upon completion of the Capital Reorganisation		Immediately upon completion of the Capital Reorganisation and the Subscription	
	No. of shares	%	No. of shares	%	No. of shares	%
The Subscriber (Note 1)	—	—	—	—	218,689,624	67.0
China Base Group Limited (“China Base”) (Note 2)	281,210,150	26.1	28,121,015	26.1	28,121,015	8.6
Creative Elite Holdings Limited (Note 3)	21,905,802	2.0	2,190,580	2.0	2,190,580	0.7
Public Shareholders						
Other Shareholders	<u>774,012,048</u>	<u>71.9</u>	<u>77,401,205</u>	<u>71.9</u>	<u>77,401,205</u>	<u>23.7</u>
Total	<u>1,077,128,000</u>	<u>100.0</u>	<u>107,712,800</u>	<u>100.0</u>	<u>326,402,424</u>	<u>100.0</u>

Notes:

- The entire issued share capital of the Subscriber is legally owned by Mr. Shen, an executive Director.
- The entire issued share capital of China Base is, to the best knowledge and belief of the Directors, legally owned by Ms. Lo (a former chairman of the Board and executive Director). As disclosed in the announcement of the Company dated 28 July 2020, pursuant to a facility agreement dated 9 August 2018 entered into between China Base (as borrower), Ms. Lo (as guarantor), Founder Securities (Hong Kong) Capital Company Limited and Changjiang Finance (HK) Limited (as arrangers), Founder Securities (Hong Kong Capital) Company Limited (as facility agent) and Founder Securities (Hong Kong) Limited (“FSHK”) (as security agent), an event of default occurred on 5 July 2019 which were triggered by the borrower and the guarantor. As a result, the facility agent sent a notice to the borrower and the guarantor on 9 July 2019, informing them the occurrence of an event of default. Accordingly, FSHK has been empowered to act for China Base pursuant to a Deed of Appointment of Proxy and Attorney which provides FSHK with authorisation to represent China Base and act in the name of China Base to exercise the rights to the shares in the Company held by China Base. As such, to the best knowledge and belief of the Directors, the Existing Shares held by China Base and the voting rights attached thereto were under the control of FSHK as at the Latest Practicable Date.
- The entire issued share capital of Creative Elite Holdings Limited is, to the best knowledge and belief of the Directors, legally owned by Ms. Lo (a former chairman of the Board and executive Director).

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As illustrated in the table above, the shareholding in the Company held by existing public Shareholders would be reduced from approximately 71.9% as at the Latest Practicable Date to approximately 23.7% immediately after the Subscription, which represented a dilution effect of approximately 67% to the public Shareholders. Moreover, the Subscription will enable the Subscriber to acquire a controlling stake in the Company immediately upon Completion.

As disclosed in the section headed “Dilution Effect of the Subscription and Exceptional Circumstances” in Letter from the Board, the Company is of the view that the Subscription is essential to rescue the Company from the Suspension and warrant the Resumption, failure of which may result in delisting of the Existing Shares on the Stock Exchange and contrary to the interest of existing Shareholders (including minority Shareholders from the general public), the Existing Shares may lose liquidity and substantially reduce in value. In addition, the Company is facing practical difficulties in raising funds without a substantial discount and dilution to the public Shareholders due to the adverse financial position of the Group, the Suspension and difficulties in obtaining other means of financing.

Having taken into account that (i) the Company was under prolonged suspension of trading in the Shares since 18 July 2019; (ii) the implementation of the Subscription Agreement are crucial for the Company and the Shareholders as a whole as it provides an opportunity to raise new funds and maintain the cash flow position for the Group’s business operations, which in turn may facilitate the compliance with Rule 13.24 of the Listing Rules and the Resumption; (iii) the difficulties encountered by the Company to conduct other fund-raising activities as mentioned under the section headed “Financing alternatives of the Group” in this letter; (iv) the net liabilities financial position of the Group; and (v) the reasons for and the benefits of the Subscription and the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that (a) the terms of the Subscription and the Whitewash Waiver are fair and reasonable to the Independent Shareholders; and (b) it is reasonable for the Subscriber to obtain a controlling stake in the Company upon the Completion and the dilution effect to the shareholding interests of the public Shareholders as a result of the Subscription is acceptable.

8. Financial effect of the Subscription

As stated in the Letter from the Board, part of the proceeds from the Subscription will be settled by setting off the Indebted Amount (i.e. HK\$16.4 million) and the remaining net proceeds (after deducting professional fees and other related expenses) from the issue of the Subscription Shares is expected to be approximately HK\$22.1 million. As disclosed in the 2021 Special Audit Results Announcement, the Group reported bank balances and cash and net liabilities of approximately HK\$5.1 million and HK\$37.6 million, respectively, as at 31 January 2021. Immediately upon Completion, it is expected that the bank balances and cash position of the Group will be increased with the amount of net cash proceeds of HK\$22.1 million from the Subscription and based on the reported net liabilities of HK\$37.6 million as at 31 January 2021 and if assuming the value of the net liabilities remains the same at Completion, the Group will turnaround from net liabilities to net assets.

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In view of the above, the Directors consider, and we concur that the financial position of the Group is expected to be strengthened after Completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company upon completion of the Subscription.

9. The Whitewash Waiver

With reference to the section headed “Effect on the shareholding structure of the Company” in this letter, as at the Latest Practicable Date, neither the Subscriber nor its parties acting in concert holds any Existing Shares. Upon Completion, the shareholding of the Subscriber will increase to approximately 67.0% of the then issued share capital of the Company as enlarged by the Subscription, hereby triggering a general offer obligation under the Takeovers Code. As such, an application has been made by the Subscriber to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code.

The Whitewash Waiver, if granted by the Executive, will be subject to the respective approval of the Independent Shareholders on the Subscription and the Whitewash Waiver taken on a poll at the EGM. As the Whitewash Waiver is one of the non-waivable conditions precedent to the Subscription Agreement, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Independent Shareholders. Each of the Subscription and the Whitewash Waiver requires to be approved by ordinary resolution(s) and special resolution(s), respectively, by the Independent Shareholders at the EGM.

The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, approval by the Independent Shareholders at the EGM by way of poll. The Subscriber and parties acting in concert with it and any Shareholders who are interested in or are involved in the Subscription Agreement and the transactions contemplated thereunder and/or the Whitewash Waiver and their respective associates shall abstain from voting on the resolutions approving the Subscription and the transactions contemplated thereunder and the Whitewash Waiver at the EGM.

In view of that (i) the Subscription and the use of proceeds there from are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, due to the reasons set out in the section headed “Reasons for and benefits of the Subscription and use of proceeds” in this letter; (ii) the Subscription is currently the most appropriate and viable fund raising method available to the Company as discussed in the section headed “Financing Alternatives of the Group” in this letter; and (iii) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned for the purpose of proceeding with the Subscription.

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RECOMMENDATION

Having taken into consideration the factors and reasons as stated above and as summarised below,

- (i) the Subscription, including the Set-Off and the Subscribers' agreement to waive the full amount of the accrued interest fees of the Loans, reflects the confidence of and commitment to support the Group's business by Mr. Shen, being the executive Director. This will further give the market confidence as to the Company's prospect;
- (ii) the implementation of the Subscription Agreement is crucial for the Company and the Shareholders as a whole as the Subscription provides an opportunity to raise new funds and maintain the cash flow position for the continuing development of the Group's business operations, thereby strengthening the quality of the Company's financial resources and liquidity position, which in turn may facilitate the compliance with Rule 13.24 of the Listing Rules and the Resumption;
- (iii) the Subscription Price of HK\$0.183 represents a substantial premium of HK\$0.532 per New Share over the theoretical consolidated net liabilities of approximately HK\$0.349 per New Share based on the unaudited net liabilities attributable to owners of the Company as at 31 January 2021 of approximately HK\$37.6 million and 107,712,800 New Shares upon the Capital Reorganisation becoming effective;
- (iv) the Subscription is the most appropriate and viable fund-raising method for the Company amongst other fund raising methods;
- (v) the level of dilution to the shareholding interests of the public Shareholders as a result of Subscription is acceptable; and
- (vi) the Subscription is conditional upon, amongst others, the Whitewash Waiver having been granted by the Executive and all conditions (if any) attached to the Whitewash Waiver having been satisfied,

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we are of the opinion that, despite the entering into the Subscription Agreement not being in the ordinary and usual course of business of the Group, (i) the terms of the Subscription Agreement are on normal commercial terms and (ii) the Subscription and the Whitewash Waiver are 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, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Subscription Agreement and the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,

For and on behalf of

BaoQiao Partners Capital Limited

Monica Lin

Irene Poon

Managing Director

Executive Director

Ms. Monica Lin is a responsible person registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for BaoQiao Partners Capital Limited and has over 20 years of experience in corporate finance industry.

Ms. Irene Poon is a responsible person registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for BaoQiao Partners Capital Limited and has over 20 years of experience in the accounting and corporate financial services industry.

I. FINANCIAL SUMMARY

The audited consolidated financial statements of the Group and significant accounting policies together with the notes to the accounts (i) for the financial year ended 30 June 2018 are disclosed on pages 67-147 of the 2017/2018 annual report published on 4 October 2018; (ii) for the financial year ended 30 June 2019 are disclosed on pages 46-109 of the 2018/2019 annual report published on 29 January 2021; (iii) for the financial year ended 30 June 2020 are disclosed on pages 44-103 of the 2019/2020 annual report published on 29 January 2021; and (iv) for the seven months ended 31 January 2021 are disclosed on pages 2-19 of the announcement of results of special audit published on 22 March 2021. The unaudited consolidated financial statements of the Group and significant accounting policies together with the notes to the accounts for the six months ended 31 December 2020 are disclosed on pages 10-26 of the 2020 interim report published on 26 February 2021.

The above-mentioned annual reports, interim report and announcement of special audit results of the Company are available on the Company's website at www.mhdlhk.com and the Stock Exchange's website at www.hkexnews.hk through the following links:

31 January 2021 announcement of special audit results:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0322/2021032200211.pdf>

2020 interim report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0226/2021022600556.pdf>

2019/2020 annual report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0129/2021012900527.pdf>

2018/2019 annual report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0129/2021012900487.pdf>

2017/2018 annual report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/1004/ltn201810041172.pdf>

The following is a summary of (i) the audited financial results of the Group for each of the three financial years ended 30 June 2018, 2019 and 2020 and for the seven months ended 31 January 2021, the unaudited financial results of the Group for the six months ended 31 December 2019 and 2020 and for the seven months ended 31 January 2020; and (ii) the audited assets and liabilities of the Group as at 30 June 2018, 2019 and 2020 and as at 31 January 2021, and the unaudited assets and liabilities of the Group as at 31 December 2019 and 2020;

	For the year ended 30 June 2020 HK\$'000	For the year ended 30 June 2019 HK\$'000	For the year ended 30 June 2018 HK\$'000
Revenue	9,732	2,662,267	2,920,435
(Loss)/Profit before taxation	(77,701)	(613,089)	143,942
Income tax credit/(expense)	2,110	(61,860)	(27,415)
Profit/(loss) attributable to:			
Owners of the Company			
— from continuing operations	(70,154)	(664,006)	117,350
— from discontinued operations	—	40,461	(30,531)
Non-controlling interests from continuing operations	(5,437)	(10,943)	(823)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company	(59,083)	(632,882)	95,960
Non-controlling interests	(5,402)	(10,932)	(858)
Basic and diluted (loss)/earnings per share			
— from continuing and discontinued operations	HK\$(0.07)	HK\$(0.58)	HK\$0.08
— from continuing operations	HK\$(0.07)	HK\$(0.62)	HK\$0.11
— from discontinued operations	N/A	HK\$0.04	HK\$(0.03)
	As at 30 June 2020 HK\$'000	As at 30 June 2019 HK\$'000	As at 30 June 2018 HK\$'000
Total assets	44,811	95,288	798,798
Total liabilities	227,493	213,485	312,286
Total equity/(deficit)	(182,682)	(118,197)	486,512

	For the six months ended 31 December 2020	For the six months ended 31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	12,005	5,956
Cost of sales	(11,387)	(4,351)
Gross profit	618	1,605
Other income	132	51
Other gains and losses, net	6,845	(45,692)
Distribution costs	(1,140)	(1,581)
General and administrative expense	(16,894)	(14,365)
Finance costs	(958)	(849)
Loss before taxation	(11,397)	(60,831)
Income tax credit/(expense)	956	1,060
Loss attributable to:		
Owners of the Company	(9,037)	(55,058)
Non-controlling interests from continuing operations	(1,404)	(4,713)
Total comprehensive expense for the year attributable to:		
Owners of the Company	(30,788)	(51,850)
Non-controlling interests	(1,450)	(4,698)
Basic and diluted loss per share	HK\$(0.01)	HK\$(0.05)
	As at 31 December 2020	As at 31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	53,532	47,812
Total liabilities	269,206	222,557
Total deficit	(215,674)	(174,745)

	For the seven months ended 31 January 2021 <i>HK\$'000</i>
Revenue	21,060
Cost of sales	(17,173)
Gross profit	3,887
Other income	15
Other gains and losses, net	190,481
Selling expense	(1,116)
General and administrative expense	(22,663)
Finance costs	(1,224)
Profit before taxation	169,380
Income tax credit	661
Profit attributable to:	
Owners of the Company	171,588
Non-controlling interests from continuing operations	(1,547)
Total comprehensive income/(expense) for the period attributable to:	
Owners of the Company	144,785
Non-controlling interests	(1,593)
Basic and diluted earnings per share	HK\$0.16
	As at 31 January 2021 <i>HK\$'000</i>
Total assets	51,688
Total liabilities	90,083
Total deficit	(38,395)

A final dividend of HK1.2 cents per ordinary share out of the share premium account of the Company in respect of the year ended 30 June 2018 was declared in 2018, and such amount was paid to the owners of the Company during the year ended 30 June 2019.

No dividend was proposed for the seven months ended 31 January 2021 and 2020.

No interim dividend was proposed for the six months ended 31 December 2019 and 2020.

No dividend had been paid or proposed for the year ended 30 June 2019 and 2020.

For the financial year ended 30 June 2018

Deloitte Touche Tohmatsu, the previous auditors of the Company which resigned on 6 March 2020, did not issue any qualified opinion on the financial statements of the Group for the financial year ended 30 June 2018. Save as disclosed above, the Company had no items of any income or expense which were material during the financial year ended 30 June 2018. A final dividend of HK1.2 cents per ordinary share of the Company was declared for the financial year ended 30 June 2018. Such amount was set aside by the Company for the payment of dividend during the financial year ended 30 June 2018 and paid during the financial year ended 30 June 2019.

For the financial years ended 30 June 2019 and 2020

ZHONGHUI ANDA CPA Limited, the auditors of the Company, expressed a disclaimer of opinion on each of the financial statements of the Group for the financial years ended 30 June 2019 and 2020. Save as disclosed above, the Company had no items of any income or expense which were material during each of the financial years ended 30 June 2019 and 2020. No dividend was declared or paid for each of the financial years ended 30 June 2019 and 2020. No amount was set aside by the Company for the payment of dividend for each of the financial years ended 30 June 2019 and 2020.

For the seven months ended 31 January 2021

ZHONGHUI ANDA CPA Limited, the auditors of the Company, expressed a disclaimer of opinion on each of the financial statements of the Group for the seven months ended 31 January 2021. Save as disclosed above, the Company had no items of any income or expense which were material during each of the the seven months ended 31 January 2021. No dividend was declared or paid for the seven months ended 31 January 2021. No amount was set aside by the Company for the payment of dividend for the seven months ended 31 January 2021.

Details of disclaimer of opinion contained in the auditor's report

An extract of the auditor's report in respect of the disclaimer of opinion on each of the financial statements of the Group for the financial years ended 30 June 2019 and 2020 and for the seven months ended 31 January 2021 is produced below:

For the financial year ended 30 June 2019

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION**1. Limited accounting books and records of the Group**

Due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of the Group for the years ended 30 June 2019 and 2018, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the years ended 30 June 2019 and 2018 and the assets and liabilities as at those dates, and the segment information and other related disclosure notes in relation to the Group, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income and expenses		
Revenue	2,652,137	2,915,247
Costs of sales	<u>(2,391,183)</u>	<u>(2,702,790)</u>
Gross profit	260,954	212,457
Other income	9,398	2,349
Other gains and losses, net	(752,857)	(10,328)
Distribution costs	(11,094)	(3,196)
General and administrative expenses	(38,337)	(36,406)
Finance costs	<u>–</u>	<u>(3,498)</u>
(Loss)/profit before income tax	(531,936)	161,378
Income tax expenses	<u>(61,832)</u>	<u>(36,750)</u>
(Loss)/profit for the year from continuing operations	(593,768)	124,628
Discontinued operations		
Profit/(loss) for the year from discontinued operations	<u>40,461</u>	<u>(30,531)</u>
(Loss)/profit for the year	<u>(553,307)</u>	<u>94,097</u>
Other comprehensive expense		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(12,550)	(6,708)
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries	<u>(10,369)</u>	<u>–</u>
Total other comprehensive expense for the year	<u>(22,919)</u>	<u>(6,708)</u>
Total comprehensive (expense)/income for the year	<u><u>(576,226)</u></u>	<u><u>87,389</u></u>

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Assets and liabilities		
Property, plant and equipment	13,846	2,085
Interest in an associate	886	1,011
Rental deposits paid	–	1,833
Inventories	9,956	–
Trade and other receivables	9,491	438,026
Bank balances and cash	10,517	21,781
Assets classified as held for sale	–	206,872
Trade and other payables	(128,779)	(153,529)
Tax liabilities	(47,969)	(31,692)
Liabilities associated with assets classified as held for sale	–	(91,916)
	<u>–</u>	<u>(91,916)</u>
Net (liabilities)/assets	<u>(132,052)</u>	<u>394,471</u>

2. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 30 June 2019 and 2018.

3. Related party transactions and balances

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions for the years ended 30 June 2019 and 2018 and the balances as at those dates as required by Hong Kong Accounting Standard 24 (Revised) “Related Party Disclosures”.

4. Material uncertainty on going concern basis

We draw attention to note 2 to the consolidated financial statements which states that the Group incurred loss attributable to owners of the Company from continuing operations of approximately HK\$664,006,000 for the year ended 30 June 2019 and as at 30 June 2019, the Group had net liabilities of approximately HK\$118,197,000 and net current liabilities of approximately HK\$167,852,000. Also the Group recorded net cash outflows in operating activities of approximately HK\$128,571,000 for the year ended 30 June 2019.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the assumptions and measures stated in note 2 to the consolidated financial statements, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to fulfilling the assumptions and measures stated in the note 2 to the consolidated financial statements. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

However, in view of the extent of the uncertainty relating to the assumptions and measures stated in note 2 to the consolidated financial statements, we disclaim our opinion in respect of the material uncertainties relating to the going concern basis.

Any adjustments to the figures as described from points 1 to 4 above might have a significant consequential effect on the Group's consolidated financial performance and its consolidated cash flows for the year ended 30 June 2019 and 2018 and the consolidated financial position of the Group as at 30 June 2019 and 2018, and the related disclosures thereof in the consolidated financial statements.

For the financial year ended 30 June 2020

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION**1. Limited accounting books and records of the Group**

Due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of the Group for the years ended 30 June 2020 and 2019, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the years ended 30 June 2020 and 2019 and the assets and liabilities as at those dates, and the segment information and other related disclosure notes in relation to the Group, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income and expenses		
Revenue	–	2,652,137
Costs of sales	–	<u>(2,391,183)</u>
Gross profit	–	260,954
Other income	48	9,398
Other gains and losses, net	(51,080)	(752,857)
Distribution costs	(1,666)	(11,094)
General and administrative expenses	(2,497)	(38,337)
Finance costs	<u>(147)</u>	<u>–</u>
Loss before income tax	(55,342)	(531,936)
Income tax expenses	–	<u>(61,832)</u>
Loss for the year from continuing operations	(55,342)	(593,768)
Discontinued operations		
Profit for the year from discontinued operations	–	<u>40,461</u>
Loss for the year	<u>(55,342)</u>	<u>(553,307)</u>
Other comprehensive expense		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(245)	(12,550)
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries	–	<u>(10,369)</u>
Total other comprehensive expense for the year	<u>(245)</u>	<u>(22,919)</u>
Total comprehensive expense for the year	<u><u>(55,587)</u></u>	<u><u>(576,226)</u></u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Assets and liabilities		
Property, plant and equipment	–	13,846
Interest in an associate	–	886
Inventories	–	9,956
Trade and other receivables	1,377	9,491
Bank balances and cash	411	10,517
Trade and other payables	(129,703)	(128,779)
Tax liabilities	<u>(46,504)</u>	<u>(47,969)</u>
Net liabilities	<u>(174,419)</u>	<u>(132,052)</u>

2. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 30 June 2020 and 2019.

3. Related party transactions and balances

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions for the years ended 30 June 2020 and 2019 and the balances as at those dates as required by Hong Kong Accounting Standard 24 (Revised) “Related Party Disclosures”.

4. Material uncertainty on going concern basis

We draw attention to note 2 to the consolidated financial statements which states that the Group incurred loss attributable to owners of the Company from continuing operations of approximately HK\$70,154,000 for the year ended 30 June 2020 and as at 30 June 2020, the Group had net liabilities of approximately HK\$182,682,000 and net current liabilities of approximately HK\$211,732,000. Also the Group recorded net cash outflows in operating activities of approximately HK\$7,444,000 for the year ended 30 June 2020.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the assumptions and measures stated in note 2 to the consolidated financial statements, at a level sufficient to finance the working capital requirements of the Group. The consolidated financial statements do not include any adjustments that would result from the failure to fulfilling the assumptions and measures stated in the note 2 to the consolidated financial statements. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

However, in view of the extent of the uncertainty relating to the assumptions and measures stated in note 2 to the consolidated financial statements, we disclaim our opinion in respect of the material uncertainties relating to the going concern basis.

Any adjustments to the figures as described from points 1 to 4 above might have a significant consequential effect on the Group's consolidated financial performance and its consolidated cash flows for the year ended 30 June 2020 and 2019 and the consolidated financial position of the Group as at 30 June 2020 and 2019, and the related disclosures thereof in the consolidated financial statements.

For the seven months ended 31 January 2021

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Limited accounting books and records of the Disposal Group

Due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of certain subsidiaries of the Group (which have been disposed/deregistered during the seven months ended 31 January 2021) (collectively referred to as the “**Disposal Group**”) for the year ended 30 June 2020 and for the seven months ended 31 January 2021, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the year ended 30 June 2020 and for the seven months ended 31 January 2021 and the assets and liabilities as at 30 June 2020, and the segment information and other related disclosure notes in relation to the Disposal Group, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	For the seven months ended 31 January 2021 HK\$'000	For the year ended 30 June 2020 HK\$'000
Income and expenses		
Revenue	7,365	–
Cost of sales	<u>(4,858)</u>	<u>–</u>
Gross profit	2,507	–
Other income	15	48
Other gains/(losses), net	190,342	(51,080)
Selling expenses	(1,065)	(1,666)
General and administrative expenses	(3,361)	(2,497)
Finance costs	<u>–</u>	<u>(147)</u>
Profit/(loss) for the period/year	<u>188,438</u>	<u>(55,342)</u>
Other comprehensive income/(expense)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	761	(245)
Foreign currency translation reserve reclassified to profit or loss upon disposal of subsidiaries	<u>(13,685)</u>	<u>–</u>
Total other comprehensive expense for the period/year	<u>(12,924)</u>	<u>(245)</u>
Total comprehensive income/(expense) for the period/year	<u>175,514</u>	<u>(55,587)</u>
		As at 30 June 2020 HK\$'000
Assets and liabilities		
Trade and other receivables		1,377
Bank balances and cash		411
Trade and other payables		(129,703)
Tax liabilities		<u>(46,504)</u>
Net liabilities		<u>(174,419)</u>

2. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities in relation to the Disposal Group as at 30 June 2020.

3. Related party transactions and balances

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions in relation to the Disposal Group for the year ended 30 June 2020 and for the seven months ended 31 January 2021 and the balances in relation to the Disposal Group as at 30 June 2020 as required by Hong Kong Accounting Standard 24 (Revised) “Related Party Disclosures”.

Any adjustments to the figures as described from points 1 to 3 above might have a significant consequential effect on the Group’s consolidated financial performance and its consolidated cash flows for the year ended 30 June 2020 and for the seven months ended 31 January 2021 and the consolidated financial position of the Group as at 30 June 2020, and the related disclosures thereof in the consolidated financial statements.”

II. STATEMENT OF INDEBTEDNESS

As at 31 January 2021, the indebtedness of the Group is analysed as follows:

	As at 31 January 2021 <i>HK\$’000</i>
Current liabilities	
Loan from a related party	16,419
Bonds	<u>11,856</u>
	<u>28,275</u>
Non-current liabilities	
Bank borrowings	<u>1,598</u>

As at the close of business on 31 January 2021, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, apart from intra-group liabilities and normal trade payables in the ordinary course of the business and saved as disclosed above, as at the close of business on 31 January 2021, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

III. MATERIAL CHANGE

The Directors confirm that there was no material change in the financial or trading position or outlook of the Group since 31 January 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

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.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors issuing this circular jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscriber) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Subscriber contained in this circular has been supplied by the director of the Subscriber, namely Mr. Shen Yang. The sole director of the Subscriber, namely Mr. Shen Yang, accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

2. MARKET PRICE

The table below sets out the closing prices of the shares of the Company on the Stock Exchange (i) at the end of each of calendar months during the Relevant Period; (ii) the last business day immediately preceding the date of the Announcement; and (iii) on the Latest Practicable Date.

Date	Closing price per Share HK\$
31 August 2020	—*
30 September 2020	—*
31 October 2020	—*
30 November 2020	—*
31 December 2020	—*
31 January 2021	—*
22 February 2021 (being the last business day immediately preceding the date of the Announcement)	—*
26 February 2021	—*
26 March 2021 (being the Latest Practicable Date)	—*

* Suspension of trading of shares of the Company during the above periods.

As trading of the shares of the Company were suspended during the Relevant Period, there were no closing market prices of the shares of the Company recorded on the Stock Exchange during the Relevant Period.

3. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE SECURITIES

(I) Share capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation becoming effective (assuming there will be no other change in the number of issued shares of the Company between the Latest Practicable Date until the effective date of the Capital Reorganisation); and (iii) after the Capital Reorganisation becoming effective and immediately upon Completion (assuming there will be no other change in the number of issued shares of the Company between the effective date of the Capital Reorganisation and the date of Completion) are as follows:

Share capital as at the Latest Practicable Date

<i>Authorised</i>	<i>HK\$</i>
3,000,000,000 Shares of the Company as at the Latest Practicable Date	300,000,000

Issued and fully paid or credited as fully paid

<i>Issued and fully paid or credited as fully paid</i>	<i>HK\$</i>
1,077,128,000 Shares of the Company as at the Latest Practicable Date	107,712,800

Share capital immediately after the Capital Reorganisation becoming effective

<i>Authorised</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Shares of the Company after the Capital Reorganisation becoming effective	<u>300,000,000</u>

Issued and fully paid or credited as fully paid

<u>107,712,800</u>	Shares of the Company after the Capital Reorganisation becoming effective	<u>10,771,280</u>
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Share capital after the Capital Reorganisation becoming effective and immediately upon Completion

<i>Authorised</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Shares of the Company as at the date of Completion	<u>300,000,000</u>

Issued and fully paid or credited as fully paid

107,712,800	Shares of the Company immediately before the date of Completion	10,771,280
<u>218,689,624</u>	Subscription Shares to be issued pursuant to the Specific Mandate	<u>21,868,962</u>
<u>326,402,424</u>	Shares of the Company upon Completion	<u>32,640,242</u>

All the issued shares of the Company and the Subscription Shares rank *pari passu* with each other in all respects including the rights in respect of capital, dividend and voting.

There has been no increase in the issued share capital of the Company since 30 June 2020 (being the end of the last financial year of the Company) and up to the Latest Practicable Date.

(II) Share options

As at the Latest Practicable Date, no share option was granted since the adoption of the Share Option Scheme and there were no outstanding share options as at the Latest Practicable Date.

(III) Convertible securities

As at the Latest Practicable Date, the Company had no warrants or convertible securities in issue.

As at the Latest Practicable Date, the Company had no other outstanding options, warrants or conversion rights affecting the Shares.

(IV) Disclosure of interests**(a) Interests of Directors and chief executives**

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which were 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 were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of shares	Approximate percentage of interest
Ms. Lo Ching (<i>Note 1</i>)	Interest in a controlled corporation (<i>Notes 2 and 3</i>)	698,769,952	64.87%
Shen Yang	Interest in a controlled corporation (<i>Note 4</i>)	218,689,624 (<i>Note 5</i>)	20.30% (<i>Note 5</i>)

Notes:

1. The office of Ms. Lo Ching as an executive Director of the Company has been vacated with effect from 22 September 2020.
2. According to the disclosure of interests filed under the SFO, out of the total 698,769,952 shares, 676,864,150 shares are registered in the name of and beneficially owned by China Base Group Limited (“**China Base**”), a company incorporated in the British Virgin Islands, and the remaining 21,905,802 shares are beneficially owned by Creative Elite Holdings Limited (“**Creative Elite**”). The entire issued share capital of each of China Base and Creative Elite is legally owned by Ms. Lo Ching, accordingly, Ms. Lo Ching is deemed to be interested in 698,769,952 shares held by China Base and Creative Elite respectively under the SFO. However, as disclosed in the announcement of the Company dated 4 September 2019, with reference to the report issued by an independent agent on the enquiry of the Company’s shareholding structure pursuant to section 329 of the SFO, and to the best knowledge and belief of the Directors, as at the Latest Practicable Date, China Base and Creative Elite held 281,210,150 shares (approximately 26.1%) and 21,905,802 shares (approximately 2.0%) of the Company, accordingly, Ms. Lo Ching is deemed to be interested in 303,115,952 shares (approximately 28.1%) held by China Base and Creative Elite respectively under the SFO.
3. As disclosed in the announcement of the Company dated 28 July 2020, pursuant to a facility agreement dated 9 August 2018 entered into between China Base (as borrower), Ms. Lo Ching (as guarantor), Founder Securities (Hong Kong) Capital Company Limited and Changjiang Finance (HK) Limited (as arrangers), Founder Securities (Hong Kong) Capital Company Limited (as facility agent) and Founder Securities (Hong Kong) Limited (“**FSHK**”) (as security agent), an event of default occurred on 5 July 2019 which was triggered by the borrower and the guarantor. As a result, the facility agent sent a notice to the borrower and the guarantor on 9 July 2019, informing them the occurrence of an event of default. Accordingly, FSHK has been empowered to act for China Base pursuant to a Deed of Appointment of Proxy and Attorney which provides FSHK with authorisation to represent China Base and act in the name of China Base to exercise the rights to the shares in the Company held by China Base. As such, to the best knowledge and belief of the Directors, the shares of the Company held by China Base and the voting rights attached thereto were under the control of FSHK as at the Latest Practicable Date.
4. As at the Latest Practicable Date, the Subscriber was wholly owned by Mr. Shen Yang. By virtue of the SFO, Mr. Shen Yang is deemed to be interested in all the shares of the Company held by the Subscriber.
5. 218,689,624 shares of the Company represent interest of the Subscriber, which are the New Shares to be issued by the Company to the Subscriber upon completion of the Capital Reorganisation and the Subscription.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, substantial Shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions in shares and underlying shares

Name of Person	Capacity	Number of shares	Approximate percentage of interest
China Base <i>(Note 1)</i>	Beneficial owner	676,864,150	62.84%
Founder Securities Co., Ltd. <i>(Notes 1 and 2)</i>	Security interest	196,766,400	18.27%
Changjiang Securities International Financial Group Limited <i>(Notes 2 and 3)</i>	Security interest	196,766,400	18.27%
Changjiang Securities Company Limited <i>(Notes 2 and 4)</i>	Interest of controlled corporations	196,766,400	18.27%
創世核心企業系列私募基金 <i>(Note 6)</i>	Security interest	676,864,150	62.84%
上海歌斐資產管理有限公司 <i>(Note 6)</i>	Fund manager of 創世核心企業系列私募基金	676,864,150	62.84%
上海諾亞投資管理有限公司 <i>(Notes 6 and 7)</i>	Interest of controlled corporations	676,864,150	62.84%
Wang Jingbo <i>(Notes 6 and 7)</i>	Interest of controlled corporations	676,864,150	62.84%
諾亞(上海)融資租賃有限公司 <i>(Note 8)</i>	Security interest	676,864,150	62.84%
Noah Holdings Limited <i>(Note 8)</i>	Interest of controlled corporations	676,864,150	62.84%
The Subscriber	Beneficial owner	218,689,624 <i>(Note 9)</i>	20.30%

Notes:

1. According to the disclosure of interests filed under the SFO, the entire issued share capital of China Base is owned by Ms. Lo Ching (a former chairman of the Board and executive Director). However, as disclosed in the announcement of the Company dated 4 September 2019, with reference to the report issued by an independent agent on the enquiry of the Company's shareholding structure pursuant to section 329 of the SFO, and to the best knowledge and belief of the Directors, as at the Latest Practicable Date, China Base held 281,210,150 shares (approximately 26.1%) only of the Company. As disclosed in the announcement of the Company dated 28 July 2020, pursuant to a facility agreement dated 9 August 2018 entered into between China Base (as borrower), Ms. Lo Ching (as guarantor), Founder Securities (Hong Kong) Capital Company Limited and Changjiang Finance (HK) Limited (as arrangers), Founder Securities (Hong Kong) Capital Company Limited (as facility agent) and Founder Securities (Hong Kong) Limited ("FSHK") (as security agent), an event of default occurred on 5 July 2019 which was triggered by the borrower and the guarantor. As a result, the facility agent sent a notice to the borrower and the guarantor on 9 July 2019, informing them the occurrence of an event of default. Accordingly, FSHK has been empowered to act for China Base pursuant to a Deed of Appointment of Proxy and Attorney which provides FSHK with authorisation to represent China Base and act in the name of China Base to exercise the rights to the shares in the Company held by China Base. As such, to the best knowledge and belief of the Directors, the shares of the Company held by China Base and the voting rights attached thereto were under the control of FSHK as at the Latest Practicable Date.
2. Founder Securities (Hong Kong) Limited and Founder Securities Financial Service (Cayman) Limited is wholly owned by Founder Securities (Hong Kong) Financial Holdings Limited of which is wholly owned by Founder Securities Co., Ltd..
3. Changjiang Finance (HK) Limited is wholly owned by Changjiang Securities International Financial Group Limited.
4. Changjiang Finance (HK) Limited is wholly owned by Changjiang Securities International Financial Group Limited. Changjiang Securities International Financial Group Limited is a company owned 64.18% by Changjiang Securities Company Limited, a company listed in Shenzhen Stock Exchange.
5. 上海歌斐資產管理有限公司 is a fund manager of 創世核心企業系列私募基金. 上海歌斐資產管理有限公司 is wholly owned by 歌斐資產管理有限公司 of which is wholly owned by 上海諾亞投資管理有限公司.
6. 上海諾亞投資管理有限公司 is a company owned 46% by Wang Jingbo.
7. 諾亞(上海)融資租賃有限公司 is wholly owned by Noah Group Honest Asia Limited of which is wholly owned by Noah Holdings Limited.
8. The approximate percentages were calculated based on 1,077,128,000 Shares in issue as at the Latest Practicable Date.
9. 218,689,624 Shares of the Company represent interest of the Subscriber, which are the New Shares to be issued by the Company to the Subscriber upon completion of the Capital Reorganisation and the Subscription.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

5. SHAREHOLDINGS OF AND DEALINGS IN THE SECURITIES OF THE COMPANY AND THE SUBSCRIBER AND PERSONS ACTING IN CONCERT WITH IT AND OTHER ARRANGEMENT

As at the Latest Practicable Date

- (a) the Company did not hold, control or have direction over any shares and any options, warrants, derivatives or convertible securities in respect of securities (“**Relevant Securities**”) in any member of the Subscriber and persons acting in concert with it and it has not dealt for value in any such securities of any member of the Subscriber and persons acting in concert with it during the Relevant Period;
- (b) save as disclosed under the paragraph headed “Interests of Directors and chief executives” in this appendix and Mr. Shen Yang being the ultimate beneficial owner of the Subscriber, none of the Directors or chief executive of the Company held, controlled or had direction over any Relevant Securities in any member of the Subscriber and persons acting in concert with it or any Relevant Securities in the Company and none of them has dealt for value in any such securities of any member of the Subscriber and persons acting in concert with it or any such securities of the Company during the Relevant Period;
- (c) none of the subsidiaries of the Company, pension fund of the Company or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or who is an associate of the Company by virtue of class (2) of the definition of associate under the Takeovers Code but excluding exempt principal traders and exempt fund managers, held, controlled or had direction over any Relevant Securities in the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;
- (d) save for the Subscription Agreement and the transactions contemplated thereunder, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of an associate under the Takeovers Code during the Relevant Period;
- (e) none of the subsidiaries of the Company and none of the pension funds of the Company and/or its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company owned or controlled any Shares, warrants, options or derivatives of the Company or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

- (f) save as disclosed under the paragraph headed “Interests of Directors and chief executives” in this appendix, none of the Directors (except Ms. Lo Ching, whose office has been vacated with effect from 22 September 2020) and their respective associates owned or controlled any Relevant Securities in the Company, and none of them has dealt for value in any such securities of the Company during the Relevant Period, therefore none of the Directors will vote for or against the resolutions to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder;
- (g) save as disclosed in the paragraph headed “EGM” in the letter from the Board in this circular, no person will be required to abstain from voting on the resolutions approving the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder under the EGM;
- (h) no person had irrevocably committed themselves to vote in favour of or against the resolutions approving the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder;
- (i) neither the Company nor any of the Directors has borrowed or lent any Shares and any Relevant Securities in the Company;
- (j) no benefit will be given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder at the EGM;
- (k) as at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder or otherwise connected with the Subscription Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder; and
- (l) as at the Latest Practicable Date, save and except the Subscription Agreement, there was no material contract entered into by the Subscriber in which a Director had a material personal interest.

As at the Latest Practicable Date, there were no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any parties acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or was dependent upon the Subscription or the Whitewash Waiver.

As at the Latest Practicable Date, save as disclosed under the paragraph headed “Changes to the shareholding as a result of the Capital Reorganisation and the Subscription” in the letter from the Board in this circular and the paragraph headed “Share capital, share options and converting securities”, “Interests of Substantial Shareholders” and “Interests of Directors and chief executives” in this appendix:

- (a) the Subscriber and persons acting in concert with it did not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold, control or have direction over any Relevant Securities in the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;
- (b) the Subscriber or persons acting in concert with it did not borrow or lend any Shares during the Relevant Period;
- (c) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Subscriber and persons acting in concert with it during the Relevant Period;
- (d) none of the member of the Subscriber and persons acting in concert with it has received any irrevocable commitment to vote for or against the Subscription or the Whitewash Waiver during the Relevant Period; and
- (e) none of the director of the Subscriber and persons acting in concert with it owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them has dealt for value in any such securities of the Company during the Relevant Period.

As at the Latest Practicable Date, no Shares to be acquired by the Subscriber and persons acting in concert with it pursuant to the Subscription will be transferred, charged or pledged to any other person. At present, there is no agreement, arrangement or understanding and any related charges or pledges exist which may result in the transfer of voting rights in such shares.

6. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

7. SERVICE CONTRACTS

Ms. Liu Hui has entered into a service contract with the Company for a term of two years commencing from 21 January 2020, pursuant to which Ms. Liu shall hold office until the next annual general meeting of the Company and thereafter shall be subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association and Listing Rules. Pursuant to the service contract, Ms. Liu is entitled to a remuneration of HK\$35,000 per month and a discretionary bonus which is determined by arm's length negotiation between Ms. Liu and the Company and with reference to her duties and responsibilities.

Mr. Guo Ben has entered into a service agreement with the Company for a term of three years commencing from 22 September 2020 subject to retirement by rotation and re-election and other related provisions as stipulated in the Articles of Association and the Listing Rules. Mr. Guo is entitled to a remuneration of HK\$120,000 per annum and a discretionary bonus, which was determined by arm's length negotiation between Mr. Guo and the Company and with reference to his role, qualification, level of experience, the contribution to be made by him to the Company and the prevailing market conditions. No earlier service agreement had been entered into between Mr. Guo and the Company.

Mr. Shen Yang has entered into a service agreement with the Company for a term of three years commencing from 16 October 2020 subject to retirement by rotation and re-election and other related provisions as stipulated in the Articles of Association and the Listing Rules. Pursuant to the service contract, Mr. Shen is entitled to a remuneration of HK\$120,000 per annum and a discretionary bonus, which was determined by arm's length negotiation between Mr. Shen and the Company and with reference to his role, qualification, level of experience, the contribution to be made by him to the Company and the prevailing market conditions. No earlier service agreement had been entered into between Mr. Shen and the Company.

Mr. Ross Yu Limjoco has entered into a letter of appointment with the Company for a term of one year commencing from 31 May 2020, pursuant to which Mr. Limjoco shall hold office until the next annual general meeting of the Company and thereafter shall be subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association and Listing Rules. Pursuant to the letter of appointment, Mr. Limjoco is entitled to a director's fee of HK\$120,000 per annum which is determined by arm's length negotiation between Mr. Limjoco and the Company and with reference to his duties and responsibilities.

Mr. Zheng Yilei has entered into a letter of appointment with the Company for a term of one year commencing from 31 May 2020, pursuant to which Mr. Zheng shall hold office until the next annual general meeting of the Company and thereafter shall be subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association and Listing Rules. Pursuant to the letter of appointment, Mr. Zheng is entitled to a director's fee of HK\$120,000 per annum which is determined by arm's length negotiation between Mr. Zheng and the Company and with reference to his duties and responsibilities.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which was not determinable by the employer within one year without payment of compensation (other than statutory compensation), and none of the Directors had a service contract with the Group or associated companies of the Company, which: (i) (including both continuous and fixed term contracts) have been entered into or amended within six months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date, the following contracts were entered into not in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, have been entered into by the Group and/or are material:

- (i) the Subscription Agreement; and
- (ii) the sale and purchase agreement dated 15 January 2021 entered into between the Company and Enrich Consulting Limited, in relation to the transfer of 100% of the equity interest in certain subsidiaries of the Company at a consideration of HK\$2.00 (please refer to the Company's announcement dated 18 January 2021 for further details).

9. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Group; and none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 January 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

10. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

11. QUALIFICATION AND CONSENTS OF EXPERT

- (a) The following sets out the qualifications of the experts who have given their opinions or advice or statements as contained in this circular:

Name	Qualification
BaoQiao Partners Capital Limited	A corporation licenced to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

- (b) As at the Latest Practicable Date, BaoQiao had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, BaoQiao had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 January 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.
- (d) As at the Latest Practicable Date, BaoQiao had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Days from the date of this circular up to and including 14 days (except public holidays) at the Company's place of business in Hong Kong situated at Unit 1904, 19/F., Podium Plaza, 5 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong and will also be available for inspection on the website of the SFC at www.sfc.hk and the website of the Company at www.mhdlhk.com from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the memorandum of association and articles of association of the Subscriber;
- (c) the annual reports of the Company for the last two financial years ended 30 June 2019 and 2020, and the report of special audit for the seven months ended 31 January 2021 respectively;
- (d) this circular;

- (e) the letter from the Board, the text of which is set out on pages 7 to 30 of this circular;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 31 to 32 of this circular;
- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 33 to 53 of this circular;
- (h) the written consent from BaoQiao as referred to in the paragraph headed “Expert” in this appendix;
- (i) the material contracts as referred to in the paragraph headed “Material Contracts” in this appendix; and
- (j) the service contracts referred to in the section headed “Service Contracts” in this appendix.

14. MISCELLANEOUS

- (a) The registered office of the Company is at Governor Square, P.O. Box 30746, Seven Mile Beach, Grand Cayman, KY1-1203, Cayman Islands and the place of business in Hong Kong is situated at Unit 1904, 19/F., Podium Plaza, 5 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (b) The company secretary of the Company is Mr. Fung Nam Shan, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia.
- (c) The registered address of the Subscriber is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The correspondence address of the Subscriber in Hong Kong is at Unit B, 59/F, The Summit, 41C Stubbs Road, Wanchai, Hong Kong. The principal member of the Subscriber’s concert group is Mr. Shen Yang, the sole director of the Subscriber, whose correspondence address is at Unit B, 59/F, The Summit, 41C Stubbs Road, Wanchai, Hong Kong.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited 2103 B, 21/F., 148 Electric Road, North Point, Hong Kong.
- (e) The Independent Financial Adviser is BaoQiao and its registered office is situated at Unit 2803-05, 28/F, Tower I, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

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美好發展集團

MH DEVELOPMENT

MH Development Limited

美好發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2662)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that a extraordinary general meeting (the “**EGM**”) of MH Development Limited (the “**Company**”) will be held at Main Conference room, Basement 1/F., Building 28-29, 383 Zizhu Road, Pudong New District, Shanghai, China on Friday, 30 April 2021 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as special or ordinary resolutions as the case may be. Unless the context otherwise requires, capitalised terms defined in the circular issued by the Company dated 29 March 2021 (the “**Circular**”) shall have the same meanings when used in this notice of extraordinary general meeting.

SPECIAL RESOLUTIONS

1. “**THAT** subject to the fulfilment of all the conditions set out in the section headed “Conditions of the Capital Reorganisation” (the “**Conditions**”) in the Circular (a copy of which is tabled at the meeting and marked “A” and initialled by the Chairman for purpose of identification), with effect immediately following the date on which the Conditions are fulfilled:
 - (a) every 10 issued and unissued Existing Shares with par value of HK\$0.10 each be consolidated into 1 Consolidated Share with par value of HK\$1.00 each and fractional Consolidated Shares shall not be issued to the Shareholders but all such fractional Consolidated Shares be aggregated and, if possible, sold for the benefit of the Company (the “**Share Consolidation**”);
 - (b) (i) the par value of each issued Consolidated Share with par value of HK\$1.00 each be reduced to HK\$0.10 each by the cancellation of the paid-up capital of the Company to the extent of HK\$0.90 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$1.00 to HK\$0.10 (the “**Capital Reduction**”); (ii) immediately following the Capital Reduction, each authorised but unissued Consolidated Share with par value of HK\$1.00 each be sub-divided into 10 New Shares with par value of HK\$0.10 each (the “**Share Subdivision**”) so that immediately following the Share Subdivision, the authorised share capital of the Company shall become HK\$300,000,000 divided into 3,000,000,000 New Shares; and (iii) the credits arising in the books of the Company from the Capital Reduction of approximately

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HK\$96,941,520 be credited to the distributable reserve account of the Company which will be utilised by the Company in any manner as the Board may deem fit and permitted under all applicable laws and the memorandum and articles of association of the Company;

- (c) the New Shares shall rank pari passu in all respects with each other and have such rights and subject to such restrictions as set out in the memorandum of association and articles of association of the Company; and
 - (d) any one Director be and is hereby authorised to, on behalf of the Company, do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to the Share Consolidation, the Capital Reduction and the Share Subdivision”.
2. “**THAT**, subject to and conditional upon the passing of the resolutions set out as Resolution No.3 in the notice convening the EGM, the ruling letter of Whitewash Waiver (as defined in the Circular) granted by the Executive (as defined in the Circular) to the Subscriber be and is hereby approved and any one director of the Company be and is hereby authorised to do all such things and take all such action as he may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Whitewash Waiver (as defined in the Circular).”

ORDINARY RESOLUTIONS

3. “**THAT**
- (a) subject to and conditional upon the fulfilment of the conditions in the subscription agreement (the “**Subscription Agreement**”) dated 22 February 2021 entered into between the Company as issuer and Runjing Holdings Limited (the “**Subscriber**”) as subscriber in relation to the proposed subscription of 218,689,624 New Shares of HK\$0.10 each (each a “**Subscription Share**”, and collectively, the “**Subscription Shares**”) at the price of HK\$0.183 per Subscription Share (a copy of the Subscription Agreement is marked “B” and signed by the chairman of the EGM for identification purpose has been tabled at the meeting), the form and substance of the Subscription Agreement be and is hereby approved, ratified and confirmed and any one director of the Company (“**Director**”) be and is hereby authorised to approve any changes and amendments thereto as he/she may consider necessary, desirable or appropriate;
 - (b) subject to the fulfillment of the conditions of the Subscription Agreement, any one Director be and is hereby authorised to exercise all the powers of the Company and to take all steps as might in their opinion be desirable or necessary in connection with the Subscription Agreement to, including without limitation, allot and issue the Subscription Shares;

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- (c) all other transactions contemplated under the Subscription Agreement be and are hereby approved and any one Director be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Subscription Agreement, the allotment and issue of the Subscription Shares and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the such Director, in the interests of the Company and its shareholders as a whole;
- (d) subject to and conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subscription Shares; (ii) the passing of the ordinary resolution no.3(a), (b) and (c) as set out in the notice convening EGM, the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Subscription Shares pursuant to the Subscription Agreement be and is hereby confirmed and approved.”

Yours faithfully,
By order of the Board
MH Development Limited
Liu Hui
Executive Director

Hong Kong, 29 March 2021

Notes:

1. A shareholder entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a shareholder of the Company.
2. To be valid, the form of proxy together with a 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 office of Boardroom Share Registrars (HK) Limited on 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.
4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
5. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

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6. In view of the current development of COVID-19, the Company will implement the following preventive measures at the EGM, including:

- compulsory wearing of appropriate face masks for all participants; and
- no distribution of corporate gifts or refreshments.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the venue of the EGM. The Company also encourages its shareholders to consider appointing the chairman of the meeting as its/his/her proxy to vote on the relevant resolutions at the EGM as an alternative to attending the meeting in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

7. References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the Board comprises Ms. Liu Hui, Mr. Guo Ben and Mr. Shen Yang as the executive Directors and Mr. Ross Yu Limjoco and Mr. Zheng Yilei as the independent non-executive Directors.