
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Wood International Holding Co., Limited (Joint Provisional Liquidators appointed), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank manager, licensed securities dealer, registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

RESTRUCTURING TRANSACTIONS INVOLVING:

- (1) CAPITAL REORGANISATION;**
 - (2) ISSUE OF NEW SHARES TO THE INVESTOR;**
 - (3) SCHEME OF ARRANGEMENT;**
 - (4) PROPOSED ISSUE OF**
- NEW SHARES UNDER SPECIFIC MANDATE; AND**
- (5) APPLICATION FOR WHITEWASH WAIVER**

**Independent Financial Adviser to the Whitewash Waiver Independent Board Committee,
the Connected Transaction Independent Board Committee
and the Independent Shareholders**



Gram Capital Limited
嘉林資本有限公司

Terms in this cover page have the same meanings as defined in this circular.

A letter from the Board is set out on pages 8 to 32 of this circular. A letter of advice from Gram Capital to the Whitewash Waiver Independent Board Committee, the Connected Transaction Independent Board Committee and the Independent Shareholders is set out on pages 37 to 57 of this circular. The recommendation of the Whitewash Waiver Independent Board Committee to the Independent Shareholders is set out in pages 33 to 34 of this circular, and the recommendation of the Connected Transaction Independent Board Committee to the Independent Shareholders is set out on pages 35 to 36 of this circular.

A notice convening the EGM to be held at Room 3008-3009, 30/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at 3:00 p.m. on Tuesday, 30 August 2022 is set out on pages 84 to 88 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022) as soon as possible and in any event no later than 48 hours before the time appointed for holding the EGM (i.e. 3:00 p.m. on Sunday, 28 August 2022 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

Please see the section headed "Precautionary Measures for the EGM" in this circular for measures being taken to try to prevent and control the spread of the COVID-19 Pandemic at the EGM.

5 August 2022

PRECAUTIONARY MEASURES FOR THE EGM

In light of the continuing risks posed by COVID-19, the Company is adopting the following precautionary measures at the EGM in order to safeguard the health and safety of the Shareholders who might be attending the EGM in person:

1. Compulsory temperature screening/checks will be carried out on every attendee at the entrance of the EGM venue. Any person with a body temperature above 37.4 degrees Celsius or the reference point announced by the Department of Health from time to time, or is exhibiting flulike symptoms may be denied entry into the EGM venue and requested to leave the EGM venue;
2. Every attendee will be required to wear a surgical face mask at the EGM venue and throughout the EGM and to sit at a distance from the other attendees. Please note that no surgical face masks will be provided at EGM venue and attendees should bring and wear their own masks;
3. No refreshment or drinks will be provided to the attendees at the EGM; and
4. No corporate gifts or gift coupons will be provided to the attendees at the EGM.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the other attendees at the EGM. Shareholders and/or their representatives who are denied entry to the venue of the EGM will, subject to the applicable laws and regulations of Hong Kong, be provided with voting slips of the EGM and may complete, sign and return the voting slips to exercise their voting rights. For the health and safety of Shareholders of the Company, the Company strongly encourages Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM (who is expected to be an independent non-executive Director) as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person.

Due to the constantly evolving COVID-19 pandemic situation in Hong Kong, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company (www.chinawoodint.com.hk) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the EGM arrangements. Voting by proxy in advance of the EGM: The Company does not in any way wish to diminish the opportunity available to the Shareholders to exercise their rights to vote, but are conscious of the pressing need to protect them from possible exposure to the COVID-19 pandemic. For the health and safety of the Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising rights of the Shareholders.

The deadline to submit completed proxy forms is not less than 48 hours before the time appointed for the holding of the EGM, which is on 28 August 2022 at or before 3:00 p.m. Completed proxy forms must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at or before the deadline.

Appointment of proxy by non-registered Shareholders: Non-registered Shareholders whose Shares are held through banks, brokers, custodians or the HKSCC should consult directly with their banks or brokers or custodians (as the case may be) for assistance in the appointment of proxy.

If Shareholders have any questions relating to the EGM, please contact the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, as follows:

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022)
Tel: +852 2980 1333
Fax: +852 2810 8185
Email: is-enquiries@hk.tricorglobal.com

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DEFINITIONS

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

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| “acting in concert” | has the meaning ascribed thereto in the Takeovers Code |
| “Admitted Claims” | Debts claimed by each Creditor which is admitted by the Scheme Administrator(s) in accordance with the Scheme |
| “Announcement” | the announcement of the Company dated 10 March 2022 in relation to, among other things, the Capital Reorganisation, the Investor’s Subscription, the granting of the Specific Mandate, the Scheme and the Whitewash Waiver |
| “Board” | the board of Directors |
| “Business Day(s)” | any day (excluding Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business throughout their normal business hours |
| “BVI” | British Virgin Islands |
| “Capital Reduction” | the proposed reduction of the par value of each Share of HK\$0.20 to HK\$0.01 by cancelling the paid up capital of the Company to the extent of HK\$0.19 on each of the issued Share |
| “Capital Reorganisation” | the proposed capital reorganisation of the Company’s share capital involving (i) Share Premium Cancellation; (ii) the Capital Reduction; and (iii) the Unissued Share Capital Cancellation |
| “Cash Bonus” | cash bonus to be distributed to the Creditors as an incentive to the Creditors for their support of the Scheme |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Company” | China Wood International Holding Co., Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the Stock Exchange |
| “connected persons” | has the meaning ascribed to it under the Listing Rules |

DEFINITIONS

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| “Connected Transaction Independent Board Committee” | an independent committee of the Board established which comprises all the independent non-executive Directors to advise the Independent Shareholders on the fairness and reasonableness of terms of the Investor’s Subscription, and to advise the Independent Shareholders how to vote at the EGM |
| “COVID-19 Pandemic” | the Coronavirus (COVID-19) pandemic |
| “Creditors” | any person having a Claim: (a) which is not a Preferential Claim (and where the Claim is only in part a Preferential Claim, then the person is a Creditor only to the extent of the non-preferential portion of the Claim); (b) which is not an Operational Debt (and where the Claim is only in part an Operational Debt, then the person is a Creditor only to the extent of such debts which are not Operational Debts); and (c) which is not an amount due from the Company to Mr. Lyu and the Investor under the Funding Agreement and the Restructuring Agreement respectively |
| “Debt” | the amount of debts claimed by each of the Creditors against the Company, whether actual, present, future, contingent, liquidated or unliquidated, “Debts” shall be construed accordingly as the aggregated amount of each Debt holding by each Creditor |
| “Director(s)” | director(s) of the Company |
| “Disposal” | the disposal of the Excluded Companies under the Scheme |
| “Dividend(s)” | any Realisation Proceeds which may be distributed to the Creditors pursuant to the terms of the Scheme |
| “Effective Date” | the date on which all the conditions precedent of the Scheme are satisfied |
| “EGM” | the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving: (i) the Capital Reorganisation; (ii) the Investor’s Subscription; (iii) the Scheme (including the Scheme Shares Issue and the Disposal); and (iv) the Whitewash Waiver, and the transactions contemplated under the Restructuring Agreement |

DEFINITIONS

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| “Excluded Companies” | the subsidiaries to be disposed of to the Scheme Company |
| “Executive” | the Executive Director of the Corporate Finance Department of the SFC from time to time or any delegate of the Executive Director |
| “Funding Agreement” | the funding agreement dated 31 December 2020 entered into between the Company as borrower and the Investor as lender |
| “Grand Court” | The Grand Court of the Cayman Islands |
| “Group” | the Company and its subsidiaries |
| “High Court” | The High Court of Hong Kong |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” or “HK” | Hong Kong Special Administrative Region of the PRC |
| “Independent Financial Adviser” or “Gram Capital” | Gram Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Connected Transaction Independent Board Committee, the Whitewash Waiver Independent Board Committee and the Independent Shareholders in respect of the Investor’s Subscription and the Whitewash Waiver |
| “Independent Shareholder(s)” | Shareholder(s) other than (i) the Creditors; (ii) the Investor, Mr. Lyu and parties acting in concert with any of them; and (iii) Shareholders who are interested in or involved in any of the Restructuring Transactions and the Whitewash Waiver |
| “Independent Third Party(ies)” | any person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons |

DEFINITIONS

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| “Investor” | Right Momentum Group Limited, a company incorporated in the BVI with limited liability (whose registered address is at 3rd Floor, J & C Building, Road Town, Tortola, BVI, VG1110) and is beneficially wholly-owned by Mr. Lyu |
| “Investor’s Subscription” | the subscription of 2,260,980,856 New Shares under the Restructuring Agreement by the Investor |
| “Investor’s Subscription Shares” | the New Shares to be allotted and issued under the Investor’s Subscription |
| “Issue Price” | the issue price of HK\$0.044 per Investor’s Subscription Share |
| “JPLs” | Mr. Osman Mohammed Arab and Mr. Lai Wing Lun, both of RSM Corporate Advisory (Hong Kong) Limited and Mr. Martin Nicholas John Trott of R&H Restructuring (Cayman) Limited |
| “Last Trading Day” | 21 October 2021, being the last trading day prior to the suspension of trading of the Shares on the Stock Exchange |
| “Latest Practicable Date” | 2 August 2022, being the latest practicable date prior to the despatch of this circular for ascertaining certain information referred to in this circular |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mr. Lyu” | Mr. Lyu NingJiang, an executive Director and the chairman of the Company |
| “New Shares” | new ordinary share(s) of HK\$0.01 each in the capital of the Company immediately upon the Capital Reorganisation becoming effective |
| “Operational Debts” | certain debts of the Company to be set out in the scheme document for the Scheme which include, among others, the director’s fee, legal fee, professional and services fee and wages |

DEFINITIONS

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| “PRC” | the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “Preferential Claim(s)” | claim(s) which would be treated as a preferential claim pursuant to Section 265 of Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong |
| “Profit Estimate” | the statement of estimated substantial increase in revenue and gross profit based on the unaudited consolidated management accounts of the Group for the five months ended 31 May 2022 as set out in the paragraph headed “3. Material Change” in Appendix I to the circular |
| “Realisation Proceeds” | the proceeds of realisation of the assets or Transferred Claims, if any, by the Scheme Company |
| “Relevant Period” | the period commencing six month prior to 4 February 2022, being the date of the Rule 3.7 announcement relating to, among others, the Scheme and the Restructuring Transactions and ending on the Latest Practicable Date |
| “Restructuring Agreement” | the framework agreement dated 16 February 2022 and entered into among the Company, the JPLs, the Investor and Mr. Lyu in relation to the Restructuring Transactions |
| “Restructuring Transaction(s)” | collectively, (i) the Capital Reorganisation; (ii) the Investor’s Subscription; and (iii) the Scheme |
| “Resumption” | the resumption of trading in the Shares on the Stock Exchange |
| “Sanction Order” | the order made by the High Court on 22 March 2022 sanctioning the Scheme |
| “Scheme” | the proposed scheme of arrangement for the Company under Sections 670, 673 and 674 of the Companies Ordinance between the Company and its Creditors, in its present form, or with or subject to any modification of it, any addition to it or any condition approved or imposed by the High Court |

DEFINITIONS

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| “Scheme Administrators” | such persons who are to be appointed as scheme administrators pursuant to the terms of the Scheme, which are expected to be Messrs. Osman Mohammed Arab and Lai Wing Lun both of RSM Corporate Advisory (Hong Kong) Limited |
| “Scheme Company” | a company to be incorporated in Hong Kong with limited liability, being a special purpose vehicle to be held and controlled by the Scheme Administrator(s) or such other company as may be nominated by the Scheme Administrator(s), and the holder of Excluded Companies, the Transferred Claims and the Scheme Trust Account that holds the Scheme Funds |
| “Scheme Funds” | all funds from time to time credited to the Scheme Trust Account, including any interest thereon |
| “Scheme Shares” | up to 823,739,687 New Shares to be allotted and issued under the Scheme pursuant to the terms thereof |
| “Scheme Shares Issue” | the issue of a maximum of 823,739,687 New Shares under the Scheme |
| “Scheme Trust Account” | a trust account to be opened with a licensed bank in Hong Kong, which trust account shall be controlled by the Scheme Administrator(s) for the purposes of and for the benefit of the Creditors, and into which the Scheme Administrator(s) shall deposit into Scheme Funds |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of HK\$0.20 each in the share capital of the Company prior to the Capital Reorganisation |
| “Share Option Scheme” | the share option scheme adopted by the Company on 27 April 2011 |
| “Share Premium Cancellation” | the proposed cancellation of the entire amount in the sum of approximately HK\$1,059.7 million standing to the credit of the share premium account of the Company to set off against part of the accumulated losses of the Company |

DEFINITIONS

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| “Shareholder(s)” | holder(s) of the Share(s) |
| “Specific Mandate” | the specific mandate to be granted by the Independent Shareholders to the Board at the EGM for the allotment and issue of the Investor’s Subscription Shares and the Scheme Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Transferred Claims” | all causes of action, claims which the Company or the Excluded Companies has or may have against any person and the rights and obligations in respect of the litigations or any potential litigations involved under the name of the Company or the Excluded Companies whether known or not known as at the date of completion of the transfer of the Excluded Companies and the Transferred Claims but excluding the claims for trade receivables and rights to intercompany loan of the Company |
| “Unissued Share Capital Cancellation” | the proposed cancellation of the authorised but unissued share capital of the Company in its entirety immediately upon the Capital Reduction taking effect |
| “Whitewash Waiver” | a waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code to be granted by the Executive in respect of the obligations of the Investor to make a mandatory general offer to the Shareholders in respect of all the Shares and the securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it as a result of the Investor’s Subscription |
| “Whitewash Waiver Independent Board Committee” | an independent committee of the Board established which comprises all the non-executive Director and independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code, who has no direct or indirect interest in the Restructuring Transactions or the Whitewash Waiver |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “%” | per cent. |

LETTER FROM THE BOARD



CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

Joint Provisional Liquidators

Mr. Osman Mohammed Arab
Mr. Lai Wing Lun
Mr. Martin Nicholas John Trott

Executive Director:

Mr. Lyu NingJiang

Non-executive Director:

Mr. Hu YongGang

Independent non-executive Directors:

Mr. Zhao Xianming
Mr. So Yin Wai
Ms. Zhao Xiao Lian

Registered office:

Cricket Square,
Hutchins Drive PO Box 2681,
Grand Cayman KY1-1111
Cayman Islands

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

1601, 16/F, Sun House,
90 Connaught Road Central,
Hong Kong

5 August 2022

To the Shareholders

Dear Sir or Madam,

**RESTRUCTURING TRANSACTIONS INVOLVING:
(1) CAPITAL REORGANISATION;
(2) ISSUE OF NEW SHARES TO THE INVESTOR;
(3) SCHEME OF ARRANGEMENT;
(4) PROPOSED ISSUE OF
NEW SHARES UNDER SPECIFIC MANDATE; AND
(5) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the announcements of the Company dated 2 February 2021, 25 October 2021, 15 December 2021, 23 December 2021, 4 February 2022, 10 March 2022, 22 March 2022, 31 March 2022, 3 May 2022 and 31 May 2022 relating to, among others, the winding-up petition of the Company, the appointment of the JPLs, the Restructuring Agreement, the suspension of trading of Shares on the Stock Exchange as a result of non-compliance with Rule 13.24 of the Listing Rules and disclosure pursuant to Rule 3.7 of the Takeovers Code.

LETTER FROM THE BOARD

On 16 February 2022 (after trading hours), the Company, the JPLs, the Investor and Mr. Lyu have entered into the conditional Restructuring Agreement, which sets out the terms of the Restructuring Transactions.

The purpose of this circular is to provide you with among other things, details of (i) the Capital Reorganisation; (ii) the Investor's Subscription; (iii) the Scheme; (iv) the Whitewash Waiver; (v) a letter from the Whitewash Waiver Independent Board Committee to the Independent Shareholders; (vi) a letter from the Connected Transaction Independent Board Committee to the Independent Shareholders; (vii) a letter of advice from the Independent Financial Adviser to the Independent Shareholders; and (viii) a notice convening the EGM.

Trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 22 October 2021 after the Listing Review Committee of the Stock Exchange decided to uphold the decision of the Listing Division of the Stock Exchange to suspend trading in the shares of the Company under Rule 6.01(3) of the Listing Rules as the Company had not demonstrated to the Listing Review Committee's satisfaction that the Company maintained a sufficient level of operations and assets under Rule 13.24 to warrant a continued listing of the Shares.

1. CAPITAL REORGANISATION

The Board proposed to reorganise the share capital of the Company in the following manner:

- (i) Share Premium Cancellation: the entire amount in the sum of approximately HK\$1,059.7 million standing to the credit of the share premium account of the Company will be cancelled to set off against part of the total accumulated losses of the Company of approximately HK\$2,114.4 million as at 31 December 2021;
- (ii) Capital Reduction: the issued share capital of the Company be reduced by cancelling the paid-up capital of the Company to the extent of HK\$0.19 on each of the then issued Shares such that the par value of each issued Share will be reduced from HK\$0.20 to HK\$0.01 and the total credit of HK\$65.1 million arising therefrom will be applied to further set off the accumulated losses of the Company of approximately HK\$2,114.4 million as at 31 December 2021; and
- (iii) Unissued Share Capital Cancellation: immediately following the Capital Reduction, the existing unissued share capital of the Company of HK\$131,485,428.6 will, after the completion of the Capital Reduction, be cancelled in its entirety. Forthwith upon the Unissued Share Capital Cancellation becoming effective, the authorised share capital of the Company be increased to HK\$200,000,000 by the creation of such number of additional New Shares as shall be sufficient to increase the authorised share capital of the Company to HK\$200,000,000 divided into 20,000,000,000 New Shares.

LETTER FROM THE BOARD

Immediately following the Capital Reduction and the Unissued Share Capital Cancellation, the Company's authorised share capital will remain as HK\$200,000,000 divided into 20,000,000,000 shares of HK\$0.01 each and the issued and fully paid-up capital of the Company will be HK\$3,425,728.57 divided into 342,572,857 ordinary shares of HK\$0.01 each.

Upon the proposed Capital Reorganisation becoming effective, the accumulated losses of the Company will be reduced from approximately HK\$2,114.4 million as at 31 December 2021 to approximately HK\$989.6 million.

Effects of the Capital Reorganisation

Other than the relevant expenses to be incurred, the implementation of the Capital Reorganisation will not, by itself, alter the underlying assets, liabilities, businesses, operations, management or financial position of the Company and the Group or the rights of the Shareholders.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company, before and after completion of the Capital Reorganisation (assuming no Shares are issued from the Latest Practicable Date until the effective date of the Capital Reorganisation):

| | Immediately before the Capital Reorganisation becoming effective | Immediately after the Capital Reorganisation becoming effective |
|-------------------------------------|---|--|
| Par value | HK\$0.20 per Share | HK\$0.01 per New Share |
| Number of authorised shares | 1,000,000,000 Shares | 20,000,000,000 New Shares |
| Authorised share capital | HK\$200,000,000 | HK\$200,000,000 |
| Number of issued and paid-up shares | 342,572,857 Shares | 342,572,857 New Shares |
| Paid-up capital | HK\$68,514,571.40 | HK\$3,425,728.57 |

The New Shares will rank *pari passu* in all respects with each other in accordance with the Company's memorandum and articles of association.

LETTER FROM THE BOARD

Conditions for Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (i) the passing of the necessary resolutions by the Shareholders to approve the Capital Reorganisation at the EGM;
- (ii) the Grand Court confirming or sanctioning the Capital Reduction and compliance with any conditions the Grand Court may impose in relation to the Capital Reduction, where applicable;
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the New Shares in issue following the Capital Reorganisation taking effect; and
- (iv) registration by the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court confirming the Capital Reduction and the minute approved by the Grand Court containing the particulars required under the Companies Act of the Cayman Islands with respect to the Capital Reduction.

None of the above conditions are capable of being waived and the Capital Reorganisation shall become effective when the conditions mentioned above are fulfilled. Upon the approval of the Capital Reorganisation by the Shareholders at the EGM, the legal advisers to the Company (as to Cayman Islands law) will apply to the Grand Court for hearing date(s) to confirm the Capital Reduction and a further announcement will be made by the Company as soon as practicable after relevant court hearing date(s) is/are confirmed.

Reasons for the Capital Reorganisation

The proposed Capital Reduction will enable the par value of the Shares to be reduced from HK\$0.2 each to HK\$0.01 each. The credit arising from the Capital Reduction will be applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of credit (if any) will be transferred to the distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve.

The Board is of the opinion that the proposed Capital Reduction will give greater flexibility to the Company to declare dividends and/or to undertake any corporate exercise which requires the use of distributable reserves in the future, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future. In addition, the Board considers that the Capital Reduction will give greater flexibility to the Company to issue new Shares in the future given that the Company is not permitted, without order of the Grand Court, to issue new Shares below their nominal or par value.

LETTER FROM THE BOARD

As such, the Directors are of the view that the Capital Reorganisation are in the best interests of the Company and its Shareholders as a whole. In view of the benefits of the Capital Reorganisation that could bring to the Company and the Shareholders as a whole, it is not inter-conditional upon the Investor's Subscription and the Scheme and hence it will proceed notwithstanding that the Restructuring Agreement is terminated.

Listing and dealings

An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the New Shares. Subject to the granting of the listing of, and the 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 trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the New Shares to be admitted into CCASS established and operated by HKSCC.

No part of the equity or debt securities of the Company is listed or dealt in on any other stock exchanges other than the Stock Exchange and no such listing or permission to deal in is being or is currently proposed to be sought from any other stock exchange.

Free Exchange of Certificates for New Shares

Subject to the Capital Reduction becoming effective, Shareholders may submit their existing certificates for the ordinary Shares to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022) to exchange for certificates for the New Shares at the expense of the Company. Thereafter, certificates for the ordinary Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) by the Shareholders for each certificate issued or cancelled, whichever is higher. As the Capital Reorganisation is conditional on the approval from the Grand Court and additional time may be required for compliance with regulatory requirements in the Cayman Islands and/or with any requirements imposed by the Grand Court, the Company will notify the Shareholders of the timetable of the Capital Reorganisation by way of announcement(s) as and when appropriate.

All existing certificates of the ordinary Shares will continue to be evidence of entitlement to such ordinary Shares and be valid for delivery, transfer and settlement purpose.

LETTER FROM THE BOARD

2. ISSUE OF NEW SHARES TO THE INVESTOR

The Investor's Subscription

Under the Restructuring Agreement, the Investor's Subscription, together with the Scheme, forms part of the Restructuring Transactions. A summary of the principal terms of the Investor's Subscription is set out below.

| | | |
|---|---|--|
| Parties to the Restructuring Agreement | : | (i) the Company (as issuer) (ii) the Investor (as subscriber) (iii) Mr. Lyu (iv) the JPLs |
| Issue Price | : | HK\$0.044 per New Share |
| Amount of the Investor's Subscription | : | HK\$99,483,158 |
| Number of shares to be issued under the Investor's Subscription | : | 2,260,980,856 New Shares |
| Enlarged issued share capital upon completion of the Capital Reorganisation and the Investor's Subscription | : | 2,603,553,713 New Shares |

Mr. Lyu is an executive Director and the chairman of the Company and the Investor is a company incorporated in the BVI principally engaged in investment holding and is wholly-owned by Mr. Lyu.

Mr. Lyu received education in mainland China with forestry major. He had worked with various forestry related corporations in mainland China with extensive experience in the wood business. Mr. Lyu has over 15 years of experience in senior corporate management. Mr. Lyu was the chairman and chief executive of China Wood Group Company Limited (中國木材(集團)有限公司) during the period from 1998 to 2013. Mr. Lyu was redesignated as the senior consultant of China Wood Group Company Limited (中國木材(集團)有限公司) from 2013 to 2018. He had worked with various forestry-related corporations in mainland China with over 20 years of experience in the wood business and has valuable expertise in sourcing and assessing quality wood products suitable for the Group's wood business in the future.

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It is the intention of the Investor to continue the existing businesses of the Group. The Investor has no intention to introduce any major changes to the businesses of the Group (including any redeployment of the fixed assets of the Group) or terminate the continued employment of the employees of the Group.

The Investor's Subscription Shares represent (i) approximately 66.0% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 86.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Investor's Subscription Shares; and (iii) approximately 66.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Investor's Subscription Shares and the Scheme Shares in full.

The Investor entered into the Funding Agreement with the Company dated 31 December 2020 for the purpose of facilitating and/or supporting the restructuring of the Group. The Funding Agreement with a credit facility up to HK\$35,000,000 bearing interest at 18% per annum shall only be used for the payment (or reimbursement) of the fees and expenses (including legal costs of the Company in respect of restructuring) of the JPLs and other professional parties incurred or to be incurred in connection with, (i) the restructuring of the Company and/or the Group and the preparation of the Funding Agreement; (ii) the maintenance of the key personnel and intellectual property of the Company to ensure the Company will continue to be in satisfaction of the listing requirements; and (iii) any other purpose as may be agreed between the Company, the JPLs and the Investor from time to time. At the time of negotiating with the Investor for the financing, the Group was facing financial difficulties and therefore was in need for funding to proceed with the restructuring of the Group. The Company has announced to conduct a rights issue on a non-fully underwritten basis dated 15 May 2020 as an attempt to raise long term fund for general working purpose but the results were far from satisfaction as it was under-subscribed by about 97.01% of the maximum number of rights shares offered under such rights issue. As disclosed in the interim report for the six months ended 30 June 2020, the net liabilities of the Group as of 30 June 2020 were HK\$80.6 million. Given the financial situation of the Group, it was not possible for the Company to obtain any third party financing other than the Investor. As such, the Directors consider that the terms of the Funding Agreement including the interest rate at 18% per annum are fair and reasonable in view of the financial position of the Group and no security being required to be given to the Investor. As the Funding Agreement is conducted on normal commercial terms or better and it is not secured by the assets of the Group, the entering into of the Funding Agreement is a connected transaction on the part of the Company but is fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, out of the HK\$35,000,000 credit facility under the Funding Agreement, HK\$13.8 million has been drawn down by the Company and the amount of interests accrued under the Funding Agreement is approximately HK\$2.0 million.

LETTER FROM THE BOARD

The Investor's Subscription is expected to be completed at the same time of the allotment and issue of the Scheme Shares. Upon completion of the Investor's Subscription, the payment liability of the Investor under the Funding Agreement shall be discharged in full, and any remaining outstanding amount and interest accrued respectively thereunder pursuant to the terms thereof shall be repaid by the Company to the Investor in cash as soon as practicable after completion of the Investor's Subscription which shall take place within ten(10) Business Days from the effective date of the Scheme.

All drawdowns and interests accrued under the Funding Agreement shall be repaid by the Company by (i) no later than 25 months from the date of the Funding Agreement; (ii) within ten(10) Business Days from the effective date of any scheme for the restructuring of the debts of the Company; or (iii) immediately upon the making of a winding-up order, whichever earlier.

The consideration for the Investor's Subscription shall be payable by the Investor to the Company in cash by way of a cashier order issued by a licensed bank in Hong Kong or by way of telegraphic transfer to the designated bank account of the Company on the date of completion of the Investor's Subscription.

In the event that the Investor's Subscription does not take place before 31 December 2023 or such later date as the Investor, the Company and the JPLs may agree in writing, the obligation of the parties under the Restructuring Agreement in relation to the Investor's Subscription shall cease and determine and the Company's repayment obligation under the Funding Agreement shall continue to survive and be governed by the terms and conditions thereof.

The Issue Price

The Issue Price of HK\$0.044 per New Share under the Investor's Subscription represents:

- (i) a discount of approximately 32.3% to the closing price of HK\$0.065 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 29.5% to the average of the closing price per Share of approximately HK\$0.0624 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 31.3% to the average of the closing price per Share of HK\$0.064 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and

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- (iv) a premium of approximately HK\$3.734 over the audited consolidated net liabilities attributable to owners of the Company of approximately HK\$3.69 per Share as at 31 December 2021.

The Issue Price was determined after arm's length negotiation between the Company, the JPLs and the Investor and the main purpose of which is to provide funding for the rescue operation of the Company. Hence the nature and circumstances leading to the issue of the Investor's Subscription Shares and the Scheme Shares are different. The Investor's investment in the Company is new "good money" from a rescue perspective whereas the Scheme Shares are issued to the Scheme Creditors as settlement of the existing debts due to the Scheme Creditors who had already incurred the loss. Without the proposed rescue operation and the implementation of the Scheme, the Company will likely be wound-up and liquidated and as explained in the Announcement, the Creditors of the Company will unlikely to recover anything material when the Company is liquidated. The risks associated with the Creditors and the Investor are not comparable. In addition, since the Company is in distressed situation, the subscription of the Investor would be the only available funding source for the Company to turn around the financial position of the Company and is in the best interests of the Creditors and Shareholders as a whole.

Given that financial performance of the Group was far from satisfactory in recent years, the non-executive Director and the independent non-executive Directors are of the view that a discounted Issue Price is inevitable in this large-scale fundraising exercise. Further a discounted issue price is not uncommon among the companies involving creditors' scheme or debt restructuring. In light of the fact that the Investor is willing to provide fresh money to the Company during its hard time to maintain its operation and pursue for the Restructuring Transactions, and to support the future operation of the Group after the restructuring despite the uncertainty surrounding the future performance of the Group with reference to its existing business condition, the non-executive Director and the independent non-executive Directors consider that the Issue Price which is set at a premium over the net liabilities per New Share of the Company as at 31 December 2021 is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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In determining the Issue Price, the Company had also considered the issue price trend of share issues by listed companies in Hong Kong involving issue of new shares in connection with creditor's scheme or debt restructuring (the "Comparable Cases") in 2021. Below sets out the summary of the Comparable Cases which are meant to be an exhaustive list of companies having undertaken similar restructuring actions as the Company.

| Company name (Stock code) | Date of announcement/ circular | Premium/(discount) of the issue price over/(to) average closing price per share for the closing price per share on the respective last trading day | | latest published net asset value per share Approximate % |
|---|--------------------------------------|--|-------------------------|---|
| | | Approximate % | Approximate % | |
| Arta Techfin Corporation Limited (formerly known as Freeman Fintech Corporation Limited) (279) | 26/5/2021 | (81.8) <i>(note)</i> | (83.0) <i>(note)</i> | Net liabilities |
| Up Energy Development Group Limited (307) – delisted | 31/12/2020 | – | Not disclosed | (5.8) |
| Da Sen Holdings Group Limited (1580) | 8/1/2021 | (67.0) | (68.0) | (82.8) |
| Century Energy International Holdings Limited (formerly known China Oil Gangran Energy Group Holdings Limited) (8132) | 19/3/2021 | (87.6) | (89.9) | Net liabilities |
| Sun Cheong Creative Development Holdings Limited (1781) – delisted | 8/11/2021 | (91.0) | (91.0) | Net liabilities |
| Samson Paper Holdings Limited (731) | 22/11/2021 | (96.7) | (96.6) | Net liabilities |
| | Minimum | (67.0) | (68.0) | (82.8) |
| | Maximum | (96.7) | (96.6) | (82.8) |
| | Average | (84.8) | (85.7) | (82.8) |
| The Issue Price | | (32.3) | (29.5) | Net liabilities |

Note: representing the discount to the average issue price

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As shown in the table above, the discount of the issue prices to the closing prices on the respective last trading days ranged from a discount of approximately 96.7% to equivalent to the issue price, with an average discount of 86.0%. The Issue Price per Investor's Subscription Share, which is at a discount of approximately 32.3% to the closing price on the Last Trading Day, is closer towards the lower end of the spectrum when comparing with the Comparable Cases.

Conditions of the Investor's Subscription

Completion of the Investor's Subscription is conditional upon the fulfillment or waiver of the following conditions precedent:

- (i) the High Court having sanctioned the Scheme and/or recognised the Scheme;
- (ii) the Capital Reorganisation having become effective;
- (iii) the passing of the necessary resolutions by (i) at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) by at least 50% of the Independent Shareholders at the EGM by way of poll in respect of the Restructuring Agreement and the transactions contemplated thereunder, including (a) the Capital Reorganisation; (b) the Investor's Subscription; and (c) the Scheme;
- (iv) the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the Investor's Subscription Shares to be issued (and such listing and permission not being subsequently revoked prior to completion of the Investor's Subscription);
- (v) the Whitewash Waiver being granted by the Executive and not subsequently revoked prior to completion of the Investor's Subscription;
- (vi) the representations and warranties in respect of (i) the Company; and (ii) the Investor's Subscription Shares being true and accurate and not misleading at the date of completion of the Investor's Subscription; and
- (vii) the Scheme having become unconditional.

None of the conditions precedent above could be waived. As at the Latest Practicable Date, condition (i) has been fulfilled.

The Company shall issue a closing notice to the Investor and the JPLs within three (3) Business Days following satisfaction of the conditions precedent for the Investor's Subscription and completion for the Investor's Subscription shall take place within five (5) Business Days after the issue of the Closing Notice by the Company.

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As the completion of the Investor's Subscription and the Scheme Shares Issue are interconditional upon each other, the Investor's Subscription Shares and the Scheme Shares will be issued at the same time. In simple words, if for any reason the Scheme Shares Issue does not proceed, the Investor's Subscription will not proceed, and vice versa.

Pursuant to the Restructuring Agreement, if the conditions precedent for the Scheme and the Investor's Subscription have not been fulfilled or waived (as the case may be) on or before 31 December 2023, the Restructuring Agreement will be terminated and the Investor's Subscription will not proceed.

Application for the listing of the Investor's Subscription Shares

The Investor's Subscription is subject to, among other matters, the Independent Shareholders' approval. If approved, the Company will allot and issue the Investor's Subscription Shares under the Specific Mandate to be granted by the Independent Shareholders at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Investor's Subscription Shares.

Ranking of the Investor's Subscription Shares

The Investor's Subscription Shares will rank *pari passu* in all respects with each other and with the Shares in issue on the date of allotment and issue of the Investor's Subscription Shares in accordance with the Company's memorandum and articles of association including the right to dividend and any other distribution as may be declared thereafter.

Reasons for the Investor's Subscription and the Use of Proceeds

The Investor's Subscription, together with the Capital Reorganisation and the Scheme, is part of the corporate rescue action of the Company, which involves relieving the liabilities of the Company and the funding provided under the Funding Agreement, and to provide sufficient funding for the Company to continue and further develop its business.

The Group is principally engaged in (i) sale and distribution of furniture wood, manufacturing and sales of antique style wood furniture and imported timber flooring processing businesses; and (ii) car rental business in the PRC. On 9 March 2022, the Company entered into a strategic cooperation agreement for the provision of wood construction moulding, wood flooring, doors and window frames and other wood products to China Construction Eighth Bureau Development and Construction Limited (中建八局發展建設有限公司)[#], an independent third party which is not a Shareholder and not connected with the Company, its Shareholders or the Investor and is an enterprise approved by the Ministry of Housing and Urban-Rural Development of the PRC as a qualified enterprise for new housing construction primarily engaged in housing construction, infrastructure, industrial installation, investment and development, and engineering design in the PRC, Africa, the Middle East, Central Asia and Southeast Asia.

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The gross proceeds from the Investor's Subscription amount to HK\$99.5 million and will be applied towards: firstly, full repayment of the amount drawn under Funding Agreement and the interest accrued therein; secondly, HK\$50 million for the distribution of the Cash Bonus under the Scheme; thirdly, HK\$15.2 million for payment to the professional parties (i.e. joint provisional liquidators and Scheme Administrators etc.) for the cost of restructuring; and the remaining balance for general working capital and operating expenses.

The Company, with the assistance of the JPLs, negotiated with Mr. Lyu and the Investor in formulating a feasible restructuring plan and finally came up with the Restructuring Agreement and the Restructuring Transactions. It was agreed between the Company and the Investor that the Investor would provide further funding to the Company through the Investor's Subscription under the Restructuring Agreement for the implementation of the restructuring plan and for the future operation of the Company.

3. THE SCHEME

The Scheme is legally binding on the Company and its Creditors and it involves: (i) the Cash Bonus; (ii) the Scheme Shares Issue; and (iii) the Disposal, which the details are set out below:

Cash Bonus

Under the Scheme and subject to the terms thereof, HK\$50 million of the total proceeds from the Investor's Subscription, will be utilised to be distributed to the Creditors with Admitted Claims on a pro-rata basis for their Admitted Claim, which serve as a bonus to the Creditors and provide an incentive to the Creditors for their support of the Scheme. The distribution of the Cash Bonus will be conducted in accordance with the terms of the Scheme.

Scheme Shares Issue

Under the Scheme, the Company will allot and issue the Scheme Shares to the Creditors to compromise, discharge and/or settle the Debts owing by the Company to the Creditors in full.

As at the Latest Practicable Date, based on the available books and records of the Company, the total estimated indebtedness, owed by the Company to its Creditors is approximately HK\$1,482 million. Although this indebtedness figure is indicative and will be subject to the proof of Debts filed in accordance with the terms of the Scheme, the final determination by the Scheme Administrators and (if applicable) adjudication under the Scheme, the final indebtedness figure is not expected to exceed HK\$1,482 million and the Company will make announcement as soon as the final indebtedness figure becomes available which is expected to be after the implementation of the Scheme.

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Upon the Scheme becoming effective and after the adjudication for the Admitted Claims is completed, the Company will implement the Scheme Shares Issue, under which it is estimated that the Company will allot and issue, in aggregate, up to a maximum of 823,739,687 New Shares where the Creditors will receive 1 New Share for every HK\$1.80 in the amount of the Admitted Claims due to them by the Company for settlement of the Debts of the Creditors in accordance with the terms of the Scheme, and upon which all the Debts of the Creditors will be discharged and extinguished and the Creditors will not be allowed to make any claim against the Company in respect of their Debts. The actual number of Scheme Shares to be issued will be subject to the notices of claim filed in accordance with the terms of the Scheme, the final determination by the adjudicator of the Admitted Claims appointed under the Scheme, which will be after the effective date of the Scheme, and in turn is subject to the timetable and actual development of the Scheme.

The Admitted Claims would be subject to notices of claim submitted by the Creditors and adjudication to be conducted by the Scheme Administrators after the fulfilment of all conditions precedents and the implementation of the Scheme. At this stage, the amount of Admitted Claims is yet to be determined.

Under the Scheme, Transferred Claims referred to all causes of action and claims which the Company or the Excluded Companies has or may have against any person and the rights and obligations in respect of the litigations or any potential litigations involved under the name of the Company or the Excluded Companies whether known or not known as at the date of completion of the transfer of the Excluded Companies and the Transferred Claims (but excluding the claims for trade receivables and rights to the intercompany loans of the Company), as such, the Company is not in a position to estimate the amount of Transferred Claims until the completion of the transfer of the Excluded Companies to the Scheme Company.

The issue price of the Scheme Shares was determined with reference to the prevailing market conditions, situation and financial position of the Company and recovery rate to be approved by the Creditors. The maximum number of 823,739,687 Scheme Shares will represent approximately 24% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Investor's Subscription Shares and the Scheme Shares (assuming there is no change in the issued share capital of the Company other than the allotment and issue of the Investor's Subscription Shares and the Scheme Shares), and will rank *pari passu* in all respects with each other in accordance with the Company's memorandum and articles of association.

All of the Creditors are independent of and not connected with the Company and its subsidiaries, its connected person(s) and their respective associate(s) and none of them are Shareholders. The Investor is a company incorporated in the BVI and is wholly-owned by Mr. Lyu who is an executive Director and the chairman of the Company.

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Application for the listing of the Scheme Shares

The allotment and issue of the Scheme Shares is subject to, among other matters, the Independent Shareholders' approval. The Company will allot and issue the Scheme Shares under the Specific Mandate to be granted by the Independent Shareholders at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Scheme Shares.

Disposal of Excluded Companies and the Transferred Claims to the Scheme Administrators for the Scheme

The Scheme further envisages that (i) the equity interests of the Excluded Companies (being certain subsidiaries which are directly or indirectly held by the Company), all cash and all cash equivalents held by the Excluded Companies, all inter-companies loans due from the Excluded Companies to the Company; and (ii) all causes of action and claims which the Company or the Excluded Companies has or may have against any person and the rights and obligations in respect of the litigations or any potential litigations involved under the name of the Company and the Excluded Companies whether known or not known as at the Completion Date, will be assigned and/or transferred at a nominal value to Scheme Company, a company to be held and controlled by the Scheme Administrator(s) for the benefit of the Creditors with Admitted Claims. If it is impossible for any reason to assign and/or transfer any of the Excluded Companies to the Scheme Companies as aforesaid, such Excluded Company shall be held on trust by a nominee of the Scheme Administrator(s) for the Excluded Company and the Company shall take such action as the Scheme Administrator(s) may reasonably require upon the indemnification by the Company as to the costs of so doing.

The Scheme Administrator(s) may in its/their sole and absolute discretion dispose of the Scheme Company or realise or sell the assets of the Scheme Company for the benefit of the Creditors and any Realisation Proceeds of the Scheme Company will be pooled to the Scheme Funds.

Subject to the availability of the Realisation Proceeds, the Creditor with an Admitted Claim will be entitled to receive Dividend(s) on a pro-rata basis for its Admitted Claim.

As a result of the Scheme and the disposal of the Excluded Companies, all the account receivables and the debts of the Group at the level of the Excluded Companies will be handled by the Scheme Administrator(s) who shall recover the Transferred Claims and realise the assets of the Excluded Companies for the benefit of the Creditors subject to the Excluded Companies' own liabilities, or dispose of the Excluded Companies for the benefit of the Creditors. Upon the Effective Date, the Excluded Companies will cease to be subsidiaries and any members of the Group.

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The Excluded Companies are for investment holding purposes, dormant, or engaged in a business which will not be included in the restructured Group. Moreover, it is envisaged that some of the Excluded Companies may have claims or cause of action against third parties, which would be better handled under the Scheme Company by the Scheme Administrator(s) to increase the prospects of recovery. As such, the Excluded Companies and the Transferred Claims will be disposed of and transferred to the Scheme Company for the Creditor's benefit. Based on the audited financial information of the Company, the net liabilities of the Excluded Companies amounted to approximately HK\$930 million as at 31 December 2021. The Board considers that having taken into account the amount of indebtedness and the total value of the Scheme Shares Issue, the Cash Bonus and the Disposal are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Disposal is expected to constitute a discloseable transaction under Chapter 14 of the Listing Rules and the Company will make an announcement in accordance with the Listing Rules as and when appropriate.

Details of the Excluded Companies are as follows:

| Company | Place of incorporation | Direct or indirect or subsidiaries and interest of the Company | Principal business |
|--|------------------------|--|---|
| China Wood Financial Hong Kong Company Limited | HK | Direct 100% | Administrative |
| Ace Leader Limited | BVI | Direct 100% | Investment Holding |
| Ace Leader (HK) Limited | HK | Indirect 100% | Money Lending and financial services |
| Eastern Crystal Limited | BVI | Direct 100% | Inactive |
| China Wood Finance & Investment Limited | HK | Indirect 100% | Investment Holding |
| Cypress Honour Limited | BVI | Direct 100% | Inactive |
| China Wood International Resources Co., Limited | HK | Indirect 100% | Inactive |
| Finest Achieve Limited | BVI | Direct 100% | Investment Holding |
| Acute Asia Limited | BVI | Direct 100% | Investment Holding |
| China Wood Capital Company Limited | HK | Indirect 100% | Investment Holding |
| 弘深信息諮詢(珠海)有限公司 (Hongshen Information Consulting (Zhuhai) Co., Limited) | PRC | Indirect 100% | Investment Holding & Financing services |
| Elegant Elite Investment Limited | BVI | Direct 100% | Investment Holding |
| Wealth Summit Limited | Cayman Islands | Indirect 100% | Investment Holding |
| Best Pioneer Limited | Cayman Islands | Indirect 100% | Investment Holding |
| 弘深投資管理(珠海)有限公司 (Hongshen Asset Management (Zhuhai) Co., Limited) | PRC | Indirect 100% | Fund Management |
| 弘深希望科技(珠海)有限公司 (Hongshen Xiwang Technology (Zhuhai) Co., Limited) | PRC | Indirect 100% | Investment Holding |

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| Company | Place of incorporation | Direct or indirect or subsidiaries and interest of the Company | Principal business |
|--|------------------------------|--|---------------------------------------|
| 弘深智慧能源(珠海)有限公司 (Hongshen Zhihui Energy (Zhuhai) Co., Limited) | PRC | Indirect 100% | Investment Holding |
| China Wood Public Relations Limited | HK | Indirect 100% | Provision of Public Relation Services |
| China Wood Wealth Company Limited | HK | Indirect 100% | Inactive |
| China Wood Pioneer Company Limited | HK | Indirect 100% | Inactive |
| Wealth Summit Energy Limited | Cayman Islands | Indirect 100% | Investment Holding |
| HongDa Investment SPC | Cayman Islands | Indirect 100% | Investment Holding |
| Genuine Elite Limited | BVI | Direct 100% | Investment Holding |
| Mercury Union Limited | BVI | Indirect 51% (In Dispute) | Investment Holding |
| Mercury International LLC | The United States of America | Indirect 51% (In Dispute) | Investment Holding |
| 弘深太古貿易(珠海)有限公司 (Hongshen Taigu Trading (Zhuhai) Co., Limited) | PRC | Indirect 100% | Investment Holding |
| China Wood Pioneer Venture Company Limited | HK | Indirect 100% | Investment Holding |
| Courage Reach Limited | BVI | Direct 100% | Investment Holding |
| Sword Eternal Limited | BVI | Direct 100% | Inactive |
| Courage Reach Finance Limited | HK | Indirect 100% | Investment Holding |
| Silver Triumph International Limited | BVI | Indirect 80.2% | Inactive |
| Courage Reach (Macau) Limited | Macau | Indirect 99% + 1% | Investment Holding |

Conditions precedent to the Scheme

The Scheme shall become effective subject to the fulfilment of the following conditions precedent:

- (a) over fifty per cent. (50%) in number of the Creditors, representing at least seventy-five per cent. (75%) in value of the Creditors, present and voting in person or by proxy at the Scheme meeting, vote in favour of the Scheme;
- (b) the High Court sanctions the Scheme and an official copy of the order of the High Court sanctioning the Scheme is delivered to the Registrar of Companies in Hong Kong for registration;

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- (c) the passing of the necessary resolutions by (i) at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) by at least 50% of the Independent Shareholders at the EGM by way of poll in respect of (a) the Capital Reorganisation; (b) the Investor's Subscription; (c) the Scheme and the transactions contemplated thereunder;
- (d) the Company having obtained either conditional approval or approval in-principle from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Scheme Shares on the Stock Exchange;
- (e) the Investor's Subscription having become unconditional; and
- (f) the Capital Reorganisation having become effective (including all necessary sanctions by the Grand Court and the High Court having been obtained).

All the conditions precedent to the Scheme are not capable of being waived. As at the Latest Practicable Date, conditions (a) and (b) have been fulfilled. On 26 April 2022, the sealed order of Mr. Justice Harris sanctioning the Scheme was delivered to the Registrar of Companies in Hong Kong for registration. However, the implementation of the Scheme is subject to the fulfilment or waiver (as the case may be) of various conditions. Accordingly, the Scheme may or may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares.

As the completion of the Investor's Subscription and the Scheme Shares Issue are inter-conditional upon each other, the Investor's Subscription Shares and the Scheme Shares will be issued at the same time. In simple words, if for any reason the Investor's Subscription does not proceed, the Scheme Shares Issue will not proceed, and vice versa.

Pursuant to the Restructuring Agreement, if the conditions precedent for the Scheme and the Investor's Subscription, have not been fulfilled or waived (as the case may be) on or before 31 December 2023, the Restructuring Agreement will be terminated and the Scheme will not proceed.

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EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the issue of the Investor's Subscription Shares and the Scheme Shares in full:

| | As at the Latest Practicable Date | | Immediately after completion of the issue of the Investor's Subscription Shares and the Scheme Shares in full | |
|--|--------------------------------------|--------------|--|--------------|
| | Shares | % | Shares | % |
| The Investor and its concert parties | – | – | 2,260,980,856 | 66.0 |
| Sino Merchant Car Rental Limited (<i>Note 1</i>) | 174,961,694 | 51.1 | 174,961,694 | 5.1 |
| Creditors (<i>Note 2</i>) | – | – | 823,739,687 | 24.0 |
| Dundee Greentech Limited (<i>Note 3</i>) | 39,475,000 | 11.5 | 39,475,000 | 1.2 |
| Existing Public Shareholders | <u>128,136,163</u> | <u>37.4</u> | <u>128,136,163</u> | <u>3.7</u> |
| Total | <u>342,572,857</u> | <u>100.0</u> | <u>3,427,293,400</u> | <u>100.0</u> |

Notes:

1. Sino Merchant Car Rental Limited is a company incorporated in the BVI and the issued share capital of which is owned as to 60% by Ms. Deng Shufen and 40% by Ms. Liu Jiangyuan. Ms. Deng Shufen and Ms. Liu Jiangyuan are deemed to be interested in all the shares and underlying shares in which Sino Merchant is interested by virtue of the SFO.
2. None of the Creditors are Shareholders and it is not expected that any Creditor would become a substantial Shareholder as at result of the Restructuring Transactions.
3. Dundee Greentech Limited is a company incorporated in the BVI, the entire issued share capital of which is held by Mr. Liu Hailong.

LISTING RULES IMPLICATION

The Investor's Subscription Shares and the Scheme Shares will be allotted and issued pursuant to the Specific Mandate to be obtained upon approval by the Independent Shareholders at the EGM.

As Mr. Lyu is an executive Director and the chairman of the Company, the allotment and issue of the Investor's Subscription Shares constitutes a connected transaction under Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to the Listing Rules.

LETTER FROM THE BOARD

Pursuant to Rule 7.27B of the Listing Rules, a listed issuer may not undertake a rights issue, open offer or specific mandate placings that would result in a theoretical dilution effect of 25% or more, unless the Stock Exchange is satisfied that there are exceptional circumstances. On 2 February 2021, the Company was placed in provisional liquidation for restructuring purposes only by the Cayman Court and the JPLs were appointed. In light of (i) the liquidation status of the Company and the appointment of the JPLs; (ii) and the financial performance of the Company in recent years has been poor and incurred significant loss; (iii) the Company has significant amount of net liabilities; (iv) the Company was in default of its loans; and (v) the Shares are suspended from trading as the Stock Exchange considered the Company has failed to demonstrate its compliance with Rule 13.24 of the Listing Rules, it was not possible for the Company to obtain any third party financing through debt or equity issuance nor was it possible for the Company to obtain any loans from banks or other financial institutions. In view of the insolvent financial position and the provisional liquidation status of the Company as well as the prolonged suspension of the trading in the Shares on the Stock Exchange, the closing price of the Shares on the Last Trading Day does not reasonably reflect the existing condition of the Company and the financial position of the Company could be considered as an exceptional circumstances under Rule 7.27B. Accordingly, the Directors consider it is fair and reasonable for the issue of the Investor's Subscription Shares to result in a theoretical dilution effect of approximately 28.1%.

IMPLICATIONS UNDER THE TAKEOVERS CODE

Whitewash Waiver

As at the Latest Practicable Date, save for the Restructuring Agreement, the Investor, Mr. Lyu and parties acting in concert with any of them are not interested in any Shares of the Company. Immediately after completion of the Capital Reorganisation, the Investor's Subscription and the issue of the Scheme Shares in full, the Investor will be interested in 2,260,980,856 New Shares, representing approximately 66.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Investor's Subscription Shares and the Scheme Shares in full.

The actual number of Scheme Shares to be issued will be subject to the notices of claim filed in accordance with the terms of the Scheme, the final determination by the adjudicator of the Admitted Claims appointed under the Scheme, which will be after the effective date of the Scheme, and in turn is subject to the timetable and actual development of the Scheme.

LETTER FROM THE BOARD

Under Rule 26.1 of the Takeovers Code, the acquisition of 30% or more of the voting rights in the Company by the Investor as a result of the Investor's Subscription would trigger an obligation on the Investor to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Investor and its concert parties), unless the Whitewash Waiver is granted by the Executive. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Restructuring Agreement and the transactions contemplated thereunder, including the Capital Reorganisation, the Investor's Subscription and the Scheme, in which the Investor, Mr. Lyu and parties acting in concert with any of them and the Shareholders who are involved in or interested in any of the Restructuring Transactions and the Whitewash Waiver will abstain from voting on the relevant resolution(s). The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Restructuring Agreement will terminate forthwith.

Upon completion of the Investor's Subscription, the maximum potential holding by the Investor and parties acting in concert with it will exceed 50% of the then total number of issued Shares in which case, the Investor and parties acting in concert with it may increase their shareholdings in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company is not aware of any concerns on the compliance of the Restructuring Transactions with other applicable rules or regulations (including the Listing Rules). Should such concern arise, the Company will endeavour to resolve the matter to the satisfaction of the relevant authorities as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Restructuring Transactions do not comply with any other applicable rules and regulations.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save from the Restructuring Transactions, the Company had not conducted any equity fund raising activities involving the issue of its equity securities in the 12 months immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date, the Company has no plan to conduct any other corporate actions including share consolidation, share sub-division and other fund raising activities in the next twelve months.

LETTER FROM THE BOARD

WHITEWASH WAIVER INDEPENDENT BOARD COMMITTEE, CONNECTED TRANSACTION INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Whitewash Waiver Independent Board Committee comprising the non-executive Director, Mr. Hu YongGang, and all the independent non-executive Directors, namely Mr. Zhao XianMing, Ms. Zhao Xiao Lian and Mr. So Yin Wai, in compliance with Rule 2.8 of the Takeovers Code has been formed to advise the Independent Shareholders on the terms of the Restructuring Transactions and the Whitewash Waiver and as to voting.

The Connected Transaction Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zhao XianMing, Ms. Zhao Xiao Lian and Mr. So Yin Wai, has been formed to advise the Independent Shareholders on the terms of the Investor's Subscription and as to voting. None of the members of the Connected Transaction Independent Board Committee nor the Whitewash Waiver Independent Board Committee has any interest or involvement in the transactions contemplated under the Restructuring Agreement or the Whitewash Waiver.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Connected Transaction Independent Board Committee, the Whitewash Waiver Independent Board Committee and the Independent Shareholders in accordance with the requirements under the Listing Rules and the Takeovers Code on the terms of the Investor's Subscription, the Whitewash Waiver, the Specific Mandate and as to voting in the EGM.

GENERAL

The EGM will be convened and held for the purpose of considering and, if thought fit, approving (i) the Capital Reorganisation; (ii) the Investor's Subscription; (iii) the Scheme (including the Scheme Shares Issue and the Disposal); (iv) the Whitewash Waiver; (v) the Specific Mandate, and the transactions contemplated under the Restructuring Agreement. An independent non-executive Director will be proposed as chairman of the EGM.

As no Shareholder is interested or involved in the Capital Reorganisation, none of the Shareholders will be required to abstain from voting on any resolutions proposed at the EGM in relation to the Capital Reorganisation.

The Creditors, Investor, Mr. Lyu and parties acting in concert with any of them and any Shareholders who are otherwise interested in or involved in the Investor's Subscription and the Whitewash Waiver will be required to abstain from voting on any resolutions proposed at the EGM in relation to the Investor's Subscription and the Whitewash Waiver.

LETTER FROM THE BOARD

The Creditors, the Investor, Mr. Lyu, and parties acting in concert with any of them and any Shareholders who are otherwise interested in or involved in the Scheme and the allotment and issue of the Scheme Shares will be required to abstain from voting on any resolutions proposed at the EGM in relation to the Scheme and the allotment and issue of the Scheme Shares.

Save as disclosed above, none of the other Shareholders and their respective associates are required to abstain from voting on any resolution(s) to be proposed at the EGM.

A notice convening the EGM to be held at Room 3008-3009, 30/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at 3:00 p.m. on Tuesday, 30 August 2022 is set out on pages 84 to 88 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022) as soon as possible and in any event no later than 3:00 p.m. on 28 August 2022 (Hong Kong time). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 25 August 2022 to 30 August 2022 (both days inclusive), during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022) for registration not later than 4:30 p.m. on 24 August 2022.

RECOMMENDATION

The Directors (excluding the non-executive Directors, whose opinion is set forth in the Letter from the Whitewash Waiver Independent Board Committee and the Letter from the Connected Transaction Independent Board Committee in this circular) consider that the terms of the Investor's Subscription, the Restructuring Transactions, the Specific Mandate and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

CONTINUED SUSPENSION OF TRADING IN THE SHARES

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 22 October 2021 and will remain suspended until further notice.

Completion of each of the Restructuring Transactions are subject to the fulfilment or waiver (as the case may be) of various conditions. Accordingly, the Restructuring Transactions may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares.

The Exchange is minded not to grant the listing approval of any issuance of new securities by the Company unless the Company can fulfill all resumption guidance and resume trading. The publication of this circular does not indicate any decision or conclusion from the Stock Exchange nor warrant any approval from the Stock Exchange on the resumption of trading in Shares given that the resumption in trading of the Shares. For the avoidance of doubt, the Exchange is not satisfied that the Company has fulfilled all resumption guidance.

FURTHER INFORMATION

Your attention is drawn to the letter from the Whitewash Waiver Independent Board Committee set out on pages 33 to 34, and the letter from the Connected Transaction Independent Board Committee set out on set out on pages 35 to 36 of this circular, respectively, which contain their respective recommendations to the Independent Shareholders as to voting at the EGM. The letter from Gram Capital is set out on pages 37 to 57 of this circular which contains its advice to the Whitewash Waiver Independent Board Committee and the Connected Transaction Independent Board Committee and Independent Shareholders in relation to the terms of the Investor's Subscription and the Whitewash Waiver.

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

BASIS IN PREPARING THE PROFIT ESTIMATE

We refer to the statement in respect of the Profit Estimate as set out in the paragraph headed "3. Material Change" in Appendix I of the circular, which constitutes a profit estimate under Rule 10 of the Takeovers Code. McMillan Woods (Hong Kong) CPA Limited and Gram Capital have reported on the Profit Estimate, the letters of which are set out in Appendices III and IV, respectively, to this circular.

LETTER FROM THE BOARD

The Directors prepared the Profit Estimate based on the management accounts of the Group for the five months ended 31 May 2022, which had been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the published annual report of the Company for the year ended 31 December 2021. For further details, please refer to Appendices III and IV to this circular.

By order of the Board

China Wood International Holding Co., Limited

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

Lyu NingJiang

Chairman and Executive Director



CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

5 August 2022

To the Independent Shareholders

Dear Sir or Madam

RESTRUCTURING TRANSACTIONS INVOLVING:
(1) CAPITAL REORGANISATION;
(2) ISSUE OF NEW SHARES TO THE INVESTOR;
(3) SCHEME OF ARRANGEMENT;
(4) PROPOSED ISSUE OF
NEW SHARES UNDER SPECIFIC MANDATE; AND
(5) APPLICATION FOR WHITEWASH WAIVER
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular of the Company dated 5 August 2022 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Whitewash Waiver Independent Board Committee and to advise the Independent Shareholders as to whether the terms of the Investor’s Subscription and the Whitewash Waiver are fair and reasonable and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Gram Capital. Gram Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

LETTER FROM WHITEWASH WAIVER INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to (i) the letter of advice from Gram Capital as set out on pages 37 to 57 of this circular; and (ii) the letter from the Board as set out on pages 8 to 32 of this circular and the additional information set out in the appendices to the Circular.

Having taken into account the principal reasons and factors considered by, and the advice of, Gram Capital, we are of the opinion that the Investor's Subscription and the Whitewash Waiver are on normal commercial terms, in the interests of the Company and the Independent Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Investor's Subscription and the Whitewash Waiver.

Yours faithfully,

For and on behalf of

Whitewash Waiver Independent Board Committee of

China Wood International Holding Co., Limited

| | | | |
|-------------------------|--------------------------|---------------------------|-----------------------|
| Mr. Hu Yong Gang | Mr. Zhao XianMing | Ms. Zhao Xiao Lian | Mr. So Yin Wai |
| <i>Non-executive</i> | <i>Independent</i> | <i>Independent</i> | <i>Independent</i> |
| <i>Director</i> | <i>non-executive</i> | <i>non-executive</i> | <i>non-executive</i> |
| | <i>Director</i> | <i>Director</i> | <i>Director</i> |



CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

5 August 2022

To the Independent Shareholders

Dear Sir or Madam

RESTRUCTURING TRANSACTIONS INVOLVING:
(1) CAPITAL REORGANISATION;
(2) ISSUE OF NEW SHARES TO THE INVESTOR;
(3) SCHEME OF ARRANGEMENT;
(4) PROPOSED ISSUE OF
NEW SHARES UNDER SPECIFIC MANDATE; AND
(5) APPLICATION FOR WHITEWASH WAIVER
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular of the Company dated 5 August 2022 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Connected Transaction Independent Board Committee and to advise the Independent Shareholders as to whether the terms of the Investor’s Subscription are fair and reasonable and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Gram Capital. Gram Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

LETTER FROM THE CONNECTED TRANSACTION INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to (i) the letter of advice from Gram Capital as set out on pages 37 to 57 of this circular; and (ii) the letter from the Board as set out on pages 8 to 32 of this circular and the additional information set out in the appendices to the Circular.

Having taken into account the principal reasons and factors considered by, and the advice of, Gram Capital, we are of the opinion that although the Investor's Subscription is not in the ordinary and usual course of business of the Group, it is on normal commercial terms, in the interests of the Company and the Independent Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Investor's Subscription and the Specific Mandate.

Yours faithfully,

For and on behalf of

Connected Transaction Independent Board Committee of
China Wood International Holding Co., Limited

Mr. Zhao XianMing

*Independent non-executive
Director*

Ms. Zhao Xiao Lian

*Independent non-executive
Director*

Mr. So Yin Wai

*Independent non-executive
Director*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders in respect of the Investor's Subscription and the Whitewash Waiver for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

5 August 2022

*To: The independent board committees and the independent shareholders
of China Wood International Holding Co., Limited*

Dear Sir/Madam,

**(I) CONNECTED TRANSACTION IN RELATION TO
ISSUE OF NEW SHARES TO THE INVESTOR;
AND
(II) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Whitewash Waiver Independent Board Committee, the Connected Transaction Independent Board Committee (the “**Independent Board Committees**”) and the Independent Shareholders in respect of the Investor's Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 5 August 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 16 February 2022 (after trading hours), the Company, the JPLs, the Investor and Mr. Lyu (an executive Director and the chairman of the Company) entered into the conditional Restructuring Agreement, which sets out the terms of the Restructuring Transactions (including the Capital Reorganisation, the Investor's Subscription; and the Scheme).

Pursuant to the terms of the Restructuring Agreement in relation to the Investor's Subscription, the Investor conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 2,260,980,856 New Shares at the issue price of HK\$0.044 per New Share.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, as at the Latest Practicable Date, the Investor, Mr. Lyu and parties acting in concert with any of them are not interested in any Share. Immediately after completion of the Capital Reorganisation, the Investor's Subscription and the issue of the Scheme Shares in full, the Investor will be interested in 2,260,980,856 New Shares, representing approximately 66.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Investor's Subscription Shares and the Scheme Shares in full.

With reference to the Board Letter, the Investor's Subscription constitutes a connected transaction under Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to the Listing Rules.

With reference to the Board Letter, under Rule 26.1 of the Takeovers Code, the acquisition of 30% or more of the voting rights in the Company by the Investor as a result of the Investor's Subscription would trigger an obligation on the Investor to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Investor and its concert parties), unless the Whitewash Waiver is granted by the Executive. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Restructuring Agreement and the transactions contemplated thereunder, including the Capital Reorganisation, the Investor's Subscription and the Scheme, in which the Investor, Mr. Lyu and parties acting in concert with any of them and the Shareholders who are involved in or interested in any of the Restructuring Transactions and the Whitewash Waiver will abstain from voting on the relevant resolutions.

The Whitewash Waiver Independent Board Committee comprising of Mr. Hu YongGang (a non-executive Director), Mr. Zhao XianMing, Ms. Zhao Xiao Lian and Mr. So Yin Wai (being all the independent non-executive Directors) has been established to advise the Independent Shareholders on the terms of the Investor's Subscription and the Whitewash Waiver. The Connected Transaction Independent Board Committee comprising of Mr. Zhao XianMing, Ms. Zhao Xiao Lian and Mr. So Yin Wai (being all the independent non-executive Directors) has been established to advise the Independent Shareholders on the terms of the Investor's Subscription. We, Gram Capital Limited, have been appointed with the approval of the Whitewash Waiver Independent Board Committee and the Connected Transaction Independent Board Committee (the "**Independent Board Committees**") as the Independent Financial Adviser to advise the Independent Board Committees and the Independent Shareholders in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committees and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate 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 intention made by the Directors in the Circular were reasonably made after due enquiry 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 and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Investor's Subscription and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix II to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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 of the Company, Mr. Lyu, the Investor or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Investor's Subscription and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

LETTER FROM GRAM CAPITAL

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Investor's Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

I. BACKGROUND OF THE INVESTOR'S SUBSCRIPTION

Information on the Group

With reference to the Board Letter, the Group is principally engaged in (i) sale and distribution of furniture wood, manufacturing and sales of antique style wood furniture and imported timber flooring processing businesses; and (ii) car rental business in the PRC.

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report"):

| | For the year ended 31 December 2021 <i>HK\$'000</i> | For the year ended 31 December 2020 <i>HK\$'000</i> | Year-on-year change % |
|--|---|---|-----------------------------|
| Revenue | 116,067 | 24,304 | 377.56 |
| – <i>Trading and processing of goods</i> | 104,406 | 9,334 | 1,018.56 |
| – <i>Car rental</i> | 11,177 | 13,968 | (19.98) |
| – <i>Others</i> | 484 | 1,002 | (51.70) |
| Gross profit | 14,416 | 4,398 | 227.79 |
| Loss for the year | (274,560) | (1,064,419) | (74.21) |
| | As at 31 December 2021 <i>HK\$'000</i> | As at 31 December 2020 <i>HK\$'000</i> | Year-on-year change % |
| Cash and cash equivalents | 2,539 | 3,332 | (23.80) |
| Net current liabilities | (1,324,644) | (1,089,512) | 21.58 |
| Net liabilities | (1,263,819) | (986,499) | 28.11 |

LETTER FROM GRAM CAPITAL

The Group's revenue and gross profit for the year ended 31 December 2021 ("FY2021") were approximately HK\$116.07 million and HK\$14.42 million respectively, representing significant increases as compared to those for the year ended 31 December 2020 ("FY2020"). With reference to the 2021 Annual Report, the aforesaid increases in revenue and gross profit were mainly due to increase in turnover on trading and processing of wood products goods.

The Group recorded loss of approximately HK\$274.56 million for FY2021, representing decrease of approximately 74.21% as compared to that for FY2020. We noted from the 2021 Annual Report that such decrease was mainly due to reduction in (i) net other losses (mainly fair value loss on financial assets at "fair value through profit or loss"); (ii) allowances for net expected credit losses on trade, loan and other receivables; and (iii) other expenses.

The Group recorded net current liabilities and net liabilities as at 31 December 2020 and 31 December 2021. The Group's cash and cash equivalents, net current liabilities and net liabilities were approximately HK\$2.54 million, HK\$1,324.64 million and HK\$1,263.82 million respectively as at 31 December 2021.

With reference to the 2021 Annual Report and as confirmed by the Directors, the loss incurred by the Group for FY2021, the Group's net current liabilities and net liabilities as at 31 December 2021 indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Group's consolidated financial statements were prepared on a going concern basis, the validity of which is dependent upon outcomes of (i) the restructuring of the Group to renew or extend existing borrowings or complete debt financing to meet its liabilities as they fall due, and (ii) new fund is able to be raised to a level sufficient to finance the working capital requirements of the Group. In view of the extent of the uncertainty relating to the outcomes of the Group's funding activities, the Company's auditors disclaimed their opinion in respect of the material uncertainty relating to the going concern basis (the "**Going Concern Uncertainty**").

With reference to the section headed "3. MATERIAL CHANGE" of Appendix I to the Circular in relation to the material change in the financial or trading position or outlook of the Group since 31 December 2021 and up to the Latest Practicable Date:

- (i) The Group's inventories as at 31 May 2022 substantially increased as compared to that as at 31 December 2021, mainly due to preparation for expected increase in sales order;
- (ii) the Group's trade receivables as at 31 May 2022 substantially decreased as compared to that as at 31 December 2021, mainly due to tightened credit control; and

LETTER FROM GRAM CAPITAL

- (iii) the Group's revenue and gross profit for the five months ended 31 May 2022 substantially increased as compared to those for the corresponding period in 2021, mainly due to increase in demand from customers.

Paragraph (iii) above constitutes profit forecast under Rule 10 of the Takeovers Code and must be reported on by the financial adviser and the auditors or consultant accountants. The report from McMillan Woods (Hong Kong) CPA Limited (being the auditor of the Company) in compliance with Rule 10 of the Takeovers Code is contained in Appendix III to the Circular and our report in compliance with Rule 10 of the Takeovers Code is contained in Appendix IV to the Circular.

With reference to the 2021 Annual Report, the Board will continue to develop the forest-related business including forest management and distribution and process of forest and timber products and to expand downstream into red wood furniture manufacturing and sales. On 9 March 2022, the Company entered into a strategic cooperation agreement for the provision of wood construction moulding, wood flooring, doors and window frames and other wood products to China Construction Eighth Bureau Development and Construction Limited* (中建八局發展建設有限公司) (the “**CCEB Company**”), an independent third party which is an enterprise approved by the Ministry of Housing and Urban-Rural Development of the PRC as a qualified enterprise for new housing construction primarily engaged in housing construction, infrastructure, industrial installation, investment and development, and engineering design in the PRC, Africa, the Middle East, Central Asia and Southeast Asia. As advised by the Directors, the Company has set up a PRC subsidiary and is preparing to provide wood products to the CCEB Company.

With reference to the section headed “6. BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECTS” of Appendix I to the Circular, Asia Pacific Forestry Development (HK) Limited (“**Asia Forestry**”), an indirect wholly-owned subsidiary of the Company, entered into a strategic cooperation agreement (the “**Strategic Cooperation Agreement**”) with Qingdao Hisense Real Estate Co., Ltd. (“**Hisense**”) in May 2022. Pursuant to the Strategic Cooperation Agreement, Asia Forestry, through its wholly-owned subsidiary to be incorporated in the PRC, will supply finished furniture, semi-finished furniture and other wood products including wood construction moulding, wood flooring, doors and window frames; and provide technical, processing and after-sale services to Hisense.

LETTER FROM GRAM CAPITAL

With reference to an article titled “China’s Furniture Market” compiled and published by the research division of Hong Kong Trade Development Council (“**HKTDC**”) on 12 October 2021 (According to HKTDC’s website, HKTDC (a) is a statutory body established in 1966 to promote, assist and develop Hong Kong’s trade; and (b) provides up-to-date market insights and product information via research reports and digital news channels):

- (i) As housing conditions continue to improve in the PRC, people are becoming increasingly willing to spend money on home decoration. Increased purchasing power has helped the furniture market to expand significantly. Urbanisation, the PRC’s main policy for stimulating domestic demand, is likely to drive growth in the furniture market.
- (ii) Data from the National Bureau of Statistics of the PRC shows that urbanisation rate of permanent residents in the PRC reached approximately 63.89% in 2020 (increased by approximately 1.18 percentage points as compared to that in previous year) (approximately 64.72% in 2021 based on our further research on data from the National Bureau of Statistics of the PRC).
- (iii) Urban wage earners and peasant families who have settled in towns and cities have become major furniture buyers.

According to the statistics published by the PRC National Bureau of Statistics, the PRC annual disposable income per capita increased from RMB23,821 for 2016 to RMB35,128 for 2021, representing a compounded annual growth rate (“**CAGR**”) of approximately 8.08%, which indicated the increase in purchasing power of the PRC citizens.

The above indicated growth potential of the PRC’s furniture market. As aforementioned, the Board will continue to develop the forest-related business including forest management and distribution and process of forest and timber products and to expand downstream into red wood furniture manufacturing and sales. Accordingly, the growth potential of the PRC’s furniture market may benefit the Group’s wood business.

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With reference to a report titled 《全新視角洞察租車行業發展趨勢—消費升級、科技創新、雙碳達標》(New Perspective Insight on Development Trend of Car Rental Industry - Consumption Upgrade, Technology Innovation and Compliance with Dual Carbon Goals*) jointly published by Boston Consulting Group (with reference to Boston Consulting Group's website, it is a global consulting firm founded in 1963 that partners with leaders in business and society, with more than 90 offices in over 50 countries and regions) and eHi Car Services Limited (with reference to eHi Car Services Limited's website, it is a PRC national-wide car rental company established in 2006 and listed on the New York Stock Exchange (stock code: EHIC) providing comprehensive car rental services for individuals, government and enterprises.) in January 2022, PRC's car rental market size reached approximately RMB96.0 billion in 2021 and is expected to reach approximately RMB158.5 billion in 2025, representing a CAGR of approximately 13.35%. Factors beneficial to the growth in the PRC's car rental market include the PRC's government policy to enhance internal circulation under the 14th Five-Year Plan (2021-2025) and recovery of number of domestic tourists in 2021.

With reference to a proposal titled “CPC Central Committee's development proposals set long-range goals through 2035” published by the PRC government in November 2020, the PRC government targeted to (i) enhance domestic demand and internal circulation; and (ii) promote integrated development of culture and tourism by building a number of world-class tourist attractions and resorts and creating a number of national-level tourism and leisure cities. According to the statistics provided by the PRC Ministry of Culture and Tourism, the total number of domestic tourists was 3.246 billion for 2021, representing an increase of approximately 12.8% as compared to that for 2020.

Development in domestic tourism (together with increased purchasing power of the PRC citizens as indicated by the increase in annual disposable income per capita as mentioned above) may stimulate demand of car rental in the PRC.

Nevertheless, with reference to the section headed “6. BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECTS” of Appendix I to the Circular and as advised by the Directors, prevailing depressed market atmosphere together with the unfavourable news of the Group about debt restructuring affected the performance of the Group's car rental services business in the PRC for FY2021. After serious assessment by the Board, the Group will conduct its rental car fleet in a more conservative approach.

Information on the Investor

According to the Board Letter, Mr. Lyu is an executive Director and the chairman of the Company and the Investor is a company incorporated in the BVI principally engaged in investment holding and is wholly-owned by Mr. Lyu. Mr. Lyu and the Investor are connected persons of the Company.

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Reasons for the Investor's Subscription

On 31 December 2020, the Company (as borrower) and the Investor (as lender) entered into the Funding Agreement with a credit facility up to HK\$35,000,000 bearing interest of 18% per annum, which shall only be used for the payment (or reimbursement) of the fees and expenses (including legal costs of the Company in respect of restructuring) of the JPLs and other professional parties incurred or to be incurred in connection with, (i) the restructuring of the Company and/or the Group and the preparation of the Funding Agreement; (ii) the maintenance of the key personnel and intellectual property of the Company to ensure that the Company will continue to be in satisfaction of listing requirements; and (iii) any other purpose as may be agreed between the Company, the JPLs and the Investor from time to time.

On 16 February 2022 (after trading hours), the Company, the JPLs, the Investor and Mr. Lyu (an executive Director and the chairman of the Company) entered into the conditional Restructuring Agreement, which sets out the terms of the Restructuring Transactions (including the Capital Reorganisation, the Investor's Subscription; and the Scheme).

With reference to the Board Letter, the Scheme is legally binding on the Company and its Creditors and it involves: (i) the Cash Bonus; (ii) the Scheme Shares Issue; and (iii) the Disposal, details of which are set out under the section headed "3. THE SCHEME" of the Board Letter. The Investor's Subscription, together with the Capital Reorganisation and the Scheme, is part of corporate rescue action of the Company, which involves relieving the liabilities of the Company and the funding provided under the Funding Agreement, and to provide sufficient funding for the Company to continue and further develop its business.

At the scheme meeting convened and held on 11 March 2022, the Scheme was approved by the requisite statutory majorities of the Creditors. On 26 April 2022, the sealed order of Mr. Justice Harris sanctioning the Scheme was delivered to the Registrar of Companies in Hong Kong for registration.

The Company, with the assistance of the JPLs, negotiated with Mr. Lyu and the Investor in formulating a feasible restructuring plan and finally came up with the Restructuring Agreement and the Restructuring Transactions (including the Investor's Subscription). It was agreed between the Company and the Investor that the Investor would provide further funding to the Company through the Investor's Subscription under the Restructuring Agreement for the implementation of the restructuring plan and for the future operation of the Company.

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Upon our enquiry, the Directors advised us that before resorting to the Investor's Subscription, they considered other fund-raising alternatives such as debt financing, bank borrowings, rights issue and open offer. Nevertheless, given the loss incurred by the Group for FY2021, the Group's net current liabilities and net liabilities as at 31 December 2021 and the Going Concern Uncertainty, the Directors considered that it would be difficult for the Group to obtain any debt financing and bank borrowings, or attain satisfactory results from rights issue/open offer, not to mention that the market capitalization of the Company was only approximately HK\$22 million as at the Last Trading Day.

The gross proceeds from the Investor's Subscription amount to HK\$99,483,158 and will be applied towards; (i) firstly, full repayment of the amount drawn under Funding Agreement and the interest accrued therein (as at the Latest Practicable Date, the amount drawn under Funding Agreement and the interest accrued therein was approximately HK\$15.8 million in aggregate) (the "**Funding Repayment**"); (ii) HK\$50 million for the distribution of the Cash Bonus under the Scheme; (iii) HK\$15.2 million for payment to the professional parties (i.e. joint provisional liquidators and Scheme Administrators, etc.) for the cost of restructuring; and (iv) the remaining balance (the "**Remaining Balance**") for general working capital and operating expenses.

Accordingly, the Investor's Subscription can (i) reduce the Group's liability in relation to the amount drawn under the Funding Agreement and the interest accrued therein; (ii) facilitate the implementation of the Scheme which will relieve the Group's liabilities; and (iii) increase the Group's cash by the amount of Remaining Balance before it is used for general working capital and operating expenses.

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As illustrated in the section headed “Information on the Group” above, the Group’s cash and cash equivalents, net current liabilities and net liabilities were approximately HK\$2.54 million, HK\$1,324.64 million and HK\$1,263.82 million respectively as at 31 December 2021. Furthermore, according to the 2021 Annual Report, the Group recorded net cash used in operating activities of approximately HK\$8.59 million for FY2020 and net cash generated from operating activities of approximately HK\$3.60 million for FY2021. In addition, the loss incurred by the Group for FY2021, the Group’s net current liabilities and net liabilities as at 31 December 2021 indicated the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

Having considered the above factors, in particular:

- (i) the Group’s financial performance and position (i.e. loss-making for FY2020 and FY2021, cash and cash equivalents, net current liabilities and net liabilities of approximately HK\$2.54 million, HK\$1,324.64 million and HK\$1,263.82 million respectively as at 31 December 2021; and existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern, despite that the Group’s revenue and gross profit for the five months ended 31 May 2022 substantially increased as compared to those for the corresponding period in 2021);
- (ii) the Group’s cash balance as at 31 December 2021 would not be sufficient to settle its liabilities;
- (iii) the Cash Bonus balance of HK\$50 million provides an incentive to the Creditors for their support of the Scheme (based on the available books and records of the Company, the total estimated indebtedness owed by the Company to the Creditors was approximately HK\$1,482 million as at the Latest Practicable Date). Without the Cash Bonus of HK\$50 million, it is uncertain as to whether the Scheme would be approved by the requisite statutory majorities of the Creditors;

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(iv) part of the proceeds from the Investor's Subscription will be applied for payment to the professional parties (i.e. joint provisional liquidators and Scheme Administrators, etc.) for the cost of restructuring; and

(v) the Remaining Balance will facilitate the Group's business operation,

we are of the view that it is reasonable for the Company to proceed with the Investor's Subscription.

With reference to the Company's announcement dated 25 October 2021, one of the guidance for resumption of trading in the Shares is to demonstrate compliance with Rule 13.24 of the Listing Rules which stipulates, amongst others, that "An issuer shall carry out, directly or indirectly, a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities.". Given that the Investor's Subscription (i) forms part of the Restructuring Transactions; (ii) will satisfy payment to the professional parties (i.e. JPLs and Scheme Administrators, etc.) for the cost of restructuring and the Cash Bonus under the Scheme; and (iii) will facilitate the Group's business operation, we believe that the Investor's Subscription will also support the Company to satisfy the aforesaid resumption guidance.

Principal terms of the Investor's Subscription

Set out below is a summary of the principal terms of the Investor's Subscription under the Restructuring Agreement, details of which are set out in the section headed "2. ISSUE OF NEW SHARES TO THE INVESTOR" of the Board letter.

Agreement date

16 February 2022 (after trading hours) (the "**Agreement Date**")

Parties

- (i) the Company (as issuer)
- (ii) the Investor (as subscriber)
- (iii) Mr. Lyu; and
- (iv) the JPLs

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| | |
|---|--------------------------|
| Amount of the Investor's Subscription: | HK\$99,483,158 |
| Number of shares to be issued under the Investor's Subscription: | 2,260,980,856 New Shares |
| Issue Price: | HK\$0.044 per New Share |

The Issue Price represents:

- (i) a discount of approximately 32.3% to the closing price of HK\$0.065 per Share as quoted on the Stock Exchange on the Last Trading Day (the “**LTD Discount**”);
- (ii) a discount of approximately 29.5% to the average of the closing price per Share of approximately HK\$0.0624 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day (the “**5-days Discount**”);
and
- (iii) a discount of approximately 31.3% to the average of the closing price per Share of HK\$0.064 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day.

With reference to the Board Letter, the Issue Price was determined after arm's length negotiation between the Company, the JPLs and the Investor and the main purpose of which is to provide funding for the rescue operation of the Company.

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Analysis on the Issue Price

In order to assess the fairness and reasonableness of the Issue Price, we conducted the following analysis:

a) Share price performance

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 5 October 2020 to 21 October 2021 (the Last Trading Day), being approximate one year up to and including the Last Trading Day (the “**Share Review Period**”) (we consider that the review period of approximate one year is commonly adopted by other independent financial advisers for share price review and sufficient for our review (as trading of the Shares in the Stock Exchange has been suspended for over eight months from 22 October 2021, a longer review period does not provide further meaning information for our analysis), to illustrate the general trend and level of movement of the closing prices of the Shares:



Source: the Stock Exchange's website

During the Share Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.161 per Share recorded on 7 October 2020 and HK\$0.045 recorded on 6 May 2021, 15 June 2021, 17 June 2021, 2 August 2021 and 5 August 2021. The Issue Price is slightly below the closing price range of the Shares during the Share Review Period.

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As depicted from the above chart, the closing prices of the Shares formed a general sliding trend from October 2020 to early May 2021. After reaching the bottom of HK\$0.045 on 6 May 2021, the closing prices of the Shares fluctuated between HK\$0.045 and HK\$0.082 and reached HK\$0.065 on 21 October 2021. Although the closing price of HK\$0.065 per Share as at 21 October 2021 was substantially recovered from the lower closing price of HK\$0.045 per Share as at 6 May 2021 (upon our enquiry, the Directors advised us that they are not aware of any particular reasons for such recovery), the market perception/reaction on the Group's latest development are unknown after trading in the Shares suspended subsequent to the Last Trading Day.

b) Liquidity

Set out below are (i) the number of trading days; (ii) the percentage of the Shares' average daily trading volume (the "Average Volume") as compared to the total number of issued Shares held by the public as at the Latest Practicable Date; and (iii) the percentage of the Average Volume as compared to the total number of issued the Shares as at the Latest Practicable Date, during the Share Review Period:

| Month | No. of trading days in each month | % of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 1) % | % of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 2) % |
|--------------|--|---|--|
| 2020 | | | |
| October | 18 | 0.43 | 0.16 |
| November | 21 | 0.59 | 0.22 |
| December | 22 | 0.43 | 0.16 |

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| Month | No. of trading days in each month | % of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 1) % | % of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 2) % |
|--------------------------------------|--|---|--|
| 2021 | | | |
| January | 20 | 0.23 | 0.09 |
| February | 18 | 0.43 | 0.16 |
| March | 23 | 0.18 | 0.07 |
| April | 19 | 0.63 | 0.24 |
| May | 20 | 0.65 | 0.24 |
| June | 21 | 0.21 | 0.08 |
| July | 21 | 0.19 | 0.07 |
| August | 22 | 0.28 | 0.11 |
| September | 21 | 1.30 | 0.49 |
| October (up to the Last Trading Day) | 12 | 0.45 | 0.17 |

Source: The Stock Exchange's website

Notes:

1. Based on 128,136,163 Shares held by the public as at the Latest Practicable Date as disclosed under the Board Letter.
2. Based on 342,572,857 Shares as at the Latest Practicable Date as disclosed under the Board Letter.

We noted from the above table that the liquidity of the Shares was thin during the Share Review Period. Save as and except for September 2021, the Average Volume during the Share Review Period was below 1% of (i) the total number of issued Shares held in public hands; and (ii) the total number of issued Shares, as at the Latest Practicable Date. Upon our enquiry, the Directors advised us that they are not aware of any particular reasons for the higher Shares liquidity in September 2021.

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c) Comparables

As part of our analysis, we also identified subscription of new shares under specific mandate relating to creditors scheme or debt restructuring and involving whitewash waiver application (the “**Comparables**”) which were (i) announced by listed companies in Hong Kong from 1 February 2020 up to 16 February 2022 (the Agreement Date), being an approximate two-year period up to and including the Agreement Date (We attempted to identify comparable transactions from a period of approximately one year but only two comparables were available. Accordingly, we extended our review period to approximately two years to include sufficient number of Comparables); and (ii) completed by the Latest Practicable Date. We found four transactions which met the said criteria and they are exhaustive. Shareholders should note that the market capitalisations, businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables and the subscriber(s) under the Comparables may or may not be connected person(s) of the subject company. Nevertheless, these factors would not affect the comparability of the Comparables as they serve for comparison among practices of listed companies in Hong Kong under creditors scheme or debt restructuring.

| Company name (stock code) | Date of announcement | Principal business as at the date of announcement | Discount of the issue price to closing price per share on the last trading day prior to the date of agreement <i>Approximate %</i> | Discount of the issue price to average closing price per share for the last five trading days up to and including the last trading day prior to the date of agreement <i>Approximate %</i> | Dilution effect of subscription on existing public shareholding <i>Approximate %</i> |
|--|-------------------------|---|---|---|--|
| Arta TechFin Corporation Limited (formerly known as Freeman FinTech Corporation Limited) (279) | 17 November 2020 | The subject company and its subsidiaries were principally engaged in the financial services sector. | (81.5) to (82.1) | (82.7) to (83.2) | (88.89) |
| Century Energy International Holdings Limited (formerly known as China Oil Gangran Energy Group Holdings Limited) (8132) | 23 December 2020 | The subject company and its subsidiaries were principally engaged in (i) power and data cords business; (ii) trading of refined oil and chemicals business; and (iii) trading of commodities. | (87.6) <i>(Note 1)</i> | (89.9) <i>(Note 1)</i> | (83.33) |
| National United Resources Holdings Limited (254) | 24 June 2021 | The subject company and its subsidiaries were engaged in bus transportation services, passenger operation and car rental services. | (92.3) <i>(Note 2)</i> | (92.8) <i>(Note 2)</i> | (71.24) |

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| Company name (stock code) | Date of announcement | Principal business as at the date of announcement | Discount of the issue price to closing price per share on the last trading day prior to the date of agreement <i>Approximate %</i> | Discount of the issue price to average closing price per share for the last five trading days up to and including the last trading day prior to the date of agreement <i>Approximate %</i> | Dilution effect of subscription on existing public shareholding <i>Approximate %</i> |
|--|-------------------------|--|---|---|--|
| Samson Paper Holdings Limited (731) | 22 November 2021 | The subject company and its subsidiaries were engaged in (i) paper manufacturing and trading business; (ii) fast moving consumer goods business; (iii) property development and investment business; and (iv) other businesses including trading of consumable aeronautic parts and provision of related services, and provision of logistic services and marine services. | (96.7) <i>(Note 2)</i> | (96.6) <i>(Note 2)</i> | (89.67) |
| Maximum | | | (96.7) | (96.6) | (89.67) |
| Minimum | | | (81.5) | (82.7) | (71.24) |
| The Investor's Subscription | | | (32.3) | (29.5) | (86.84) |

Notes:

- Based on the revised subscription price as announced by the subject company on 15 March 2021.
- Effect of share consolidation was taken into account.

We noted from the above table that the subscription prices of the Comparables represented discounts (i) ranged from approximately 81.5% to 96.7% to the respective closing prices of their shares on the last trading day prior to the date of agreement in relation to the respective subscription of new shares (the “**LTD Discount Market Range**”); and (ii) ranged from approximately 82.7% to 96.6% to the respective average closing prices of their shares for the last five trading days up to and including the last trading day prior to date of agreement in relation to the respective subscription of new shares (the “**5-days Discount Market Range**”). Accordingly, the LTD Discount is significantly less than the LTD Discount Market Range and the 5-days Discount is significantly less than the 5-days Discount Market Range.

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As aforementioned, the Issue Price of HK\$0.044 is slightly below the closing price range of the Shares during the Share Review Period (lowest closing price of HK\$0.045). Nevertheless, having considered the following factors:

- (i) the Group recorded net current liabilities of approximately HK\$1.32 billion and net liabilities of approximately HK\$1.26 billion as at 31 December 2021;
- (ii) the Going Concern Uncertainty;
- (iii) the LTD Discount is significantly less than the LTD Discount Market Range and the 5-days Discount is significantly less than the 5-days Discount Market Range,

we consider the Issue Price to be fair and reasonable.

Taking into account the terms of the Investor's Subscription, we are of the view that the terms of the Investor's Subscription are on normal commercial terms and are fair and reasonable.

Potential dilution effect

With reference to the shareholding table in the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" of the Board Letter, the shareholding interests of the existing public Shareholders was approximately 37.40% as at the Latest Practicable Date. Immediately after completion of the issue of the Investor's Subscription Shares, the shareholding interests of the existing public Shareholders would be diluted to approximately 4.92% (representing a decrease of approximately 86.84% (the "**Existing Public Shareholding Dilution**").

Taking into account:

- (i) the aforementioned reasons for and benefits of the Investor's Subscription, in particular, that (a) the Investor's Subscription can reduce the Group's liability in relation to the amount drawn under the Funding Agreement and the interest accrued therein and facilitate the implementation of the Scheme which will relieve the Group's liabilities (with reference to the Board Letter, without the proposed rescue operation and the implementation of the Scheme, the Company will likely be wound-up and liquidated); and (b) the Remaining Balance may facilitate business development of the Group's wood business;
- (ii) the terms of the Investor's Subscription being fair and reasonable; and

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(iii) as illustrated under the sub-section headed “c) Comparables” above, the dilution effect of subscription on existing public shareholding of the Comparables ranged from approximately 71.24% to approximately 89.67%. The Existing Public Shareholding Dilution falls within the aforesaid range,

we are of the view that the Existing Public Shareholding Dilution is acceptable.

RECOMMENDATION ON THE INVESTOR’S SUBSCRIPTION

Having taken into consideration of the factors and reasons as stated above, we are of the opinion that (i) the terms of the Investor’s Subscription are on normal commercial terms and are fair and reasonable; and (ii) although the Investor’s Subscription is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committees to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Investor’s Subscription, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

II. WHITEWASH WAIVER

According to the Board Letter, as at the Latest Practicable Date, the Investor, Mr. Lyu and parties acting in concert with any of them are not interested in any Shares of the Company. Immediately after completion of the Capital Reorganisation, the Investor’s Subscription and the issue of the Scheme Shares in full, the Investor will be interested in 2,260,980,856 New Shares, representing approximately 66.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Investor’s Subscription Shares and the Scheme Shares in full.

With reference to the Board Letter, under Rule 26.1 of the Takeovers Code, the acquisition of 30% or more of the voting rights in the Company by the Investor as a result of the Investor’s Subscription would trigger an obligation on the Investor to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Investor and its concert parties), unless the Whitewash Waiver is granted by the Executive. An application will be made/has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Restructuring Agreement and the transactions contemplated thereunder, including the Capital Reorganisation, the Investor’s Subscription and the Scheme, in which the Investor, Mr. Lyu and parties acting in concert with any of them and the Shareholders who are involved in or interested in any of the Restructuring Transactions and the Whitewash Waiver will abstain from voting on the relevant resolutions.

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Completion of the Investor's Subscription is conditional upon the fulfillment of the conditions precedent (none of them could be waived) as set out under the sub-section headed "Conditions of the Investor's Subscription" of the Board Letter, including but not limited to (i) the passing of the necessary resolutions by (i) at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) by at least 50% of the Independent Shareholders at the EGM by way of poll in respect of the Restructuring Agreement and the transactions contemplated thereunder, including (a) the Capital Reorganisation; (b) the Investor's Subscription; and (c) the Scheme; and (ii) the Whitewash Waiver being granted and not subsequently revoked prior to completion of the Investor's Subscription.

In view of (i) the aforesaid reasons for and benefits of the Investor's Subscription (including that the Investor's Subscription will support the Company to satisfy a resumption guidance); (ii) that the Investor's Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) that the terms of the Investor's Subscription are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Investor's Subscription.

RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into consideration (i) the reasons for and possible benefits of the Investor's Subscription; and (ii) that completion of the Investor's Subscription is conditional on, among other things, the grant of the Whitewash Waiver, we consider that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Whitewash Waiver Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Notes: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated financial information of the Group for each of the financial years ended 31 December 2019, 2020 and 2021 as extracted from the annual reports of the Company for the financial years ended 31 December 2019, 2020 and 2021 respectively.

The auditor's report issued by McMillan Woods (Hong Kong) CPA Limited in respect of the Group's audited consolidated financial statements for the financial years ended 31 December 2019, 2020 and 2021 contained the following qualification and disclaimers of opinions:

(i) Financial year ended 31 December 2019

The consolidated financial statements of the Company for the year ended 31 December 2019 indicated that the Group incurred a loss of approximately HK\$721,074,000 for the year ended 31 December 2019 and as at 31 December 2019, the Group had net current liabilities of approximately HK\$630,290,000. These conditions, along with other matters as set forth in the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Notwithstanding the above, the consolidated financial statements of the Company have been prepared on a going concern basis, the validity of which is dependent upon the outcomes of the Group's plans and measures as set forth in the consolidated financial statements to obtain source of funding in the immediate and longer term, at a level sufficient to finance the working capital requirements of the Group in the foreseeable future. The auditor's opinion was not modified in respect to this matter.

(ii) Financial year ended 31 December 2020

The consolidated financial statements of the Company for the year ended 31 December 2020 indicated that the Group incurred a loss of approximately HK\$1,064,419,000 for the year ended 31 December 2020 and as at 31 December 2020, the Group had net current liabilities and net liabilities of approximately HK\$1,089,512,000 and HK\$986,499,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about 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 is dependent upon outcomes of (i) the restructuring of the Group as set out in the consolidated financial statements to renew or extend the existing borrowings or complete debt financing to meet its liabilities as they fall due, and (ii) new fund is able to be raised to 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 meet its financial obligations in the foreseeable future. The auditor of the Company 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 outcomes of the Group's funding activities, the auditor of the Company disclaimed their opinion in respect of the material uncertainty relating to the going concern basis.

(iii) Financial year ended 31 December 2021

The consolidated financial statements of the Company for the year ended 31 December 2021 indicated that the Group incurred a loss of approximately HK\$274,560,000 for the year ended 31 December 2021 and as at 31 December 2021, the Group had net current liabilities and net liabilities of approximately HK\$1,324,644,000 and HK\$1,263,819,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about 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 is dependent upon outcomes of (i) the restructuring of the Group as set out in the consolidated financial statements to renew or extend the existing borrowings or complete debt financing to meet its liabilities as they fall due, and (ii) new fund is able to be raised to 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 meet its financial obligations in the foreseeable future. The auditor of the Company considers 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 outcomes of the Group's funding activities, the auditor of the Company disclaimed their opinion in respect of the material uncertainty relating to the going concern basis.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Results

| | For the year ended 31 December | | |
|--|--------------------------------|--------------------|------------------|
| | 2021 | 2020 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (audited) | (audited) | (audited) |
| Revenue | 116,067 | 24,304 | 654,318 |
| Cost of sales and services rendered | <u>(101,651)</u> | <u>(19,906)</u> | <u>(614,262)</u> |
| Gross profit | 14,416 | 4,398 | 40,056 |
| Other income and gain or (loss), net | (48,192) | (374,992) | (50,584) |
| Allowances for expected credit losses ("ECLs") on trade, loan and other receivables, net | (2,850) | (348,305) | (382,779) |
| Impairment of amount due from an associate | - | - | (8,783) |
| Provision for financial guarantee | (2,000) | (7,200) | (25,800) |
| Selling and distribution expenses | (386) | (2,922) | (7,860) |
| Administrative expenses | (15,762) | (44,617) | (100,517) |
| Other expenses | <u>(101,823)</u> | <u>(212,513)</u> | <u>(6,823)</u> |
| Loss from operation | (156,597) | (986,151) | (543,090) |
| Finance costs | (117,730) | (120,129) | (158,603) |
| Share of results of joint ventures | - | (1,091) | (551) |
| Share of results of an associate | <u>-</u> | <u>-</u> | <u>(4,480)</u> |
| Loss before tax | (274,327) | (1,107,371) | (706,724) |
| Income tax credit/(expense) | <u>(233)</u> | <u>42,952</u> | <u>(14,350)</u> |
| Loss for the year | <u>(274,560)</u> | <u>(1,064,419)</u> | <u>(721,074)</u> |
| Other comprehensive income, net of tax | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences arising on translation of foreign operations | (2,760) | (1,206) | (502) |
| Exchange difference reclassified to profit or loss on disposal of foreign operations | <u>-</u> | <u>(149)</u> | <u>-</u> |

APPENDIX I**FINANCIAL INFORMATION**

| | For the year ended 31 December | | |
|---|--------------------------------|--------------------|------------------|
| | 2021 | 2020 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (audited) | (audited) | (audited) |
| Other comprehensive income for the year | <u>(2,760)</u> | <u>(1,355)</u> | <u>(502)</u> |
| Loss and total comprehensive income for the year | <u>(277,320)</u> | <u>(1,065,774)</u> | <u>(721,576)</u> |
| Loss for the year attributable to: | | | |
| Owners of the Company | (274,550) | (1,055,985) | (691,607) |
| Non-controlling interests | <u>(10)</u> | <u>(8,434)</u> | <u>(29,467)</u> |
| | <u>(274,560)</u> | <u>(1,064,419)</u> | <u>(721,074)</u> |
| Loss and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | (277,210) | (1,056,804) | (692,701) |
| Non-controlling interests | <u>(110)</u> | <u>(8,970)</u> | <u>(28,875)</u> |
| | <u>(277,320)</u> | <u>(1,065,774)</u> | <u>(721,576)</u> |
| | | | (restated) |
| Loss per share attributable to owners of the Company | | | |
| Basic and diluted (HK\$) | <u>(0.80)</u> | <u>(3.09)</u> | <u>(2.03)</u> |

Save as disclosed in the consolidated financial statements of the Group for each of the financial years ended 31 December 2019, 2020 and 2021, there were no material items of income or expense nor were there any dividend declared for each of the financial years ended 31 December 2019, 2020 and 2021.

2. AUDITED FINANCIAL INFORMATION

The Company is required to set out or refer to in this circular the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes of equity and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**2020 Financial Statements**”); and (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2021 (the “**2021 Financial Statements**”), together with significant accounting policies and the notes to the relevant published financial statements which are of major relevance to the appreciation of the above financial information.

The 2019 Financial Statements are set out on pages 68 to 222 of the annual report of the Company for the year ended 31 December 2019, which was published on 15 May 2020 on the websites of the Stock Exchange and the Company, and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051500021.pdf>

The 2020 Financial Statements are set out on pages 50 to 194 of the annual report of the Company for the year ended 31 December 2020, which was published on 28 April 2021 on the websites of the Stock Exchange and the Company, and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800651.pdf>

The 2021 Financial Statements are set out on pages 51 to 186 of the annual report of the Company for the year ended 31 December 2021, which was published on 22 April 2022 on the websites of the Stock Exchange and the Company, and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0422/2022042200374.pdf>

3. MATERIAL CHANGE

Save as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Company were made up) and up to and including the Latest Practicable Date:

- (i) The Group’s inventories as at 31 May 2022 substantially increased as compared to that as at 31 December 2021, mainly due to preparation for expected increase in sales order;
- (ii) The Group’s trade receivables as at 31 May 2022 substantially decreased as compared to that as at 31 December 2021, mainly due to tightened credit control; and

- (iii) The Group's revenue and gross profit for the five months ended 31 May 2022 substantially increased as compared to those for the corresponding period in 2021, mainly due to increase in demand from customers.

The Profit Estimate referred to in above sub-paragraph (iii) has been reported on in accordance with the Takeovers Code and the requisite reports from McMillan Woods (Hong Kong) CPA Limited, the auditor of the Company, and Gram Capital Limited, the independent financial adviser of the Company are included in Appendix III and IV to this circular respectively.

4. INDEBTEDNESS

As at the close of business on 31 May 2022 being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

Borrowings

As at the close of business on 31 May 2022, the Group had outstanding borrowings of approximately HK\$798 million, comprising unguaranteed and unsecured (i) bank borrowings of approximately HK\$15 million and (ii) other borrowing of approximately HK\$783 million.

Other payables

As at the close of business on 31 May 2022, the Group had outstanding other payables of approximately HK\$591,525,000.

Financial guarantee

As at the close of business on 31 May 2022, the Group had provided a corporate guarantee in respect of a loan facility granted to an associate of the Group up to an aggregate amount of approximately HK\$204,960,000. The Directors have performed impairment assessment, and concluded that there has been significant increase in credit risk since initial recognition of the financial guarantee contract. The loss allowance in respect of the financial guarantee of HK\$35,000,000 in accordance with expected credit loss model was made under HKFRS 9.

Lease liabilities

As at the close of business on 31 May 2022, the Group had lease liabilities of approximately HK\$1,703,000.

Save as disclosed above, at the close of business on 31 May 2022, the Group did not have any other loan capital issued and outstanding or agreed to be issued but unissued, loans, bank overdrafts or other similar indebtedness, lease liabilities or hire purchase commitment, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgage, charges, guarantees or other material contingent liabilities.

5. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's present financial resources available to the Group, including internally generated funds, the estimated net proceeds from the Investor's Subscription, the Group has sufficient working capital for at least twelve months from the date of this circular, in the absence of unforeseeable circumstances.

6. BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECTS

Business review

The Group is principally engaged in (i) sale and distribution of furniture wood, manufacturing and sales of antique style wood furniture and imported timber flooring processing businesses; and (ii) car rental business in the PRC.

Wood Business

The Group's wood business focuses on the procurement and distribution and processing of various types of wood products including wood logs and sawn timber of various wood types from vendors in the PRC and overseas.

The Group is focusing on its wood business and the business operations of the Group are continuing as usual in all material respects. In view of the development in the previous months, the Company remains confident and optimistic in the prospect of its business, and will continue with its strategic plan to venture downstream into furniture and wood flooring business. In addition, the Company has been engaging in close discussion with major players in the forestry and wood industry in the PRC for the purposes to, *inter alia*, establishing long-term strategic business relationship and securing the stable and sustainable demands of its goods.

With the adoption of flexible marketing strategic and optimal inventory management system, the Group's wood business achieved sales of approximately HK\$104.4 million during the year ended 31 December 2021 (2020: approximately HK\$9.3 million).

Car Rental Business

The car rental business has been one of the core businesses of the Group since 2014. Beijing Tu An Car Rental Services Limited* (北京途安汽車租賃有限責任公司) (“**Beijing Tu An**”), an indirect wholly-owned subsidiary of the Company, has been responsible for operating the Group’s car rental services business in the PRC. The normal rental terms of Beijing Tu An’s car fleet with its customers ranges from three months to two years or longer. Premium customers of Beijing Tu An would specify the brand and model of the rented car and Beijing Tu An would acquire the rented car according to premium customers’ requirements.

The prevailing depressed market atmosphere together with the unfavourable news of the Group about the debt restructuring has also affected the performance of Beijing Tu An for the Year. After serious assessment by the Board, the Group will conduct its rental car fleet in a more conservative approach. During the year ended 31 December 2021, the car rental business segment of the Group recorded a revenue of approximately HK\$11.2 million (2020: approximately HK\$14.0 million).

FINANCIAL AND TRADING PROSPECTS

Despite any unpredictable events, the Board will continue to develop the forest-related business including forest management and distribution and process of forest and timber products and to expand downstream into red wood furniture manufacturing and sales. On 9 March 2022, the Company entered into a strategic cooperation agreement for the provision of wood construction molding, wood flooring, doors and window frames and other wood products to China Construction Eighth Bureau Development and Construction Limited* (中建八局發展建設有限公司) (“**China Construction Eighth Bureau**”), an independent third party which is not a shareholder of the Company and not connected with the Company, its shareholders or the Investor. China Construction Eighth Bureau is an enterprise approved by the Ministry of Housing and Urban Rural Development of the PRC as a qualified enterprise for new housing construction primarily engaged in housing construction, infrastructure, industrial installation, investment and development, and engineering design in the PRC, Africa, the Middle East, Central Asia and Southeast Asia. The Company has set up a subsidiary in the PRC and is preparing to provide wood products to China Construction Eighth Bureau.

Asia Pacific Forestry Development (HK) Limited (「亞太森林開發(香港)有限公司」) (“**Asia Forestry**”), an indirect wholly-owned subsidiary of the Company, has entered into a strategic cooperation agreement (the “**Strategic Cooperation Agreement**”) with Qingdao Hisense Real Estate Co., Ltd. (「青島海信房地產股份有限公司」) (“**Hisense**”) in May 2022. Pursuant to the Strategic Cooperation Agreement, Asia Forestry, through its wholly-owned subsidiary to be incorporated in the PRC, will supply finished furniture, semi-finished furniture and other wood products including wood construction moulding, wood flooring, doors and window frames and provide technical and processing as well as after-sale services to Hisense. The Strategic Cooperation Agreement will broaden and deepen the market and products of the Group’s wood products and the strategic cooperation with Hisense is in line with the Group’s future development strategies and operational needs.

The development and expansion of the Group’s forest-related business above would require capital injection as well as general working capital to the PRC subsidiaries formed and to be formed in the near future. In view of the improving performance of the Group as reflected in its annual report for the year ended 31 December 2021 and the progress of the Scheme (i.e. the Sanction Order has been granted by the High Court), the Board may consider further fund raising when opportunities arise and further announcement(s) may be issued by the Company as and when required under the Listing Rules and/or the Takeovers Code.

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 (other than the information relating to the Investor and parties acting in concert with it) 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 (other than the information relating to the Investor and parties acting in concert with it) or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Investor and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the sole director of the Investor) 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 sole director of the Investor accepts full responsibility for the accuracy of the information contained in this circular (other than those relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Directors) 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.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after Capital Reorganisation becoming effective (assuming that there are no other changes in the share capital of the Company from the Latest Practicable Date up to effective date of the Capital Reorganisation); and (iii) immediately after completion of the issue of the Investor's Subscription Shares and the Scheme Shares in full (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the completion of the issue of the Investor's Subscription Shares and the Scheme Shares) is set out as follows:

(i) as at the Latest Practicable Date:

Authorised capital: HK\$

| | |
|-----------------------------|-----------------------|
| <u>1,000,000,000</u> Shares | <u>200,000,000.00</u> |
|-----------------------------|-----------------------|

Issued and fully paid or credited as fully paid:

| | |
|---------------------------|----------------------|
| <u>342,572,857</u> Shares | <u>68,514,571.40</u> |
|---------------------------|----------------------|

(ii) immediately after Capital Reorganisation becoming effective (assuming that there are no other changes in the share capital of the Company from the Latest Practicable Date up to effective date of the Capital Reorganisation):

Authorised capital: HK\$

| | |
|----------------------------------|-----------------------|
| <u>20,000,000,000</u> New Shares | <u>200,000,000.00</u> |
|----------------------------------|-----------------------|

Issued and fully paid or credited as fully paid:

| | |
|-------------------------------|---------------------|
| <u>342,572,857</u> New Shares | <u>3,425,728.57</u> |
|-------------------------------|---------------------|

- (iii) immediately after completion of the issue of the Investor's Subscription Shares and the Scheme Shares in full (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the completion of the issue of the Investor's Subscription Shares and the Scheme Shares):

Authorised capital: HK\$

| | | |
|-----------------------|------------|-----------------------|
| <u>20,000,000,000</u> | New Shares | <u>200,000,000.00</u> |
|-----------------------|------------|-----------------------|

Issued and fully paid or credited as fully paid:

| | | |
|----------------------|--|----------------------|
| 342,572,857 | New Shares as at the Latest Practicable Date | 3,425,728.57 |
| 2,260,980,856 | Number of Investor's Subscription Shares to be issued | 22,609,808.56 |
| 823,739,687 | Maximum number of Scheme Shares to be issued | 8,237,396.87 |
| <u>3,427,293,400</u> | New Shares upon completion of the Investor's Subscription and the issue of the Scheme Shares | <u>34,272,934.00</u> |

All of the Investor's Subscription Shares and Scheme Shares to be issued will rank *pari passu* in all respects with all the Shares in issue as at the date of allotment and issue of the Investor's Subscription Shares and Scheme Shares. The Investor's Subscription Shares and Scheme Shares to be issued will be listed on the Stock Exchange.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

The Company had not issued any Shares since 31 December 2021, being the date on which the latest audited financial statements of the Group were made up and up to the Latest Practicable Date.

The Company will apply to the Stock Exchange for the listing of and permission to deal in the Investor's Subscription Shares and Scheme Shares. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares, the Investor's Subscription Shares, the Scheme Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

There is no arrangement under which future dividends are/will be waived or agreed to be waived.

3. MARKET PRICES

Trading in the Shares has been suspended since 22 October 2021 and hence no closing price of the Shares is available since then.

4. DISCLOSURE OF INTERESTS

1. Director's and chief executive's interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions, of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by Directors or (iv) required to be disclosed under the Takeovers Code were as follows:

Interests in the Shares and underlying Shares of the Company

| Name of Director | Number of issued Shares and underlying | | Position | Percentage of issued share capital of the Company |
|------------------|--|--|----------|--|
| | Shares held | | | |
| Lyu Ning Jiang | 2,260,980,856 | | Long | 660.00 |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by Directors or (iv) required to be disclosed under the Takeovers Code.

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

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than the Directors and the chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, were, directly or indirectly, interested in 10% or more of the issued share capital of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any option in respect of such capital:

Interests in the Shares and underlying shares of the Company

| Name of Shareholder | Capacity | Number of issued shares held | Position | Percentage of the issued share capital of the Company |
|--|---|------------------------------|----------|---|
| Right Momentum Group Limited | Beneficial owner | 2,260,980,856 | Long | 660.00% |
| Dai Yumin (<i>Note 1</i>) | Spouse Interests | 174,961,694 | Long | 51.38% |
| | | 113,073,694 | Short | 33.20% |
| Deng Shufen (<i>Note 1</i>) | Interests in controlled corporation | 174,961,694 | Long | 51.38% |
| | | 113,073,694 | Short | 33.20% |
| Liu Jianguan (<i>Note 1</i>) | Interests in controlled corporation | 174,961,694 | Long | 51.38% |
| | | 113,073,694 | Short | 33.20% |
| Sino Merchant Car Rental Limited (<i>Note 1</i>) | Beneficial owner | 174,961,694 | Long | 51.38% |
| | | 113,073,694 | Short | 33.20% |
| Dundee Greentech Limited (<i>Note 2</i>) | Beneficial owner | 39,475,000 | Long | 11.52% |
| China Orient Asset Management Corporation | Person having a security interest in shares | 113,073,694 | Long | 33.20% |

Notes:

- (1) These shares are registered in the name of Sino Merchant Car Rental Limited (a company incorporated in the BVI) ("Sino Merchant"), the entire issued share capital of which is owned as to 60% by Ms. Deng Shufen and 40% by Ms. Liu Jianguan. Ms. Deng Shufen and Ms. Liu Jianguan are deemed to be interested in all the shares and underlying shares of the Company in which Sino Merchant is interested by virtue of the SFO. As Mr. Dai Yumin is the spouse of Ms. Deng Shufen, he is deemed to be interested in the shares and the underlying shares of the Company in which Ms. Deng Shufen is deemed to be interested in for the purpose of the SFO.
- (2) These shares are registered in the name of Dundee Greentech Limited (a company incorporated in the BVI), the entire issued share capital of which is held by Mr. Liu Hailong.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or a proposed Director is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the date of the Announcement; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

9. ADDITIONAL DISCLOSURE OF DEALINGS AND INTEREST IN THE SECURITIES OF THE COMPANY

The Investor and its ultimate beneficial owner have confirmed that none of the Investor, its ultimate beneficial owner nor any person acting in concert with any one of them:

- (a) owns, controls or has direction over any Shares and right over Shares, outstanding share options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (b) will make any acquisitions or disposals of voting rights in the Company in the period between the date of this circular and allotment and issue of the Investor's Subscription Shares and no such acquisition or disposal has been made in the Relevant Period;
- (c) owns or has control or direction over any voting rights or rights over the Shares or any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (d) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities of the Company or of the Investor which might be material to the Investor's Subscription, the Specific Mandate, the Scheme or the Whitewash Waiver;
- (e) other than the consideration payable under the Restructuring Agreement and the funding provided under Funding Agreement, has paid or will pay any other consideration, compensations or benefits in whatever form to the Company or any parties acting in concert with it in relation to the Investor's Subscription Shares;
- (f) has received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolutions to be proposed at the EGM to approve the Investor's Subscription, the Specific Mandate, the Scheme and/or the Whitewash Waiver;
- (g) save for the Restructuring Agreement and the Funding Agreement, has any agreements or arrangements to which it 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 Restructuring Agreement, the Scheme and/or the Whitewash Waiver;
- (h) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

- (i) has dealt in any securities of the Company during the Relevant Period; or
- (j) has entered into any derivative in respect of the securities in the Company which are outstanding.

As at the Latest Practicable Date:

- (a) there is no understanding, agreement or arrangement in the nature of a special deal (as defined under Rule 25 of the Takeovers Code) between any of the Investor, its ultimate beneficial owner and parties acting in concert with any one of them on the one hand and the Company and any party acting in concert with it on the other hand;
- (b) there is no understanding, agreement or arrangement in the nature of a special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder, and (ii) any of the Investor, its ultimate beneficial owner and parties acting in concert with any one of them; or the Company, its subsidiaries or associated companies;
- (c) there was no agreement, arrangement or understanding (including any compensation arrangement) between (i) any of the Investor, its ultimate beneficial owner and parties acting in concert with any one of them; and (ii) any of the Directors, recent Directors, Shareholders or recent Shareholders, having any connection with or dependence upon the Investor's Subscription, the Specific Mandate, the Scheme and/or the Whitewash Waiver;
- (d) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the Investor's Subscription, the Specific Mandate, the Scheme and/or the Whitewash Waiver or otherwise connected therewith;
- (e) there was no agreement, arrangement or understanding (including any compensation arrangement) between (i) any of the Investor, its ultimate beneficial owner and parties acting in concert with any one of them; and (ii) any other persons, in relation to the transfer, charge or pledge of the Shares that may be allotted and issued to the Investor under the Investor's Subscription;
- (f) the Company believes that the Investor's Subscription, the Specific Mandate, the Scheme and the Whitewash Waiver would not give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this circular, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Investor's Subscription, the Specific Mandate, the Scheme and the transactions contemplated thereunder do not comply with other applicable rules and regulations;

- (g) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Investor's Subscription, the Specific Mandate, the Scheme and the Whitewash Waiver;
- (h) save as disclosed in the paragraph headed "4. Disclosure of Interests" in this appendix, none of the Directors was interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, none of the Directors had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (i) none of the Company and the Directors had owned or controlled, or had dealt for value in, any shares or any securities, convertible securities, warrants, options or derivatives in respect of the shares or securities of the Investor during the Relevant Period;
- (j) the director of the Investor was not interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, the director of the Investor had not dealt in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (k) none of the subsidiaries of the Company, pension funds of the Company or of any member of the Group or by a 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 was an associate of the Company by virtue of class (2) of the definition of "associate" under the Takeovers Code had owned or controlled, or had dealt for value in, any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (l) save for the Restructuring Agreement and the Funding Agreement, there was no material contract entered into by the Investor, its ultimate beneficial owner nor any person acting in concert with any one of them in which any Director had a material personal interest;

- (m) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with 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 under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code, and none of them had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (n) no Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company were managed on a discretionary basis by fund managers connected with the Company and no such person had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period; and
- (o) no Directors have received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolutions to be proposed at the EGM to approve the Investor's Subscription, the Specific Mandate, the Scheme and/or the Whitewash Waiver.

10. LITIGATION

On 21 April 2020, a writ of summons was issued by an independent third party in Beijing, China as plaintiff against a wholly owned subsidiary of the Group namely (北京宜乘企業管理有限公司) as defendant (the “**Action**”). The plaintiff claimed for the repayment of principal and the accrued interests of a loan purportedly owed by the defendant to the plaintiff in the total amount of approximately RMB59.5 million since 2014 (the “**Purported Loan**”). The defendant has denied the existence of the Purported Loan and has requested forensic checks to be conducted to the loan agreement produced by the Plaintiff to the People's Court in Chaoyang District, Beijing (北京市朝陽區人民法院) (the “**Beijing Court**”). The Group has engaged a competent legal advisor to act for its interests in respect of Action.

In January 2022, the Group received a judgement (the “**Judgement**”) from the Beijing Court and ordered that the defendant is required to pay a sum of approximately RMB37.0 million plus damages of RMB7.5 million from breach of contract. Immediately after the Judgement, the Group has made an appeal to the Beijing No. 3 Intermediate People's Court (北京市第三中級人民法院) against the Judgement. In April 2022, the Beijing No. 3 Intermediate People's Court dismissed the Group's appeal against the Judgement.

A provision of claim in the amount of RMB44.5 million (equivalent to approximately HK\$54,490,000) was made during the year ended 31 December 2021.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially or adversely affect the operations of the Company and no litigation, arbitration or claim which would materially or adversely affect the operations of the Company was known to the Directors to be pending or threatened by or against any member of the Group.

11. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

| Name | Qualifications |
|---|--|
| McMillan Woods (Hong Kong) CPA Limited | Certified Public Accountants |
| Gram Capital Limited | a corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activity under the SFO |

Each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or references to its name in the form and context in which they respective appear.

As at the Latest Practicable Date, the experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the experts did not have any direct or indirect interests in any assets which have been, since 31 December 2021 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

12. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

- (a) the Funding Agreement; and
- (b) the Restructuring Agreement.

13. MISCELLANEOUS

The English text of this circular shall prevail over Chinese text in case of any inconsistency.

14. DOCUMENTS ON DISPLAY

Copies of the following documents will be available on the websites of the Company (<http://www.chinawoodint.com.hk>), the Stock Exchange (www.hkexnews.hk) and the SFC (www.sfc.hk) between the period from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Investor;
- (c) the letter from the Board, the text of which is set out on pages 8 to 32 of this circular;
- (d) the letter from the Whitewash Wavier Independent Board Committee, the text of which is set out on pages 33 to 34 of this circular;
- (e) the letter from the Connected Transaction Independent Board Committee, the text of which is set out on pages 35 to 36 of this circular;
- (f) the letter from Gram Capital, the text of which is set out on pages 37 to 57 of this circular;
- (g) the letter from McMillan Woods (Hong Kong) CPA Limited on the Profit Estimate, the text of which is set out in Appendix III of this circular;
- (h) the letter from Gram Capital on the Profit Estimate, the text of which is set out in Appendix IV of this circular;
- (i) the annual reports of the Company for each of the financial years ended 31 December 2019, 2020 and 2021;
- (j) the written consents referred to in the paragraph headed “11. Experts and consents” in this appendix;
- (k) the material contracts as referred to in the paragraph headed “12. Material contracts” in this appendix; and
- (l) this circular.

The following is the full text of the letter from McMillan Woods (Hong Kong) CPA Limited for the purpose for inclusion in this circular.



長青(香港)會計師事務所有限公司

McMillan Woods (Hong Kong) CPA Limited

24/F, Siu On Centre,
188 Lockhart Road, Wanchai
Hong Kong

5 August 2022

The Board of Directors
China Wood International Holding Co., Limited
1601, 16/F., Sun House
90 Connaught Road Central
Hong Kong

Dear Sirs,

China Wood International Holding Co., Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”).

Profit Estimate for the five months ended 31 May 2022

We refer to the following statement as set out page 62 to 63 of the Circular of the Company dated 5 August 2022. (the “**Profit Estimate**”)

“The Group’s revenue and gross profit for the five months ended 31 May 2022 substantially increased as compared to those for the corresponding period in 2021, mainly due to increase in demand from customers.”

We have been advised by the directors of the Company that the Profit Estimate was prepared based on the unaudited consolidated management accounts of the Group for the 5 months ended 31 May 2022, which had been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the published annual report of the Company for the year ended 31 December 2021.

The Profit Estimate is prepared by the directors of the Company and constitutes a profit forecast under Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission.

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Group for the five months ended 31 May 2022.

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases and assumptions adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases (no assumption was involved in making of the Profit Estimate as it relates to a period already ended) adopted by the directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2021.

Yours faithfully,

McMillan Woods (Hong Kong) CPA Limited

Certified Public Accountants

Hong Kong

5 August 2022

The Board of Directors

China Wood International Holding Co., Limited
Room 1601, 16/F
Sun House
90 Connaught Road Central
Hong Kong

Dear Sir/Madam,

Reference is made to the circular dated 5 August 2022 (the “**Circular**”) issued by the Company. Capitalised terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise required.

We refer to the following statements under the section headed “3. MATERIAL CHANGE” of Appendix I to the Circular (the “**Statement**”):

“The Group’s revenue and gross profit for the five months ended 31 May 2022 substantially increased as compared to those for the corresponding period in 2021, mainly due to increase in demand from customers.”

The Statement constitutes profit forecast under Rule 10 of the Takeovers Code and must be reported on by the financial adviser and the auditors or consultant accountants. This report is issued in compliance with the requirements under Rule 10.4 and Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code.

We have reviewed the Statement and its underlying bases (no assumption was involved in making of the Statement as it relates to a period already ended) which were provided by you and you as the Directors are solely responsible for. We also discussed the above with you and the senior management of the Company.

In respect of the accounting policies and calculations concerned, upon which the Statement has been made, we have considered the report as contained in Appendix III to the Circular addressed to the Board from McMillan Woods (Hong Kong) CPA Limited (“**McMillan Woods**”), being the auditors of the Company. McMillan Woods is of the opinion that, so far as the accounting policies and calculations are concerned, the Statement has been properly compiled in accordance with the bases (no assumption was involved in making of the Statement as it relates to a period already ended) adopted by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in its audited consolidated financial statements for the year ended 31 December 2021.

Having considered the above, we are of the opinion that the Statement has been made with due care and consideration.

We hereby give and have not withdrawn our consent to the issue of the Circular with the inclusion therein of this report.

Yours faithfully,
For and on behalf of
Gram Capital Limited

Graham Lam
Managing Director

NOTICE OF EGM



CHINA WOOD
中木國際

CHINA WOOD INTERNATIONAL HOLDING CO., LIMITED

中木國際控股有限公司

(Joint Provisional Liquidators appointed)

(For restructuring purposes only)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China Wood International Holding Co., Limited (the “**Company**”) will be held at Room 3008-3009, 30/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at 3:00 p.m. on Tuesday, 30 August 2022 to consider and, if thought fit, pass with or without amendments, the following resolutions of the Company:

SPECIAL RESOLUTION

1. **“THAT** subject to (i) the approval of the Share Premium Cancellation (as defined below) and the Capital Reduction (as defined below) by the Grand Court of the Cayman Islands (the “**Court**”); (ii) the compliance with any conditions which the Court may impose in relation to the Share Premium Cancellation (as defined below) and the Capital Reduction (as defined below); (iii) the registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Share Premium Cancellation (as defined below) and the Capital Reduction (as defined below) and the minute approved by the Court containing the particulars required under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands with respect to the Share Premium Cancellation (as defined below) and the Capital Reduction (as defined below); and (v) The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the New Shares (as defined below) arising from the Capital Reduction (as defined below), with effect from the date on which the aforesaid conditions are fulfilled (the “**Effective Date**”):
 - (a) the entire amount standing to the credit of the share premium account of the Company as at the Effective Date be and is hereby reduced to nil (“**Share Premium Cancellation**”);

NOTICE OF EGM

- (b) the issued share capital of the Company be reduced (the “**Capital Reduction**”) by cancelling the paid-up capital of the Company to the extent of HK\$0.19 on each of the then issued Shares such that the par value of each issued Share will be reduced from HK\$0.20 to HK\$0.01 and the credit arising therefrom be applied to set off the accumulated losses of the Company;
- (c) subject to and forthwith upon the Capital Reduction taking effect, all the authorised but unissued share capital of the Company (which shall include the authorised but unissued share capital arising from the Capital Reduction) be cancelled (the “**Unissued Share Capital Cancellation**”) and forthwith upon such cancellation, the authorised share capital of the Company will be increased to HK\$200,000,000 by the creation of such number of additional shares of the Company of HK\$0.01 each in the share capital of the Company (the “**New Shares**”) as shall be sufficient to increase the authorised share capital of the Company to HK\$200,000,000 divided into 2,000,000,000 New Shares (the ‘Share Premium Cancellation, ‘the Capital Reduction” and the Unissued Share Capital Cancellation collectively as the “**Capital Reorganisation**”);
- (d) the credits arising from the Share Premium Cancellation and the Capital Reduction shall be applied towards offsetting the accumulated loss of the Company as at the Effective Date and the balance (if any) will be transferred to a distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the memorandum and articles of association of the Company and all applicable laws and rules (including the Rules Governing the Listing of Securities on the Stock Exchange) including, without limitation, eliminating or setting off the accumulated deficits of the Company which may arise from time to time and/or paying dividend and/or making any other distribution out of such account from time to time and all actions in relation thereto be approved, ratified and confirmed; and
- (e) any one Director be and is hereby authorised to do all such acts and things and execute all such documents on behalf of the Company, including under seal where applicable, as he/she may consider necessary or expedient to give effect to the Capital Reorganisation.”

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ORDINARY RESOLUTIONS

2. **“THAT**
- (a) the conditional restructuring agreement dated 16 February 2022 (a copy of which is produced to the Meeting marked “A” and signed by the Chairman of the Meeting for the purpose of identification) and entered into among the Company, the joint provisional liquidators of the Company, Right Momentum Group Limited (the **“Investor”**) and Mr. Lyu Ningjiang in relation to the restructuring of the debts and liabilities and capital structure of the Company, or its subsidiaries, associated companies or other entities in which the Company holds an interest (as the case may be) and which comprise (i) the Capital Reorganisation; (ii) the subscription of 2,260,980,856 New Shares (the **“Investor’s Subscription Shares”**) under the Restructuring Agreement by the Investor (the **“Investor’s Subscription”**); and (iii) the Scheme (as defined below) be and are hereby approved, confirmed and ratified;
 - (b) subject to the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the Investor’s Subscription Shares, the Directors be and are hereby granted a specific mandate for the allotment and issue of the Investor’s Subscription Shares in accordance with the terms of the Restructuring Agreement; and
 - (c) any one Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he/she considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Restructuring Agreement and the transactions contemplated thereunder.”
3. **“THAT,**
- (a) the scheme of arrangement (the **“Scheme”**) material particulars whereof are disclosed in the scheme of arrangement document of the Company dated 18 February 2022 (details of the major terms of the scheme of arrangement are set out in the section headed “Letter from the Board – The Scheme” in the Circular), which has been effected as a scheme under Part 13 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), be and are hereby approved, confirmed and ratified, subject to any modification thereof or addition thereof approved or imposed by the Hong Kong Court (if any);
 - (b) the proposed payment of HK\$50 million in cash to creditors on a pro-rata basis in accordance with the terms of the Scheme, funded from the net proceeds of the Subscription Shares under Resolution no. 3 be and is hereby approved;

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- (c) the proposed allotment and issue of up to 823,739,687 New Shares (the “**Scheme Shares**”) on the basis of 1 New Share for every HK\$1.80 in the amount of claims from the creditors in accordance with the terms of the Scheme be and is hereby approved;
- (d) subject to the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the Scheme Shares, the Directors be and are hereby granted a specific mandate for the allotment and issue of the Scheme Shares in accordance with the terms of the Scheme; and
- (e) any one Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he/she considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Schemes and the transactions contemplated thereunder.”

SPECIAL RESOLUTION

4. “**THAT**

- (a) subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s) and the satisfaction of any conditions attached thereto, the terms of the application for a waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive to the Investor pursuant to Note 1 on the Dispensations from Rule 26 of the Code on Takeovers and Mergers from an obligation to make a general mandatory offer to the shareholders of the Company in respect of all the shares and the securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it as a result of the Investor’s Subscription be and are hereby approved, confirmed and ratified; and
- (b) any one Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he/she considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Whitewash Waiver and the transactions contemplated thereunder.”

By order of the Board
China Wood International Holding Co., Limited
(Joint Provisional Liquidators Appointed)
(For Restructuring Purposes)
Lyu Ningjiang
Executive Director

Hong Kong, 5 August 2022

NOTICE OF EGM

Registered office:

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Principal place of

business in Hong Kong:
1601, 16/F., Sun House
90 Connaught Road Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation shall be entitled to exercise the same powers on behalf of the member of the Company which he or they represent as such member of the Company could exercise.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
3. To be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022) as soon as possible and in any event no later than 3:00 p.m. on Sunday, 28 August 2022 (Hong Kong time).
4. For the purpose of determining shareholders' entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from 25 August 2022 to 30 August 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, shareholders should ensure that all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong with effect from 15 August 2022), for registration no later than 4:30 p.m. on 24 August 2022 (Hong Kong time).
5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The voting at the Meeting shall be taken by way of poll.

As at the date of this notice, the Board comprises Mr. Lyu NingJiang (Chairman and CEO) as executive director, Mr. Hu YongGang as non-executive director; and Mr. Zhao XianMing, Ms. Zhao Xiao Lian and Mr. So Yin Wai as independent non-executive directors.