

# 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 to be taken, you should consult your licensed securities dealer 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 Jia Yao Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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## Jia Yao Holdings Limited

嘉耀控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01626)

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF  
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE  
HELD ON THE RECORD DATE;  
(II) PROPOSED CHANGE IN BOARD LOT SIZE;  
AND  
(III) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



INCU Corporate Finance Limited

Underwriter to the Rights Issue



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



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

A notice convening the EGM of the Company to be held at Room 2, 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on Tuesday, 20 September 2022 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend the meeting in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar of the Company, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Shareholders and potential investors should note that the Rights Issue is conditional upon the fulfillment of the conditions referred to in the paragraph headed "Conditions of the Rights Issue" in the Letter from the Board. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Thursday, 22 September 2022 and that dealing in the Rights Shares in the nil-paid form will take place from Thursday, 6 October 2022 to Thursday, 13 October 2022 (both dates inclusive). Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled, will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events including force majeure. These certain events are set out in the paragraph headed "Termination of the Underwriting Agreement" in the Letter from the Board. **If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.**

**The Rights Issue is fully underwritten by the Underwriter. Details of the underwriting arrangement are set out in the paragraph headed "THE UNDERWRITING AGREEMENT" in the Letter from the Board.**

### PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the 2019 Novel Coronavirus ("COVID-19") pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory body temperature screening/checks;
- (2) Wearing of surgical face mask; and
- (3) No provision of refreshments or drinks.

Attendees who do not comply with the precautionary measures referred to in (1) and (2) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. In addition, attendees who are subject to health quarantine prescribed by the HKSAR Government will not be admitted to the EGM venue.

For the health and safety of 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 and to return their proxy forms by the time specified above, instead of attending the EGM in person.

5 September 2022

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## PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 pandemic and recent guidelines for prevention and control of its spread, the Company will implement the following precautionary measures at the EGM to protect the Shareholders, staff and other stakeholders who attend the EGM from the risk of infection:

- (i) compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee. Any person with a body temperature of 37.3 degrees Celsius or higher may be denied entry into the EGM venue or be required to leave the EGM venue;
- (ii) the Company will require all attendees to scan the “Leave Home Safe” venue QR code, comply with the requirement of “Vaccine Pass” and wear surgical face masks before they are permitted to attend, and during their attendance of the EGM at all times, and to maintain a safe distance between seats (please bring your own mask);
- (iii) no refreshment will be served at the EGM;
- (iv) no souvenirs will be distributed at the EGM; and
- (v) no guest will be allowed to enter the EGM venue if he/she is under quarantine order or has close contact with any person under quarantine.

Any person who does not comply with above requirements may be denied entry into the EGM venue or be required to leave the EGM venue. 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 in order to ensure the safety of other attendees at the EGM. In our case, denied entry to the EGM venue also means that person will not be allowed to attend the EGM. In the interest of all stakeholders’ health and safety and in accordance with recent guidelines for prevention and control of the spread of COVID-19, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, the Shareholders may complete the proxy forms and appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

The proxy forms were despatched to the Shareholders together with this circular, and can otherwise be downloaded from the websites of the Company or the Stock Exchange. If you are not a registered Shareholder (i.e. if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks, brokers or custodians (as the case may be) to assist you in the appointment of proxy.

Subject to the development of COVID-19 pandemic, the Company may implement further precautionary measures and may issue further announcements on such measures as appropriate.

## DEFINITIONS

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

|                                |  |
|--------------------------------|--|
| “Announcement”                 | the announcement of the Company dated 5 August 2022 in relation to, among others, the Rights Issue and Change in Board Lot Size  |
| “associate(s)”                 | has the same meaning ascribed to it under the Listing Rules  |
| “Board”                        | the board of Directors   |
| “Business Day(s)”              | any weekday(s) (other than a Saturday or a day on which a tropical cyclone warning signal No. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks are generally open for business in Hong Kong  |
| “CCASS”                        | the Central Clearing and Settlement System established and operated by HKSCC   |
| “CCASS Operational Procedures” | the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time   |
| “Change in Board Lot Size”     | the proposed change in board lot size of the Shares for trading on the Stock Exchange from 2,000 Shares per board lot to 4,000 Shares per board lot  |
| “Company”                      | Jia Yao Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1626)   |
| “Controlling Shareholder(s)”   | has the meaning ascribed thereto under the Listing Rules   |
| “Director(s)”                  | the director(s) of the Company   |
| “EAF(s)”                       | the form(s) of application for use by the Qualifying Shareholders who wish to apply for the excess Rights Shares   |
| “EGM”                          | the extraordinary general meeting of the Company to be held at Room 2, 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on Tuesday, 20 September 2022 at 11:00 a.m. for the purpose of considering, if thought fit, approving, among other things, the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder |

## DEFINITIONS

|                                 |   |
|---------------------------------|---|
| “Excluded Shareholder(s)”       | those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place   |
| “Extreme Conditions”            | extreme conditions including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons as announced by the government of Hong Kong  |
| “FRC”                           | the Financial Reporting Council of Hong Kong  |
| “General Rules of CCASS”        | the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures  |
| “Group”                         | the Company and its subsidiaries  |
| “HK\$”                          | Hong Kong dollar(s), the lawful currency of Hong Kong   |
| “HKSCC”                         | Hong Kong Securities Clearing Company Limited   |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the PRC  |
| “Irrevocable Undertakings”      | the irrevocable undertakings given by Mr. Yang and Mr. Feng in favour of the Company, the principal terms of which are disclosed in the section headed “The Irrevocable Undertakings” in the “Letter from the Board” in this circular   |
| “Independent Board Committee”   | the independent board committee, comprising all the independent non-executive Directors, namely Mr. Gong Jinjun, Mr. Zeng Shiquan and Mr. Wang Ping, which was established to make recommendations to the Independent Shareholders in respect of the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder                  |
| “Independent Financial Adviser” | Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder |

## DEFINITIONS

|                                |   |
|--------------------------------|---|
| “Independent Shareholder(s)”   | any Shareholder(s) who are not required to abstain from voting in respect of the Rights Issue at the EGM under the Listing Rules  |
| “Independent Third Party(ies)” | any individual(s) or company(ies) not being the connected persons (as defined under the Listing Rules) of the Company, independent of the Company and its connected persons and not connected with any of them or their respective associate(s) |
| “Last Trading Day”             | 5 August 2022, being the last trading day of the existing Shares on the Stock Exchange immediately prior to the publication of the Announcement   |
| “Latest Practicable Date”      | 31 August 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein  |
| “Latest Time for Acceptance”   | 4:00 p.m. on Tuesday, 18 October 2022, being the last time for acceptance and payment of the Rights Shares, or such other date as the Company may determine   |
| “Latest Time for Termination”  | 4:00 p.m. on Wednesday, 19 October 2022, being the latest time for the termination of the Underwriting Agreement  |
| “Listing Committee”            | has the same meaning ascribed to it under the Listing Rules   |
| “Listing Rules”                | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Mr. Feng”                     | Mr. Feng Bin, the non-executive Director  |
| “Mr. Yang”                     | Mr. Yang Yoong An, the chairman of the Board, an executive Director and a Controlling Shareholder of the Company  |
| “Overseas Shareholder(s)”      | Shareholder(s) whose address(es) on the register of members of the Company on the Record Date are outside Hong Kong   |
| “PAL(s)”                       | the provisional allotment letter(s) for the Rights Issue to be issued to the Qualifying Shareholders  |
| “Posting Date”                 | Monday, 3 October 2022 or such other day as the Company may determine, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Excluded Shareholders (as the case may be)                |

## DEFINITIONS

|                           |  |
|---------------------------|--|
| “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  |
| “Prospectus”              | the prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s) for information only) on the Posting Date in connection with the Rights Issue                                      |
| “Prospectus Documents”    | the Prospectus, the PAL(s) and the EAF(s)  |
| “Qualifying Shareholders” | Shareholder(s), whose names appear on the register of members of the Company as at the Record Date, other than the Excluded Shareholder(s)   |
| “Record Date”             | Friday, 30 September 2022, or on such other date as the Company may determine, being the date by reference to which entitlements to the Rights Issue will be determined  |
| “Registrar”               | Union Registrars Limited, the Company’s branch share registrar and transfer office in Hong Kong  |
| “Rights Issue”            | the proposed issue of Rights Shares at the Subscription Price on the basis of one (1) Rights Share for every one (1) existing Share held at the close of business on the Record Date payable in full on acceptance |
| “Rights Share(s)”         | Share(s) to be allotted and issued under the Rights Issue  |
| “RMB”                     | Renminbi, the lawful currency of the PRC   |
| “SFC”                     | the Securities and Futures Commission of Hong Kong   |
| “SFO”                     | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |

## DEFINITIONS

|                              |  |
|------------------------------|--|
| “Share(s)”                   | ordinary share(s) of HK\$0.01 each in the share capital of the Company   |
| “Shareholder(s)”             | holder(s) of the Share(s)  |
| “Stock Exchange”             | the Stock Exchange of Hong Kong Limited  |
| “Spearhead Leader”           | Spearhead Leader Limited, being a Controlling Shareholder, and the entire issued share capital of which is wholly-owned by Mr. Yang, which holds approximately 69.79% of the issued share capital of the Company as at the Latest Practicable Date   |
| “Subscription Price”         | the subscription price in respect of each Rights Share, being HK\$0.60   |
| “Substantial Shareholder(s)” | has the meaning as ascribed to this term under the Listing Rules   |
| “Star Glide”                 | Star Glide Limited, the entire issued share capital of which is wholly-owned by Mr. Feng, which holds approximately 5.21% of the issued share capital of the Company as at the Latest Practicable Date   |
| “Takeovers Code”             | the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)  |
| “Undertaken Shares”          | a total number of 225,000,000 Rights Shares to be provisionally allotted to Spearhead Leader and Star Glide in accordance with their respective shareholding, whereby each of Mr. Yang and Mr. Feng has undertaken to the Company that they shall respectively procure Spearhead Leader and Star Glide to subscribe in full under the Irrevocable Undertakings |
| “Underwriter”                | First Shanghai Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the Underwriter  |
| “Underwriting Agreement”     | the underwriting agreement dated 5 August 2022 entered into between the Company and the Underwriter in relation to the Rights Issue, as revised, supplemented or amended from time to time in accordance with its terms  |



## DEFINITIONS

|                       |   |
|-----------------------|---|
| “Underwritten Shares” | 75,000,000 Rights Shares, representing the Rights Shares to be underwritten by the Underwriter, subject to the terms and conditions of the Underwriting Agreement |
| “Untaken Shares”      | the number of unsubscribed Rights Share(s) not taken up by the Qualifying Shareholder(s) or renouncee(s) or transferee(s) of nil-paid rights under PAL(s)         |
| “%”                   | per cent  |

*In this circular, the English transliteration of the Chinese names, where indicated, are included for identification purpose only, and should not be regarded as the official English names of such Chinese names. In the event of any inconsistency, the Chinese names shall prevail.*

|                           |
|---------------------------|
| <b>EXPECTED TIMETABLE</b> |
|---------------------------|

The expected timetable for the proposed Rights Issue and Change in Board Lot Size is set out below:

| <b>Event</b>  | <b>Date<br/>(Hong Kong time)</b>                             |
|---|--|
| Latest time for lodging transfer document of shares<br>to qualify for attendance and voting at the EGM.....   | 4:00 p.m. on<br>Tuesday, 13 September 2022                   |
| Closure of register of members (both dates inclusive).....  | Wednesday, 14 September 2022 –<br>Tuesday, 20 September 2022 |
| Latest time for lodging proxy forms for the EGM.....  | 11:00 a.m. on<br>Sunday, 18 September 2022                   |
| Record date for attendance and voting at the EGM.....   | Tuesday, 20 September 2022                                   |
| Expected time and date of the EGM to approve the<br>proposed Rights Issue, the Underwriting Agreement<br>and the transactions contemplated respectively thereunder..... | 11:00 a.m. on<br>Tuesday, 20 September 2022                  |
| Announcement of the poll results of the EGM.....  | Tuesday, 20 September 2022                                   |
| Register of members re-opens.....   | Wednesday, 21 September 2022                                 |
| Last day of dealings in the Shares on a cum-rights<br>basis of the Rights Issue.....  | Wednesday, 21 September 2022                                 |
| First day of dealings in the Shares on an ex-rights<br>basis of the Rights Issue.....   | Thursday, 22 September 2022                                  |
| Latest time for the Shareholders to lodge transfer<br>of Shares to qualify for the Rights Issue.....  | 4:00 p.m. on<br>Friday, 23 September 2022                    |
| Closure of register of members for the Rights Issue<br>(both dates inclusive).....  | Monday, 26 September 2022 –<br>Friday, 30 September 2022     |
| Record date for the Rights Issue .....  | Friday, 30 September 2022                                    |

## EXPECTED TIMETABLE

|   |  |
|---|--|
| Register of members of the Company re-opens .....   | Monday, 3 October 2022                     |
| Despatch of Prospectus, PAL and EAF .....   | Monday, 3 October 2022                     |
| Effective date of the new board lots size of 4,000 Shares .....   | Monday, 3 October 2022                     |
| Designated broker starts to stand in the market to<br>provide matching services for odd lots of Shares.....   | 9:00 a.m. on<br>Monday, 3 October 2022     |
| First day of dealings in nil-paid Rights Shares.....  | Thursday, 6 October 2022                   |
| Latest time for splitting nil-paid Rights Shares .....  | 4:00 p.m. on<br>Monday, 10 October 2022    |
| Last day of dealing in nil-paid Rights Shares .....   | Thursday, 13 October 2022                  |
| Latest Time for Acceptance of and payment for the<br>Rights Shares and application of and payment<br>for excess Rights Shares.....  | 4:00 p.m. on<br>Tuesday, 18 October 2022   |
| Latest Time for Termination of the Underwriting Agreement.....  | 4:00 p.m. on<br>Wednesday, 19 October 2022 |
| Designated broker ceases to stand in the market to<br>provide matching services for odd lots of Shares.....   | 4:00 p.m. on<br>Monday, 24 October 2022    |
| Announcement of results of the Rights Issue .....   | Tuesday, 25 October 2022                   |
| Despatch of certificates for fully-paid rights shares and<br>refund cheques in relation to wholly or partially<br>unsuccessful applications for excess Rights Shares (if any).... | Wednesday, 26 October 2022                 |
| Commencement of dealings in fully-paid Rights Shares .....  | Thursday, 27 October 2022                  |

All times and dates specified in this circular refer to the Hong Kong times and dates. This timetable is indicative only and any subsequent changes to the expected timetable will be announced by the Company as and when appropriate.

|                           |
|---------------------------|
| <b>EXPECTED TIMETABLE</b> |
|---------------------------|

**EFFECT OF BAD WEATHER OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES**

The latest time for acceptance of and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning or Extreme Conditions:

- (i) in force in Hong Kong at any local time before 12: 00 noon and no longer in force after 12:00 noon on Tuesday, 18 October 2022. Instead, the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Tuesday, 18 October 2022. Instead, the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on or before 4:00 p.m. on Tuesday, 18 October 2022, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event.

LETTER FROM THE BOARD



**Jia Yao Holdings Limited**

**嘉耀控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 01626)**

**Board of Directors**

*Executive Director:*

Mr. Yang Yoong An (*Chairman*)

*Non-executive Directors:*

Mr. Feng Bin

Mr. Yang Fan

*Independent non-executive Directors:*

Mr. Gong Jinjun

Mr. Zeng Shiquan

Mr. Wang Ping

*Registered Office:*

Second Floor, Century Yard  
Cricket Square, P.O. Box 902  
Grand Cayman, KY1-1103  
Cayman Islands

*Principal Place of Business  
in Hong Kong:*

Suite 3212, 32nd Floor, Tower One  
Times Square, No. 1 Matheson Street  
Causeway Bay  
Hong Kong

5 September 2022

*To the Shareholders*

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF  
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE  
HELD ON THE RECORD DATE;**

**(II) PROPOSED CHANGE IN BOARD LOT SIZE;  
AND**

**(III) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement in relation to, among other things, the Rights Issue and the Change in Board Lot Size. The purpose of this circular is to provide you among other things, details of the Rights Issue, the Change in Board Lot Size and the notice of the EGM to be convened.

## LETTER FROM THE BOARD

### PROPOSED RIGHTS ISSUE

The Company proposes to raise gross proceeds of HK\$180.0 million (before expenses) by issuing 300,000,000 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date) by way of rights issue at the Subscription Price of HK\$0.60 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share held on the Record Date. Further details of the Rights Issue are set out below:

#### Issue statistics

|  |   |   |
|--|---|---|
| Basis of the Rights Issue  | : | One (1) Rights Share for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date   |
| Subscription Price   | : | HK\$0.60 per Rights Share   |
| Net Subscription Price per Rights Share (i.e. Subscription Price less Rights Issue expenses) | : | Approximately HK\$0.59 per Rights Share   |
| Number of Shares in issue as at the Latest Practicable Date                                  | : | 300,000,000 Shares  |
| Number of Rights Shares to be issued pursuant to the Rights Issue                            | : | 300,000,000 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)  |
| Aggregate nominal value of the Rights Shares   | : | HK\$3,000,000 (assuming no change in the number of Shares in issue on or before the Record Date)  |
| Number of Shares in issue upon completion of the Rights Issue                                | : | 600,000,000 Shares (assuming no change in the number of Shares in issue on or before the Record Date)   |
| Gross proceeds to be raised before expenses  | : | Approximately HK\$180.0 million (before expenses)   |
| Right of excess applications   | : | Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment  |
| Underwriter  | : | First Shanghai Securities Limited   |
| Number of Rights Shares underwritten by the Underwriter                                      | : | 75,000,000 Rights Shares underwritten by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement, excluding the Undertaken Shares. Accordingly, taking into account the Undertaken Shares, the Rights Issue is fully underwritten. |

## LETTER FROM THE BOARD

Assuming that there is no change in the issued share capital of the Company on or before the Record Date, the 300,000,000 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 100.0% of the total number of existing issued Shares as at the Latest Practicable Date; and (ii) 50.0% of the total number of issued Shares as enlarged by the issue of the Rights Shares.

As at the Latest Practicable Date, the Group had no outstanding derivatives, options, warrants, convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares.

### **The Subscription Price**

The Subscription Price of HK\$0.60 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or where a transferee of the nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 39.39% to the closing price of HK\$0.990 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 14.29% to the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 12.02% to the average closing price of approximately HK\$0.682 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 16.20% to the average closing price of approximately HK\$0.716 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 7.69% to the theoretical ex-rights price of approximately HK\$0.650 per Share based on the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 7.14% of the theoretical diluted price of approximately HK\$0.650 per Share to the benchmarked price of HK\$0.700 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.700 per Share on the Last Trading Day and the average closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days prior to the Last Trading Day of HK\$0.674 per Share);
- (vii) a discount of approximately 4.15% to the audited net asset value of the Company of approximately HK\$0.626 per Share based on the latest published audited net asset value attributable to owners of the Company of approximately RMB160,411,000

## LETTER FROM THE BOARD

(equivalent to approximately HK\$187,680,870) as at 31 December 2021 as set out in the annual report of the Company for the year ended 31 December 2021 and total number of issued Shares of 300,000,000 Shares as at the Latest Practicable Date; and

- (viii) a discount of approximately 4.76% to the unaudited net asset value of the Company of approximately HK\$0.630 per Share based on the latest published unaudited net asset value attributable to owners of the Company of approximately RMB161,566,000 (equivalent to approximately HK\$189,032,220) as at 30 June 2022 as set out in the interim results announcement of the Company for the six months ended 30 June 2022 and total number of issued Shares of 300,000,000 Shares as at the Latest Practicable Date.

During the 12-month period immediately preceding the date of this circular, the Company has not undertaken (whether by reference to the date of agreement or announcement or the date of commencement of dealing of shares) any rights issue, open offer or specific mandate placing. The theoretical diluted price, the benchmarked price and theoretical dilution effect (as those terms are defined under Rule 7.27B of the Listing Rules) for the Rights Issue are approximately HK\$0.650 per Share, HK\$0.700 per Share and 7.14%, respectively. The Rights Issue will not result in a theoretical dilution effect of 25% or more. As such the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among others, the market price of the Shares under the prevailing market conditions, the financial condition of the Company and the reasons for and benefits of Rights Issue as discussed in the section headed "Reasons for and Benefits of the Rights Issue and Use of Proceeds" in this circular. The Board considers that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The estimated net price per Rights Share (assuming no change in the number of Shares in issue on or before the Record Date) after deducting the related expenses of the Rights Issue will be approximately HK\$0.59.

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon:

- (i) approval being obtained from the Independent Shareholders at the EGM by way of an ordinary resolution to approve the Rights Issue and the transactions contemplated thereunder, including but not limited to the Underwriting Agreement, pursuant to Rule 7.19A of the Listing Rules;
- (ii) delivery being made to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of the Prospectus Documents in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;



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- (iii) posting of the Prospectus Documents to the Qualifying Shareholders and posting of Prospectus to the Excluded Shareholders (for information only) on or before the Posting Date;
- (iv) the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms; and
- (v) the representation, warranties and undertakings of the Company as set out in the Underwriting Agreement remain true and accurate in all material respects.

The Company shall use all reasonable endeavours to procure the fulfilment or waiver (as the case may be) of all the above conditions precedent by the Latest Time for Termination or such other date as the Company and the Underwriter may agree.

The Underwriter may at any time by notice in writing to the Company waive the condition precedent set out in paragraph (v) above. Save and except the condition precedent set out in paragraph (v) above, the other conditions precedent are incapable of being waived. If the conditions precedent set out in paragraphs (i) to (v) above are not satisfied and/or waived in whole or in part by the Underwriter by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate (save and except the provisions regarding fees, notices and governing law and jurisdiction which shall remain in full force and effect) and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

### **Status of the Rights Shares**

The Rights Shares (when allotted, fully-paid or credited as fully-paid and issued) will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, FRC transaction levy or any other applicable fees and charges in Hong Kong.

### **Qualifying Shareholders**

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be an Excluded Shareholder. In order to be registered as members of the Company on the Record Date, all transfers of the Shares (together with the relevant share certificate(s) and/or the instrument(s) of transfer) must be lodged with the

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Registrar in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, for registration no later than 4:00 p.m. (Hong Kong time) on Friday, 23 September 2022.

Shareholders whose Shares are held by nominee companies should note that the Board will regard a nominee company as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date. Shareholders and investors should consult their professional advisers if they are in doubt as to their status and action to be taken.

It is expected that the last day of dealings in the Shares on a cum-rights basis is Wednesday, 21 September 2022, and the Shares will be dealt with on an ex-rights basis from Thursday, 22 September 2022.

Subject to the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Posting Date and will despatch the Prospectus only (without the PAL and the EAF) to the Excluded Shareholders for their information only.

### **Closure of register of members**

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Tuesday, 20 September 2022 (both dates inclusive) for determining the Shareholders’ entitlements for attending and voting at the EGM. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 13 September 2022.

The register of members of the Company will be closed from Monday, 26 September 2022 to Friday, 30 September 2022 (both dates inclusive) for determining the entitlements to the Rights Issue. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be an Excluded Shareholder. In order to be registered as members of the Company on the Record Date, all transfers of the Shares (together with the relevant share certificate(s) and/or the instrument(s) of transfer) must be lodged with the Registrar in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, for registration no later than 4:00 p.m. (Hong Kong time) on Friday, 23 September 2022.

No transfer of the Shares will be registered during the above book closure periods.

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### **Basis of provisional allotments**

The Rights Shares will be allotted on the basis of one (1) Rights Share for every one (1) existing Share held by the Qualifying Shareholders as at the close of business on the Record Date at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing a PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

Qualifying Shareholders who take up their pro rata entitlement in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

### **Rights of the Overseas Shareholders**

The Prospectus Documents to be issued in connection with the Rights Issue will not be registered or filed under the securities law of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

Based on the register of members of the Company as at the Latest Practicable Date, there was one Overseas Shareholder with registered address located in the PRC, who was interested in 7,000,000 existing Shares, representing approximately 2.33% of issued share capital of the Company as at the Latest Practicable Date. The Board will comply with Rule 13.36 of the Listing Rules and make necessary enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders (if any) under the laws of the relevant overseas jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges. If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to any Overseas Shareholders on account either of the legal restrictions of the relevant overseas regulatory body or stock exchange, no provisional allotment of the nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Excluded Shareholders. The basis for excluding the Excluded Shareholders, if any, from the Rights Issue will be set out in the Prospectus to be issued.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, to be sold in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid pro rata (but rounded down to the nearest dollar) to the relevant Excluded Shareholders in Hong Kong dollars, except that the Company will retain individual amounts of less than HK\$100 for its own benefit. Any unsold entitlements of the Excluded Shareholders will be made available for excess application by the Qualifying Shareholders.

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Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, the Overseas Shareholders should exercise caution when dealing in the Shares.

The Rights Issue does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, nil-paid Rights Shares or fully-paid Rights Shares or to take up any entitlements to nil-paid Rights Shares or fully-paid Rights Shares in any jurisdiction in which such an offer or solicitation is unlawful. Shareholders and beneficial owners of the Shares (including, without limitation, their respective agents, custodians, nominees and trustees) should inform themselves of and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

### Application for the excess Rights Shares

Qualifying Shareholders shall be entitled to apply, by way of excess application, for:

- (i) any unsold entitlement of the Excluded Shareholders (if any); and
- (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise not subscribed for by transferees of nil-paid Rights Shares.

Applications for the excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance. The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable on the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result;
- (ii) subject to availability of the excess Rights Shares, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the number of excess Rights Shares applied for by them. No reference will be made to Rights Shares subscribed through PALs, or the number of Shares held by the Qualifying Shareholders; and
- (iii) pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by the Controlling Shareholder or its associates (together, the “**Relevant Shareholders**”), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders’ applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number

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equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

If the aggregate number of Rights Shares underlying the Untaken Shares is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

In the event that the Board notes unusual patterns of excess applications and has reason to believe that any excess application may have been made with the intention to abuse the mechanism, such application(s) for excess Rights Shares may be rejected at the sole discretion of the Board.

Beneficial owners of Shares whose shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of Shares whose Shares are registered in name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually and are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date. Shareholders and investors should consult their professional advisers if they are in doubt as to their status.

For those beneficial owners of Shares whose Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for completion of the relevant registration not later than 4:00 p.m. (Hong Kong time) on Friday, 23 September 2022.

### **Certificates of the Rights Shares and refund cheques for the Rights Issue**

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be sent on Wednesday, 26 October 2022, to those entitled thereto by ordinary post, at their own risk, to their registered addresses.

If the Rights Issue is terminated, refund cheques will be posted on Wednesday, 26 October 2022 by ordinary post to the respective Shareholders, at their own risk, to their registered addresses.

Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on Wednesday, 26 October 2022, by ordinary post to the applicants, at their own risk, to their registered addresses.

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### **Fractional entitlement to the Rights Shares**

On the basis of provisional allotment of one (1) Rights Share for every one (1) existing Share held on the Record Date, no fractional entitlements will arise from the Rights Issue.

### **Application for listing of the Rights Shares**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms) to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, or such other dates 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. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealing in the Rights Shares in both their nil-paid and fully-paid forms will be in the new board lots of 4,000 Rights Shares. Dealings in the Rights Shares in both nil-paid and fully-paid forms, which are registered in the branch register of members of the Company in Hong Kong, will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, FRC transaction levy or any other applicable fees and charges in Hong Kong.

### **THE IRREVOCABLE UNDERTAKINGS**

As at the Latest Practicable Date, Spearhead Leader and Star Glide hold 209,362,000 Shares and 15,638,000 Shares, representing approximately 69.79% and 5.21% of the issued share capital, respectively. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader and Mr. Feng beneficially owns the entire issued share capital of Star Glide. Each of Mr. Yang and Mr. Feng has given irrevocable undertaking in favour of the Company that, among other things:

- (i) Mr. Yang shall procure Spearhead Leader to fully subscribe for 209,362,000 Rights Shares, which will be provisionally allotted to Spearhead Leader under the Rights Issue;
- (ii) Mr. Feng shall procure Star Glide to fully subscribe for 15,638,000 Rights Shares, which will be provisionally allotted to Star Glide under the Rights Issue;



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(iii) Mr. Yang and Mr. Feng shall respectively procure Spearhead Leader and Star Glide not to directly or indirectly sell or transfer any of the Shares held by them from the date of Irrevocable Undertakings to the Record Date.

Save for the Irrevocable Undertakings, the Company has not received any information or irrevocable undertaking from any other Shareholders of their intention in relation to the Rights Shares to be allotted to them under the Rights Issue as at the Latest Practicable Date.

Each of Mr. Yang and Mr. Feng has further provided written confirmation confirming that they would not, and would procure Spearhead Leader and Star Glide not to, make any excess application under the Rights Issue.

### THE UNDERWRITING AGREEMENT

On 5 August 2022 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement, pursuant to which the Underwriter has conditionally agreed to underwrite the Underwritten Shares of 75,000,000 Rights Shares, subject to the terms and conditions of the Underwriting Agreement.

The principal terms of the Underwriting Agreement are summarised below:

|                               |   |   |
|-------------------------------|---|---|
| Date                          | : | 5 August 2022 (after trading hours)   |
| Issuer                        | : | The Company   |
| Underwriter                   | : | First Shanghai Securities Limited   |
| Number of Underwritten Shares | : | 75,000,000 Rights Shares underwritten by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement, excluding the Undertaken Shares. Accordingly, taking into account the Undertaken Shares, the Rights Issue is fully underwritten. |
| Commission                    | : | 5% of the aggregate subscription amount in respect of the maximum number of Underwritten Shares, being 75,000,000 Rights Shares for which the Underwriter has agreed to subscribe or procure subscription pursuant to the Underwriting Agreement              |

The Underwriter is a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO whose ordinary course of business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owner(s) are Independent Third Parties. The Underwriter confirmed that it has complied with Rule 7.19(1)(a) of the Listing Rules.

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Pursuant to the Underwriting Agreement, the Underwriter undertakes and shall ensure that (i) each of the subscribers of the Underwritten Shares procured by it shall be an Independent Third Party; and (ii) none of the subscribers, together with any party(ies) acting in concert with it/them, will hold such number of Underwritten Shares which will trigger a mandatory general offer obligation under the Takeovers Code on the part of such sub-underwriters or subscribers or purchasers and parties acting in concert (within the meaning of the Takeovers Code) with it upon completion of the Rights Issue.

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiation between the Company and the Underwriter by reference to the market practice. The Company had approached three brokerage companies (including the Underwriter) to explore their interest in participating in the underwriting of the Rights Issue on a fully underwritten basis. Save and except for the Underwriter which agreed to fully underwrite the Rights Shares at the Subscription Price at a commission of 5.0%, other brokerage companies did not show interests to underwrite the Rights Shares on a fully underwritten basis. The Board considered that if the Rights Issue was not conducted on a fully underwritten basis, it would be contrary to the Company's initial objective for the Rights Issue, which is to raise funds by way of Rights Issue with certainty, as such the Rights Issue must be fully-underwritten. In particular, the Company understood that the Underwriter offered the commission rate of 5.0% based on its past experience and its assessment on the likelihood of low acceptance rate by the Qualifying Shareholders given the recent pricing trend of the Shares, the low trading volume of the Shares and the lower-than-average discount to the closing price per Share on the Last Trading Day, the closing price per Share for the five consecutive trading days prior to and including the Last Trading Day and the theoretical ex-rights price per Share based on the closing price per Share on the Last Trading Day. Moreover, the underwriting commission rate under the Underwriting Agreement was determined after making reference to, and is within the range of, those underwritten rights issue exercises in the past six months from the date of the Underwriting Agreement, which were shortlisted as to those conducted by companies listed on the Main Board of the Stock Exchange and are fully-underwritten by the independent underwriters (the "**Fully Underwritten Comparables**"). It is noted that the underwriting commission charged by the underwriters of the Fully Underwritten Comparables ranged from 1.00% to 7.07%, and the Directors considered that the said range represents a fair and representative view of the recent market conditions as to the rate of underwriting commission in rights issue cases conducted on a fully-underwritten basis. Accordingly, the Company considers that the underwriting commission of 5.0% is in line with the market practice. The Company is of the view that although underwriting is no longer a mandatory requirement under the Listing Rules, the underwriting arrangement for the Rights Issue would be beneficial to the Company by guaranteeing the size of the issue and providing certainty as to the size of the capital being raised in the Rights Issue, which is in the interests of the Company and the Shareholders as a whole. The Company also reviewed the credentials of the Underwriter and noted that the Underwriter has extensive experience in acting as bookrunner, lead manager and underwriter for fundraising activities of listed companies. Having considered (i) the Underwriter is the only underwriter that is willing to fully underwrite the Underwritten Shares amongst all brokerage companies that the Company have approached; (ii) the Company's objective is to raise sufficient funds by way of Rights Issue with certainty; (iii) the underwriting commission of 5.0% is within the range of those underwriting commission charged by the underwriters of



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the Fully Underwritten Comparables; and (iv) the Underwriter's extensive experience for similar fundraising activities, the Directors consider that the terms of the Underwriting Agreement including the commission rate, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Underwriter may enter into sub-underwriting arrangement with sub-underwriter(s) (if any) or appoint any person to be sub-agent(s) on its behalf for the purpose of arranging for the subscription of the Underwritten Shares with selected subscribers with such authority and rights as the Underwriter have pursuant to its appointment under the Underwriting Agreement.

Subject to the fulfilment or waiver (where applicable) of all the conditions contained in the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms thereof, the Underwriter shall subscribe for or procure the subscription for the Underwritten Shares pursuant to the terms and conditions of Underwriting Agreement.

### **Conditions of the Underwriting Agreement**

The conditions of the Underwriting Agreement have been set out in the section headed "Proposed Rights Issue — Conditions of the Rights Issue" above.

### **Termination of the Underwriting Agreement**

If, at any time prior to the Latest Time for Termination there occurs:

- (a) any of the following which, in the reasonable opinion of the Underwriter, will or is likely to materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudices the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue:
  - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
  - (ii) the occurrence, happening, coming into effect or becoming public knowledge of (1) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; (2) a suspension or a material limitation in trading in securities generally on the Stock Exchange; (3) a suspension or a material limitation in trading in the Company's securities on the Stock Exchange for more than ten consecutive Business Days (other than pending publication of the Announcement or any other document relating to the Rights Issue); (4) a general moratorium on

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commercial banking activities in Hong Kong declared by the relevant authority or a material disruption in commercial banking or securities settlement or clearance services in Hong Kong; or (5) a change or development involving a prospective change in taxation affecting the Company, the Shares or the transfer thereof; or

- (b) any change in the circumstances of the Company or any member of the Group occurs which in the reasonable opinion of the Underwriter will materially and adversely affect the prospects of the Company, including without limiting the generality of the foregoing, the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or
- (c) in the reasonable opinion of the Underwriter, any event of force majeure occurs, including without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, outbreak of an infectious disease, epidemic, terrorism, armed conflict, strike or lock-out; or
- (d) the commencement by any third party of any litigation or claim against any member of the Group after the signing of the Underwriting Agreement which, in the reasonable opinion of the Underwriter, is or might be material to the Group taken as a whole; or
- (e) in the reasonable opinion of the Underwriter, any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole occurs, whether or not ejusdem generis with any of the foregoing,

the Underwriter shall be entitled by notice in writing issued by the Underwriter to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

If, at or prior to the Latest Time for Termination:

- (a) the Company commits any material breach of or omits to materially observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under the Underwriting Agreement, where, in the reasonable opinion of the Underwriter, such breach or omission will or is likely to have a material and adverse effect on its business, financial or trading prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
- (b) the Underwriter shall receive notification of, or shall otherwise become aware of, the fact that any of the representations, warranties or undertakings was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated, and the Underwriter shall, in its reasonable discretion, determine that any such untrue representation, warranty or undertaking represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

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- (c) the Company's application to the Listing Committee of the Stock Exchange for the permission for the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) on the Stock Exchange is withdrawn by the Company and/or refused or revoked by the Stock Exchange; or
- (d) any condition to enable the Rights Shares (in their nil-paid and fully-paid forms) to be admitted as eligible securities for deposit, clearance and settlement in CCASS is not satisfied or notification is received by the Company from HKSCC that such admission or facility for holding and settlement has been or is to be refused; or
- (e) any statement contained in this circular or any Prospectus Document has been shown to be untrue, inaccurate, incomplete in any material respect or misleading with reference to the date on which such statement was made; or
- (f) the Company shall, after any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company,

The Underwriter shall be entitled (but not bound) by notice in writing issued by it to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting and rescind the Underwriting Agreement. Any such notice shall only be served by the Underwriter prior to the Latest Time for Termination.

Upon the giving of notice referred to above, all obligations of the Underwriter hereunder shall cease and determine and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement, save in respect of the above termination clause, provisions regarding fees, indemnity, notices and governing law and jurisdiction and any right or liability accrued before such rescission or termination, have any right against or liability towards any of the other parties arising out of or in connection with the Underwriting Agreement.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. Further announcement(s) will be made if the Underwriting Agreement is terminated by the Underwriter.

### **CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY**

The following table sets out the possible changes in the shareholding structure of the Company arising from the Rights Issue which are for illustrative purpose only.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has 300,000,000 existing Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately upon completion of the Rights Issue (assuming full acceptance by the Qualifying Shareholders); and (iii) immediately upon completion of the Rights Issue (assuming, other than the Undertaken Shares pursuant to the Irrevocable Undertakings, nil acceptance by the Qualifying Shareholders and the Underwriter takes up all Rights Shares pursuant to the Underwriting Agreement).

|                                     | (i) As at the<br>Latest Practicable Date |          | (ii) Immediately upon<br>completion of the Rights<br>Issue (assuming full<br>acceptance by the<br>Qualifying Shareholders) |          | (iii) Immediately upon<br>completion of the Rights<br>Issue (assuming, other than<br>the Undertaken Shares<br>pursuant to the Irrevocable<br>Undertakings, nil acceptance<br>by the Qualifying<br>Shareholders and the<br>Underwriter takes up the<br>Rights Shares pursuant to the<br>Underwriting Agreement) |          |
|-------------------------------------|--|----------|--|----------|--|----------|
|                                     | <i>Number of<br/>Shares</i>              | <i>%</i> | <i>Number of<br/>Shares</i>  | <i>%</i> | <i>Number of<br/>Shares</i>  | <i>%</i> |
| Spearhead Leader<br><i>(Note 1)</i> | 209,362,000                              | 69.79    | 418,724,000  | 69.79    | 418,724,000  | 69.79    |
| Star Glide <i>(Note 2)</i>          | 15,638,000                               | 5.21     | 31,276,000   | 5.21     | 31,276,000   | 5.21     |
| <b>Parties acting in concert</b>    | 225,000,000                              | 75.00    | 450,000,000  | 75.00    | 450,000,000  | 75.00    |
| Underwriter <i>(Note 3)</i>         | —  | —        | —  | —        | 75,000,000   | 12.50    |
| Other Public Shareholders           | 75,000,000                               | 25.00    | 150,000,000  | 25.00    | 75,000,000   | 12.50    |
| Total                               | 300,000,000                              | 100.00   | 600,000,000  | 100.00   | 600,000,000  | 100.00   |

*Notes:*

1. Mr. Yang, the chairman of the Board and executive Director, beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 shares of the Company held by Spearhead Leader for the purpose of the SFO.
2. Mr. Feng, the non-executive Director, beneficially owns the entire issued share capital of Star Glide. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide for the purpose of the SFO.
3. These scenarios are for illustrative purpose only. Under the Underwriting Agreement, the Underwriter has undertaken that it shall use its reasonable endeavours to ensure that (i) each of the subscribers of the Underwritten Shares procured by it shall be an Independent Third Party; and (ii) none of the subscribers, together with any party(ies) acting in concert with it/them, will hold such number of Underwritten Shares which will trigger a mandatory general offer obligation under the Takeovers Code on the part of such sub-underwriters or subscribers or purchasers and parties acting in concert (within the meaning of the Takeovers Code) with it upon completion of the Rights Issue.

## LETTER FROM THE BOARD

The public float requirements under the Listing Rules shall be fulfilled by the Company at all times. The Company will take all appropriate steps to ensure that sufficient public float be maintained at all times in compliance with Rule 8.08 of the Listing Rules.

### REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in design, printing, and distribution of paper cigarette packages in China and to a lesser extent, social product paper packages in China. Hubei Golden Three Gorges Printing Industry Co., Ltd.\* (湖北金三峽印務有限公司) (“**Hubei Golden Three Gorges**”), the Group’s primary subsidiary, has been established in China for over 20 years and the Group provides paper cigarette packaging services for key cigarette brands designated by the State Tobacco Monopoly Administration of China. To further strengthen the business development of electronic cigarette, the Group has invested in Shenzhen Haohan Yangtian Technology Co., Ltd. (“**Shenzhen Haohan**”), which is engaged in product research and development of electronic cigarettes.

The estimated net proceeds from the Rights Issue after deducting the estimated expenses in relation to the Rights Issue of approximately HK\$176.0 million, of which (i) approximately HK\$119.34 million (equivalent to approximately RMB102 million) is intended for the relocation and establishment of the new production facilities and warehouse of Hubei Golden Three Gorges; (ii) approximately HK\$29.25 million (equivalent to approximately RMB25 million) is intended for the brand development and market expansion of Shenzhen Haohan; (iii) approximately HK\$23.40 million (equivalent to approximately RMB20 million) is intended for the business development of electronic cigarettes; and (iv) the remaining amount for general working capital of the Company, including but not limited to purchase of raw materials for paper cigarette packaging, salaries expenses and other administrative expenses for daily operation of the Group, for the next twelve (12) months after the completion of the Rights Issue.

As the warehouse storage capacity of the existing production facilities of Hubei Golden Three Gorges has been fully utilized, Hubei Golden Three Gorges has been leasing external warehouse. Due to the recent addition of machinery for offset printing and gravure printing, part of second floor of the existing production facilities of Hubei Golden Three Gorges, which was originally used as warehouse, has been demolished for the placement of such machinery, resulting in further shortage of warehouse storage capacity. As the surrounding area of the production facilities of Hubei Golden Three Gorges has been developed into a residential area in recent years, the existing production facilities have limitation to further upgrade its production area for new machineries. Furthermore, the PRC government promotes the urban transformation plan of “Retreat the City and Enter the Park” (退城進園) by encouraging industrial enterprises in the central urban area to relocate to industrial parks. In light of the abovementioned government policy as well as the Group’s need of additional warehouse storage capacity, the Group intends to relocate the production facilities of Hubei Golden Three Gorges to Yichang Free Trade Zone (宜昌自貿區) under the government policy. According to the relocation proposal of Hubei Golden Three Gorges, the new production facilities will comprise three sections, being production centre, warehouse and staff dormitory. The design and construction period of the new production facilities will commence in fourth quarter of 2022, among of which the production centre and warehouse is expected to be completed in

## LETTER FROM THE BOARD

fourth quarter of 2023 while the staff dormitory is expected to be completed in second quarter of 2023. The construction of the new production facilities and the relocation will be completed by May 2024 and July 2024, respectively. Hubei Golden Three Gorges expects no material impact to its operation and production during the relocation and the new production facilities will provide sufficient warehouse storage capacity after the relocation.

The Company has been expanding its tobacco related business to electronic cigarette segment by leveraging the Company's market network in the tobacco industry and Shenzhen Haohan's technological expertise in electronic cigarette since the capital injection to Shenzhen Haohan in 2021. According to the unaudited financial information of the Group for the six months ended 30 June 2022, the Group incurred approximately RMB13.2 million for the brand development and market expansion for its electronic cigarette business, including expenses for advertisement and promotion activities, and in return Shenzhen Haohan generated revenue of approximately RMB57.6 million from its electronic cigarette business for the six months ended 30 June 2022. Therefore, the Company considers continuous funding to brand development and market expansion of Shenzhen Haohan would create more business opportunities and benefit the Group as a whole.

The Company intends to expand its electronic cigarettes segment by expanding its sales network and/or further investment and acquisition. The Company has been looking for new investment or business opportunities in electronic cigarette industry, including potential acquisition and/or business collaborations with existing industry players in the electronic cigarettes segment. As at the Latest Practicable Date, the Group has not identified any specific targets for any potential investment and has not entered into any agreement in relation to potential new investments or business development. The Company will make further announcements as and when appropriate or required in accordance with the requirements of the Listing Rules if any agreement has been reached.

According to the interim results announcement of the Company for the six months ended 30 June 2022, the Company had cash and cash equivalents of approximately RMB79.9 million as at 30 June 2022. The Company shall maintain sufficient cash and cash equivalents for the ordinary operation of the Group, including but not limited to, purchase of raw materials, payment of utilities and salaries and maintenance expenses. The Directors consider that the remaining cash balance is not sufficient for the use of proceeds as mentioned above, in particular, the financial needs for the relocation and establishment of the new production facilities and warehouse of Hubei Golden Three Gorges. The Directors consider that the Rights Issue could provide immediate funds to the Company for the relocation and establishment of the new production facilities and the business development of the electronic cigarette segment, which will in return further improve the Group's operational efficiency and provide sustainable development of the Group's business.

The Board has considered other fund-raising alternatives before resolving to the proposed Rights Issue, including but not limited to debt financing, placing and open offer. In respect of debt financing, it will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. In addition, debt financing may not be achievable on favourable terms in a timely manner. As for placing of new Shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead



## LETTER FROM THE BOARD

to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market unlike a rights issue, which would allow Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights attaching thereto. On the other hand, the Board considers that the Rights Issue, being pre-emptive in nature, will allow all Qualifying Shareholders to participate in the future development of the Company and at the same time offer more flexibility to the Qualifying Shareholders to choose whether to maintain, increase or decrease their respective pro rata shareholdings in the Company by taking up only their respective rights entitlement, acquiring additional rights entitlement or disposing of their rights entitlements in the open market (subject to availability).

In view of the above, the Board considers that it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue to provide existing Shareholders the opportunity to participate in the enlarged capital base of the Company.

### **FUND RAISING EXERCISE OF THE COMPANY IN THE PAST TWELVE MONTHS**

The Company has not conducted any equity fund raising activities during the twelve (12) months immediately preceding the Latest Practicable Date.

### **WARNING OF THE RISKS OF DEALING IN THE SHARES AND RIGHTS SHARES**

**Shareholders and potential investors of the Company should note that the Underwriter has the right in certain circumstances to terminate the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed “Termination of the Underwriting Agreement” under the section headed “The Underwriting Agreement” in this circular). Accordingly, the proposed Rights Issue may or may not proceed.**

**Any Shareholder or other person dealing in the existing Shares and/or the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue are fulfilled or waived (as applicable) (and the date on which the Underwriter’s right of termination and rescission of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.**

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the existing Shares and/or the nil-paid Rights Shares. Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s).**

**Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Thursday, 22 September 2022 and that dealing in the Rights Shares in the nil-paid form will take place from Thursday, 6 October 2022 to Thursday, 13 October 2022 (both dates inclusive) while the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled, will**

## LETTER FROM THE BOARD

**accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.**

### **PROPOSED CHANGE IN BOARD LOT SIZE**

As at the Latest Practicable Date, the Shares are traded on the Stock Exchange in board lot size of 2,000 Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 2,000 Shares to 4,000 Shares with effect from 9:00 a.m. on Monday, 3 October 2022.

The Change in Board Lot Size will not result in change in the relative rights of the Shareholders.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by The Hong Kong Exchange and Clearing Limited, the expected value per board lot should be greater than HK\$2,000 taking into account the minimum transaction costs for a securities trade. The Change in Board Lot Size will not result in any change in the relative rights of the Shareholders. The Board is of the opinion that the Change in Board Lot Size is in the interests of the Company and its Shareholders as a whole. Shareholders should take note that Shareholders’ approval is not required for the Change in Board Lot Size.

Based on the theoretical ex-rights price of HK\$0.795 per Share (calculated based on the closing price of HK\$0.990 per Share as quoted on the Stock Exchange as at the Latest Practicable Date), the market value of each existing board lot is HK\$1,590 and the estimated market value of each proposed new board lot is HK\$3,180.

To alleviate the difficulties in trading odd lots of the Shares arising from the change in board lot size of the Shares, the Company has appointed First Shanghai Securities Limited as an agent to provide matching services, on a best effort basis, to the Shareholders who wish to top up or sell their holdings of odd lots of the Shares during the period from 9:00 a.m. on Monday, 3 October 2022 to 4:00 p.m. on Monday, 24 October 2022 (both dates inclusive). Shareholders who wish to take advantage of this service should contact Mr. Benny Fok of First Shanghai Securities Limited at 1903 Wing On House, 71 Des Voeux Road Central, Hong Kong or at telephone number (852) 2532 1911 during office hours (i.e. 9:00 a.m. to 6:00 p.m.) of such period. Holders of the Shares in odd lots should note that matching of the sale and purchase of odd lots of the Shares is on a best effort basis and successful matching of the sale and purchase of odd lots of the Shares is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above arrangement.

All existing share certificates in board lot of 2,000 Shares will remain good evidence of the legal title to the Shares and continue to be valid for delivery, transfer, trading and settlement purposes. No new share certificates for existing Shareholders will be issued as a result of the change in the board lot size, and therefore no arrangement for free exchange of existing share certificates in board lot size of 2,000 Shares to new share certificate in board lot size of 4,000 Shares is necessary.



## LETTER FROM THE BOARD

As at the Latest Practicable Date, save as disclosed in this circular, the Company (i) does not have any agreement, arrangement, understanding, intention, or negotiation (either concluded or in process) on any potential fundraising activities which will involve issue of equity securities of the Company; and (ii) has no other plan or intention to carry out any other corporate actions in the next twelve (12) months which may have an effect of undermining or negating the intended purpose of the Change in Board Lot Size. However, in the event there is any change to the business environment and/or financial position of the Company due to unforeseeable circumstances, and the Company is required to conduct further fund raising exercises when suitable opportunities arise in order to support future development of the Group, the Company will publish further announcement(s) in compliance with the Listing Rules, as and when appropriate.

### LISTING RULES IMPLICATIONS

As the Rights Issue will increase the number of issued shares of the Company by more than 50%, under Rules 7.19A and 7.27A of the Listing Rules, the Rights Issue is subject to approval of the Independent Shareholders at the EGM by a resolution on which any Controlling Shareholders and their respective associates or, where there are no Controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue. As Spearhead Leader and Mr. Yang are the Controlling Shareholders of the Company and Star Glide (which is wholly owned by Mr. Feng) is a party acting in concert with Spearhead Leader, each of Spearhead Leader, Star Glide, Mr. Yang and Mr. Feng shall abstain from voting in favour of the resolution relating to the Rights Issue at the EGM. As at the Latest Practicable Date, Spearhead Leader and Star Glide held 209,362,000 Shares and 15,638,000 Shares, representing approximately 69.79% and 5.21% of the issued share capital of the Company, respectively. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader and Mr. Feng beneficially owns the entire issued share capital of Star Glide.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed, no other Shareholder is required to abstain from voting in favour of the resolution relating to the Rights Issue at the EGM.

The Rights issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

### GENERAL

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Tuesday, 20 September 2022 (both dates inclusive) for determining the identity of the Shareholders who are entitled to attend and vote at the EGM. The EGM will be convened to consider and, if thought fit, approve the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder.

Subject to the approval of the Rights Issue by the Independent Shareholders at the EGM, the Prospectus Documents containing, among other matters, details of the Rights Issue, will be despatched to the Qualifying Shareholders on Monday, 3 October 2022. The Prospectus

## LETTER FROM THE BOARD

(without the PAL and the EAF) and a letter to the Excluded Shareholders (if any) explaining the circumstances in which they are not permitted to participate in the Rights Issue will be despatched to the Excluded Shareholders (if any) for their information only.

### EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve, among other things, the Rights Issue and the Underwriting Agreement. A notice convening the EGM of the Company to be held at Room 2, 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on Tuesday, 20 September 2022 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM (i.e. 11:00 a.m. on Sunday, 18 September 2022 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution to be considered and, if thought fit, approved at the EGM will be voted by way of poll by the Shareholders. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

As at the Latest Practicable Date, Spearhead Leader and Mr. Yang are the Controlling Shareholders of the Company and Star Glide (which is wholly owned by Mr. Feng) is a party acting in concert with Spearhead Leader, each of Spearhead Leader, Star Glide, Mr. Yang and Mr. Feng shall abstain from voting in favour of the resolution relating to the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder at the EGM.

### RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Gong Jinjun, Mr. Zeng Shiquan and Mr. Wang Ping, was established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser appointed by the Company. In this connection, the Company has appointed an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder are fair and reasonable.

## LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee set out on page 33 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder, and the letter from the Independent Financial Adviser set out on pages 34 to 61 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Board (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee on page 33 of this circular, after taking into account the advice of the Independent Financial Adviser) considers that the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder.

### MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

### ADDITIONAL INFORMATION

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

Yours faithfully  
By order of the Board  
**Jia Yao Holdings Limited**  
**Yang Yoong An**  
*Chairman and Executive Director*



**Jia Yao Holdings Limited**  
**嘉耀控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 01626)**

5 September 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF  
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE  
HELD ON THE RECORD DATE**

We have been appointed to form an independent board committee to consider and advise you on the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder and the voting recommendation on the relevant resolution, details of which are set out in the circular issued by the Company to the Shareholders dated 5 September 2022 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 10 to 32 and pages 34 to 61 of the Circular, respectively, and the additional information set out in the appendices to the Circular.

Having taken into account the background of and reasons for the Rights Issue and having taken into consideration of the advice of the Independent Financial Adviser, in relation thereto as set out on pages 34 to 61 of the Circular, we concur with the view of the Independent Financial Adviser and consider that the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Gong Jinjun**  
*Independent non-executive  
Director*

**Mr. Zeng Shiquan**  
*Independent non-executive  
Director*

**Mr. Wang Ping**  
*Independent non-executive  
Director*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of advice from Octal Capital Limited, the Independent Financial Adviser, which sets out its advice to the Independent Board Committee and Independent Shareholders prepared for the purpose of inclusion in this circular.*



801–805, 8/F, Nan Fung Tower  
88 Connaught Road Central  
Hong Kong

5 September 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Group to the Shareholders dated 5 September 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Reference is made to the Announcement. The Company proposed to raise gross proceeds of HK\$180.0 million (before expenses) by issuing up to 300,000,000 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date) by way of rights issue at the Subscription Price of HK\$0.60 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share held on the Record Date. Qualifying Shareholders are entitled to apply for Rights Shares in excess of their respective entitlements under the Rights Issue. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

As the Rights Issue will increase the issued share capital of the Company by more than 50%, under Rules 7.19A and 7.27A of the Listing Rules, the Rights Issue is subject to approval of the Independent Shareholders at the EGM.

#### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Gong Jinjun, Mr. Zeng Shiquan and Mr. Wang Ping, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser appointed by the Company. In this connection, the Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder are fair and reasonable. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee in accordance with the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in these regards and to give our opinion for the Independent Board Committee's consideration when making their recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we were not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or the Directors, chief executive and substantial shareholders of the Group, or any of their respective associates. Accordingly, we are qualified to act as the Independent Financial Adviser in respect of the Rights Issue pursuant to Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on (i) the annual reports of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and the year ended 31 December 2021 (the “**2021 Annual Report**”) and the interim results announcement for the six months ended 30 June 2022 (the “**2022 Interim Results Announcement**”); (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; (iv) the information and facts contained or referred to in the Circular; and (v) our review of the relevant public information. We have also relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Group regarding the Rights Issue, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Group in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to either suspect that any material facts have been omitted or withheld from

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the information contained or opinions expressed in the Circular or to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Group. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Rights Issue, we have considered the following principal factors and reasons:

#### 1. Background information of the Group

The Group is principally engaged in the design, printing and distribution of paper cigarette packages and, to a lesser extent, social product paper packages in PRC. Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2019 (“FY2019”), 31 December 2020 (“FY2020”) and 31 December 2021 (“FY2021”) as extracted from the 2020 Annual Report and 2021 Annual Report, and six months ended 30 June 2021 (“HY2021”) and 30 June 2022 (“HY2022”) as extracted from 2022 Interim Results Announcement.

##### (a) Financial Performance of the Group

| <i>RMB'000</i>                  | <b>FY2019</b><br><i>(audited)</i>    | <b>FY2020</b><br><i>(audited)</i> | <b>FY2021</b><br><i>(audited)</i> | <b>HY2021</b><br><i>(unaudited)</i> | <b>HY2022</b><br><i>(unaudited)</i> |
|---------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| <b>Revenue</b>                  |                                      |                                   |                                   |                                     |                                     |
| – Paper cigarette packages      | 548,847                              | 492,158                           | 681,549                           | 318,144                             | 347,549                             |
| – Social product paper packages | 13,180                               | 5,501                             | 7,395                             | 2,815                               | 3,927                               |
| – Trading goods                 | 19,230                               | 78,585                            | —                                 | —                                   | —                                   |
| – Electronic cigarettes         | —                                    | —                                 | —                                 | —                                   | 57,608                              |
|                                 | <u>581,257</u>                       | <u>576,244</u>                    | <u>688,944</u>                    | <u>320,959</u>                      | <u>409,084</u>                      |
| <b>Total revenue</b>            |                                      |                                   |                                   |                                     |                                     |
| Gross profit                    | 126,004                              | 73,697                            | 65,021                            | 33,725                              | 42,187                              |
| Gross profit margin             | 21.7%                                | 12.8%                             | 9.4%                              | 10.5%                               | 10.3%                               |
| Operating (loss)/profit         | 12,037                               | (25,811)                          | (23,878)                          | (5,626)                             | 1,582                               |
| Finance income                  | 1,722                                | 1,488                             | 1,559                             | 1,011                               | 576                                 |
| Finance costs                   | (3,928)                              | (5,102)                           | (6,496)                           | (4,220)                             | (1,570)                             |
|                                 | <u>(Loss)/profit before taxation</u> | <u>9,831</u>                      | <u>(29,425)</u>                   | <u>(28,815)</u>                     | <u>(8,835)</u>                      |
|                                 |                                      | <u>588</u>                        |                                   |                                     |                                     |



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Comparison between FY2019 and FY2020*

Revenue generated from the paper cigarette packages segment, social product paper packages segment and trading goods segment accounted for approximately 85.4%, 1.0% and 13.6% of the Group's total revenue for FY2020. Revenue of the Group decreased slightly by approximately 0.9% from approximately RMB581.3 million for FY2019 to RMB576.2 million for FY2020. Such decrease was mainly due to the decreases in revenue of the paper cigarette packages segment and social product paper packages segment by approximately 10.3% and 58.3% respectively for FY2020 as the Group's factory stopped operation most of the time in the first quarter of 2020 due to COVID-19 outbreak in the PRC. Such decreases were partially offset by the revenue attributed to the trading goods segment, which increased significantly by 3.1 times, as the Group was committed to expand this segment by leveraging its advanced technological know-how during the period.

The gross profit margin of the Group declined from approximately 21.7% for FY2019 to 12.8% for FY2020, mainly due to (i) the decrease in sales from the most profitable business of paper cigarette packages segment of the Group during the COVID-19 pandemic outbreak in the PRC in the first quarter of 2020; and (ii) the decrease in average product price to major customers in Yunnan, Henan, Heilongjiang markets during the period.

The Group recorded a loss of approximately RMB26.2 million for FY2020 as compared to a profit of approximately RMB4.2 million for FY2019 as a result of a decrease in gross profit margin upon the outbreak of the COVID-19 pandemic.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Comparison between FY2020 and FY2021*

Revenue of the Group increased by approximately 19.6% from approximately RMB576.2 million for FY2020 to approximately RMB688.9 million for FY2021. Such increase was mainly due to the 38.5% increase in the paper cigarette packages segment as a result of the resumption of the normal operation of the Group's factory, which was temporarily disrupted in 2020. The Group stopped operation of its trading goods segment in FY2021 due to the fierce market competition causing decreasing profit margin, as the Group wished to concentrate all resources to paper cigarette packages segment with higher profit margin.

The gross profit margin of the Group declined from approximately 12.8% for FY2020 to 9.4% for FY2021, mainly due to the decrease in average product price to certain major customers in Hunan and Shaanxi markets during the period.

The loss for FY2021 amounted to approximately RMB26.2 million, which was substantially the same as that for FY2020 as the gross profit margin was further decreased during FY2021.

### *Comparison between HY2021 and HY2022*

Revenue generated from the paper cigarette packages segment, social product paper packages segment and electronic cigarettes segment accounted for approximately 85.0%, 0.9% and 14.1% of the Group's total revenue for HY2022 respectively. Total revenue generated by the Group increased by approximately 27.5% from RMB321.0 million for HY2021 to RMB409.1 million for HY2022. Such increase was primarily attributable to steady increase in sales of paper cigarette packages segment and the sales contribution from the new electronic cigarettes segment during the six months ended 30 June 2022. Due to the improvement in the gross profit and the reduction in finance cost, the Group recorded a thin profit before tax of approximately RMB0.6 million in HY2022.

|  |
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| <b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> |
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*(b) Financial Position of the Group*

| <i>RMB'000</i>  | <b>As at<br/>31 December 2021<br/><i>(audited)</i></b> | <b>As at<br/>30 June 2022<br/><i>(unaudited)</i></b> |
|---|--|--|
| Property, plant and equipment (“PPE”)                   | 117,194  | 117,328  |
| Right-of-use assets                                     | 48,778   | 49,375   |
| Prepayment for property, plant and equipment            | 12,535   | 10,913   |
| Investment properties                                   | 8,421  | 8,175  |
| Other non-current assets                                | 9,000  | 8,758  |
| <b>Total non-current assets</b>                         | <b>195,928</b>   | <b>194,549</b>                                       |
| Inventories   | 222,985  | 222,766  |
| Restricted cash   | 148,884  | 210,389  |
| Trade and other receivables                             | 122,342  | 145,935  |
| Cash and bank balances                                  | 65,844   | 79,946   |
| <b>Total current assets</b>                             | <b>560,055</b>   | <b>659,036</b>                                       |
| <b>Total assets</b>                                     | <b>755,983</b>   | <b>853,585</b>                                       |
| Deferred income tax liabilities                         | 1,213  | 1,152  |
| Lease liabilities, non-current                          | 1,114  | 2,277  |
| <b>Total non-current liabilities</b>                    | <b>2,327</b>   | <b>3,429</b>   |
| Trade and other payables                                | 260,896  | 285,677  |
| Notes payable   | 173,590  | 294,920  |
| Borrowings  | 101,080  | 50,000   |
| Contract liabilities                                    | 8,530  | 8,179  |
| Other current liabilities                               | 3,220  | 3,695  |
| <b>Total current liabilities</b>                        | <b>547,316</b>   | <b>642,471</b>                                       |
| <b>Total liabilities</b>                                | <b>549,643</b>   | <b>645,900</b>                                       |
| <b>Total equity</b>                                     | <b>206,340</b>   | <b>207,685</b>                                       |
| <b>Equity attributable to the owners of the Company</b> | <b>160,411</b>   | <b>161,566</b>                                       |
| <b>Current ratio<sup>1</sup></b>                        | <b>1.02</b>  | <b>1.03</b>  |
| <b>Gearing ratio<sup>2</sup></b>                        | <b>36.3%</b>   | <b>40.4%</b>   |

*Notes:*

1. Being current assets divided by current liabilities
2. Being the aggregate amount of borrowings and notes payable divided by total assets

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *FY2021*

Total assets of the Group amounted to approximately RMB756.0 million as at 31 December 2021, which mainly comprised of (a) inventories of approximately RMB223.0 million, representing approximately 29.5% of the total assets; (b) cash and bank balance of approximately RMB66 million and restricted cash of RMB149 million, in aggregate representing approximately 28.4% of the total assets; (c) property, plant and equipment of approximately RMB117.2 million, representing approximately 15.5% of the total assets; and (d) right-of-use assets of approximately RMB48.8 million, representing 6.5% of the total assets.

Total liabilities of the Group amounted to approximately RMB549.6 million, which mainly included (a) trade and other payables of approximately RMB260.9 million, representing 47.5% of the total liabilities; (b) notes payable of RMB173.6 million representing 31.6% of the total liabilities; and (c) bank borrowings of approximately RMB101.1 million, representing 18.4% of the total liabilities.

### *HY2022*

Total assets of the Group amounted to approximately RMB853.6 million as at 30 June 2022, representing an increase of approximately 12.9% compared to approximately RMB756.0 million as at 31 December 2021. Total asset of the Group mainly comprised of (a) inventories of approximately RMB222.8 million, representing approximately 26.1% of the total assets; (b) cash and bank balance of approximately RMB79.9 million and restricted cash of RMB210.4 million, in aggregate representing approximately 34.0% of the total assets; (c) trade and other receivables of approximately RMB145.9 million, representing approximately 17.1% of the total assets; and (d) property, plant and equipment of approximately RMB117.3 million, representing approximately 13.7% of the total assets.

Total liabilities of the Group amounted to RMB645.9 million as at 30 June 2022, representing an increase of approximately 17.5% compared to RMB549.6 million as at 31 December 2021. Such increase was mainly due to the increase in notes payable, despite partially offset by the decrease in borrowings. Total liabilities of the Group mainly comprised of (a) notes payable of approximately RMB294.9 million, representing approximately 45.7% of the total liabilities; (b) trade and other payables of approximately RMB285.7 million representing approximately 44.2% of the total liabilities; and (c) bank borrowings of RMB50.0 million, representing approximately 7.7% of the total liabilities.

### ***(c) Prospects of the Group***

As discussed in the above section, despite the growing revenue trend of the paper cigarette packages segment, the Group recorded a downward trend on its gross profit margin from FY2019 to FY2021 and even recorded net losses after tax of approximately RMB30.3 million and RMB29.6 million in FY2020 and FY2021, respectively. During the six months ended 30 June 2022, the Group recorded a thin profit after tax of approximately RMB0.7 million.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the 2021 Annual Report, in view of the loss-making position of the Group, the Group (i) will continue to invest in machinery and equipment to upgrade its production plants and ensure the productivity is up to international standards; and (ii) pursue cutting-edge technology, in order to reduce production costs while maintaining or even improving product quality. Moreover, with a view of controlling the production cost per unit, the Group has conducted internal evaluation to improve production procedures and usage of materials in order to raise the production efficiency and shorten product cycle. Therefore, the Group is planning to advance and improve the efficiency of production facilities of Hubei Golden Three Gorges.

As disclosed in the 2021 Annual Report, the Group noticed the enormous market opportunities of the e-cigarettes and its auxiliary products in the PRC. Given the rising popularity of e-cigarettes, in December 2021, the Group invested RMB14 million in Shenzhen Haohan, which is principally engaged in the product research and development, production and sales of e-cigarettes, e-cigarettes vaping devices and other electronic products. Shenzhen Haohan has become an indirect non-wholly owned subsidiary of the Company in December 2022. During HY2022, the Group's electronic cigarettes segment recorded revenue of approximately RMB57.6 million and segment profit of approximately RMB6.8 million.

Leveraging on Shenzhen Haohan's technological expertise in production of e-cigarette and the Group's extensive client network, the Group will accelerate the expansion of its e-cigarette segment and diversify its tobacco-related business to enhance the Group's profitability in the long run. Therefore, there is an imminent need to expand the business scale, brand management and product quality of Shenzhen Haohan. Meanwhile, the Group will continue to explore other business opportunities in relation to the e-cigarette segment and paper cigarette packaging segment.

## 2. Industry overview

Tobacco industry has been growing steadily amid the global economic slowdown caused by the COVID-19 pandemic. Although smoking is commonly perceived to be harmful to respiratory organs, especially given COVID-19 is a respiratory disease, global consumption of tobacco increased due to the higher stress levels of the general population induced by the lockdowns across the globe. According to a research conducted by Grand View Research, a global market research and consulting services company, the global tobacco market size was valued at approximately US\$849.9 billion in 2021 and is expected to expand at a compound annual growth rate (“CAGR”) of approximately 2.4% from 2022 to 2030. Asia Pacific held the largest market share in 2021, accounting for nearly 61% of the overall revenue, with China being a major contributor. According to the data compiled by National Bureau of Statistics of China, total revenue generated in tobacco-related products manufacturing industry amounted to RMB1.14 trillion in 2020, as compared to approximately RMB1.05 trillion and approximately RMB1.11 trillion in 2018 and 2019 respectively. In view of the upward trend of the tobacco market in China, tobacco-related companies (including those that are engaged in cigarettes manufacturing and packaging) in China have been proactively expanding its production capacity in order to capture a larger market share. As one of the cigarette

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

packaging leaders in China, the Group intends to upgrade its production facilities and enhance its production capacity in an efficient manner in order to meet the increasing demand of paper cigarette packages.

At the same time, the industry is witnessing a trend of new product launches which leads to further market growth. For instance, there is an increased popularity of e-cigarette globally. According to a research conducted by AgileIntel Research (the “**AgileIntel Research**”), a global market research company, the global e-cigarette market was valued at approximately US\$18.1 billion in 2021 and is estimated to grow at a CAGR of approximately 25% from 2022 to 2029 to reach approximately US\$134.3 billion in 2029. This may be resulted from the increasing awareness in relation to the health hazards associated with traditional smoking, as e-cigarettes are considered a less harmful alternative to traditional cigarettes and use non-nicotine solutions to generate smoke, thereby driving the market growth.

According to the research conducted by Daxue Consulting, a Chinese market surveyor and consulting company, the market size of Chinese e-cigarettes and auxiliary products has demonstrated an upward trend. It is believed that the market size has been on track to grow at a CAGR of approximately 19.6% from RMB5.5 billion in 2018 to RMB11.3 billion in 2022. Considering China’s status as the biggest tobacco market, the Chinese e-cigarette industry has enormous potential to continue its rapid growth in the future. In view of such positive outlook, the Group is planning to expand its business in the e-cigarette market.

### **3. Reasons for and benefits of the Rights Issue and use of proceeds**

As disclosed in the Letter from the Board, the net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be approximately HK\$176.0 million. The Group intends to use the net proceeds from the Rights Issue as follows:

- (i) approximately 67.81% of the net proceeds, or approximately HK\$119.34 million (equivalent to approximately RMB102 million), is intended for the business expansion of Hubei Golden Three Gorges including the relocation and establishment of the new production facilities and warehouse of Hubei Golden Three Gorges;
- (ii) approximately 16.62% of the net proceeds, or approximately HK\$29.25 million (equivalent to approximately RMB25 million), is intended for the brand development and market expansion of Shenzhen Haohan;
- (iii) approximately 13.30% of the net proceeds, or approximately HK\$23.40 million (equivalent to approximately RMB20 million), is intended for a business development of e-cigarettes; and
- (iv) approximately 2.23% of the net proceeds, or approximately HK\$4.01 million (equivalent to approximately RMB3.43 million), is intended for general working capital of the Company, including but not limited to purchase of raw materials for paper cigarette packaging, salaries expenses and other administrative expenses for daily operation of the Group for the next twelve months after the completion of Rights Issue.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Relocation and establishment of new production facilities and warehouse of Hubei Golden Three Gorges*

The manufacturing base of Hubei Golden Three Gorges has been established in Dongshan Economic Developing District, Yichang, Hubei Province, the PRC (“the **Existing Factory**”) since 2001 with gross floor area of approximately 57,050 square metres. The current warehouse is located in the Existing Factory with an area of approximately 10,200 square metres. As advised by the Company, the current warehouse has been fully utilized during FY2021 and up to July 2022. Due to the recent addition of machinery for offset printing and gravure printing, part of second floor of the existing production facilities of Hubei Golden Three Gorges, which was originally used as warehouse, has been demolished for the placement of such machinery, resulting in further shortage of warehouse storage capacity. To expand the storage area of the Existing Factory, Hubei Golden Three Gorges has leased another warehouse of approximately 4,500 square metres located in Yiling District, Yichang, Hubei Province, the PRC (the “**Additional Warehouse**”).

According to the implementation plan of “Retreat the City and Enter the Park”, the industrial enterprises are encouraged to relocate to industrial parks. As disclosed in the announcement of the Company dated 21 August 2018, the Company acquired a parcel of land located at West Side, Hua Xi Road, Yichang Free Trade Zone, the PRC, with a total site area of approximately 120,210 square metres, which will be developed into a production site (the “**New Factory**”).

As the Existing Factory is closely surrounded by residential districts, some local residents have previously filed complaints to the local authorities regarding the pollution generated by the Existing Factory. Even though the Company has implemented considerable measures to address the relevant issues accordingly, the Directors are of the view that given the limited area around the Existing Factory, the environmental issue may not be resolved and may potentially affect the local residents in the future. Furthermore, the Existing Factory is unable to further upgrade its production area for new machineries, limiting the production efficiency of the Existing Factory. As a result, the Company is planning to allocate RMB102 million to finance the construction of the New Factory.

The New Factory will be comprised of three sections, being production center, warehouse and staff dormitory. The design and construction period of the Existing Factory will commence in the fourth quarter of 2022, among of which the production center and warehouse is expected to be completed in the fourth quarter of 2023 while the staff dormitory is expected to be completed in the second quarter of 2023. According to the preliminary plan of the Hubei Golden Three Gorges, the gross floor area of production center and warehouse will be approximately 28,000 square metres and 17,000 square metres respectively with an estimated construction cost of RMB50.5 million and RMB30.6 million. The gross floor area of staff dormitory will be approximately 14,000 square metres with an estimated construction cost of RMB21.0 million. The total estimated construction cost for the New Factory is RMB102 million.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the current relocation proposal of Hubei Golden Three Gorges provided by the Company, the existing production lines and facilities will be gradually moved to the New Factory in the third quarter of 2024 based on the latest relocation plan provided by the Company. As advised by the management of the Company, the Company does not expect any material impact to the production during the factory relocation because the production lines will be relocated to the New Factory by phases. Once the production lines are set up in the New Factory, the production will be gradually commenced in the New Factory with an objective to avoid temporary suspension of production.

As disclosed in 2021 Annual Report, the Group has been proactively making effort to boost cost-efficiency of production by investing in new machinery and equipment to enhance production efficiency. In view of (i) potential environmental impact to the local residents caused by the Existing Factory, (ii) the limitation to increase the production efficiency and storage capacity of the Existing Factory; and (iii) the Government's policy of "Retreat the City and Enter the Park", we concur with the Directors that there is a genuine need to relocate to the New Factory and the relocation is in line with the corporate strategy of the Group.

### *Brand development and market expansion of Shenzhen Haohan*

In December 2021, a subsidiary of the Company invested RMB14 million in Shenzhen Haohan, which is engaged in product research and development, production and sales of e-cigarettes, e-cigarette vaping devices and other electronics devices, such that Shenzhen Haohan became an indirect non-wholly owned subsidiary of the Company and the Company commenced its business in the e-cigarette segment. According to the 2022 Interim Results Announcement, it was disclosed that Shenzhen Haohan generated promising revenue during the first six months of 2022. As disclosed in the Letter from the Board, the Group has been dedicated in the brand development and market expansion for its e-cigarette business by ways of, among others, advertisements and promotion activities, to boost the sales revenue of e-cigarettes. The Company plans to build on this momentum by expanding production volume of e-cigarettes and developing its own e-cigarettes brand in order to enhance its reputation in the e-cigarette market in China and the overseas market. As advised by the Company, the Group has been promoting its own e-cigarette brands in the international market and is planning to place more advertisements in the international e-commerce platforms. According to the unaudited financial information of the Group for the six months ended 30 June 2022, the Group incurred approximately RMB13.2 million for the brand development and market expansion for its electronic cigarette business, including expenses for advertisement and promotion activities, and in return Shenzhen Haohan generated revenue of approximately RMB57.6 million from its electronic cigarette business for the six months ended 30 June 2022. The Company is planning to allocate RMB10 million (approximately HK\$11.7 million) for brand management and promotion, including (i) placing advertisements on international e-commerce platforms; and (ii) launching marketing campaigns at exhibitions in China, Europe and the US, which involve distribution of testers and samples.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the meantime, over the first seven months of 2022, the volume of confirmed e-cigarettes orders of Shenzhen Haohan is over four times the volume of the confirmed orders in the same period of 2021. In addition, as advised by the Company, the unit cost of raw materials of the e-cigarette, has demonstrated an increasing trend. The Company believed that the volume of orders will continue to rise given the Group's market share of e-cigarette is expanding and the festive season in the fourth quarter of 2022 is approaching. Also, in order to control the production cost of the upcoming orders, the Company intends to bulk-procure sufficient amount of raw materials in advance. Therefore, the Company intends to allocate proceeds of RMB15 million (approximately HK\$17.6 million) for raw materials procurement.

Having considered that (i) the positive impact brought by the marketing effort of the Group in the first half of 2022; (ii) the growing popularity of e-cigarettes in the international market; and (iii) procurement of raw materials for the upcoming orders, we concur with the Directors that it is reasonable to provide additional funding for Shenzhen Haohan to support its production demand and marketing activities with a view to further increase its revenue and customer base.

### *Business development of e-cigarette*

The Company intends to expand its electronic cigarettes segment by expanding its sales network and/or further investment and acquisition. In view of the growing size and attractive profitability of the e-cigarette market in China, the Company will allocate the net proceeds of HK\$23.4 million (approximately RMB20 million) for potential acquisition and/or business collaboration opportunities with existing industry players in the e-cigarette market in order to increase its market share of e-cigarette market. The Company has been looking for new investment or business opportunities in electronic cigarette industry, including potential acquisition and/or business collaborations with existing industry players in the electronic cigarettes segment. As at the Latest Practicable Date, the Group has not identified any specific targets for any potential investment and has not entered into any agreement in relation to potential new investments or business development.

In view of the above, we concur with the Directors that the use of proceeds of the Rights Issue is in line with the Group's corporate strategy in the e-cigarette market and is beneficial to the Group's long-term development in terms of its profitability and market position while maintaining a healthy financial position.

### *Alternative financing methods*

As disclosed in the Letter from the Board, the Group has considered alternative fund-raising methods, including but not limited to debt financing and equity financing such as placing of new Shares and open offer, before resolving to the Rights Issue.

As disclosed in the 2022 Interim Results Announcement, as at 30 June 2022, the Group recorded borrowings of approximately RMB50 million, which will be repayable within 1 year, at an effective interest rate of 4.85% and the notes payable of approximately RMB294.9 million. As at 30 June 2022, the land use rights, the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

investment properties, the PPE, the trade receivables and the restricted cash in aggregate amounted to RMB342.4 million were pledged to secure general banking facilities granted to the Group (including note payables and bank borrowings). As advised by the Company, the Group had no further suitable assets available to be pledged as collateral, and as at 30 June 2022, the Group had unutilized bank facilities of approximately RMB30 million, most of which being letter of credit facilities. The gearing ratio of the Group (being the aggregate amount of borrowings and notes payable divided by total assets) as at 30 June 2022 was 40.4%.

In respect of debt financing, the Company has approached its principal banks for exploring possibility of new bank borrowings. However, all of them requested valuable assets as collaterals. Without satisfactory collaterals, the banking facilities cannot be further extended. Moreover, additional borrowings with similar fund-raising size of the Rights Issue will significantly increase interest burden of the Group, it will also deteriorate gearing position of the Group.

In respect of equity financing, the Board considers that the placing of new Shares with similar fund-raising size of the Rights Issue is not ideal as it will lead to an immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlargement of the share capital of the Company, which is not the intention of the Group.

The Board also considered conducting fundraising by way of an open offer, which is of similar nature as the Rights Issue in terms of offering Qualifying Shareholders to participate in the fundraising. However, unlike a rights issue, an open offer does not provide flexibility in dealing with the Shares and the nil paid rights attaching thereto by allowing free trading of rights entitlements in the open market. On the other hand, the Board considers that the Rights Issue, being pre-emptive in nature, will allow all Qualifying Shareholders (including Spearhead Leader and Star Glide, who show their commitment to the future development of the Group as evidenced by the Irrevocable Undertaking given by them) to participate in the future development of the Group and at the same time offer more flexibility to the Qualifying Shareholders to choose whether to maintain or increase their respective shareholdings in the Company by taking up only their respective rights entitlement, acquiring additional rights entitlement or disposing of their rights entitlements in the open market (subject to availability).

Having considered the above, we concur with the Directors that the Group has a genuine funding need for its business operations and the Rights Issue can provide the Group with new funding for its operation without further jeopardising its gearing level and allow Qualifying Shareholders to participate in the fund-raising exercise based on their own investment preference. Based on the foregoing, we are of the view that the Rights Issue is the most preferred means of fundraising under the Group's current circumstances.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 4. Principal terms of the Rights Issue

Set out below is a summary of the principal terms of the Rights Issue, further details of which are set out in the Letter from the Board:

|  |   |
|--|---|
| Basis of the Rights Issue  | : One (1) Rights Share for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date   |
| Subscription Price   | : HK\$0.60 per Rights Share   |
| Net Subscription Price per Rights Share (i.e. Subscription Price less Rights Issue expenses) | : Approximately HK\$0.59 per Rights Share   |
| Number of Rights Shares to be issued pursuant to the Rights Issue                            | : 300,000,000 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)  |
| Number of Shares in issue upon completion of the Rights Issue                                | : 600,000,000 Shares (assuming no change in the number of Shares in issue on or before the Record Date)   |
| Gross proceeds to be raised before expenses  | : HK\$180.0 million (before expenses)   |
| Right of excess applications   | : Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment  |
| Underwriter  | : First Shanghai Securities Limited   |
| Number of Rights Shares underwritten by the Underwriter                                      | : 75,000,000 Rights Shares underwritten by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement, excluding the Undertaken Shares. Accordingly, taking into account the Undertaken Shares, the Rights Issue is fully underwritten. |

As at the Latest Practicable Date, the Group had no outstanding derivatives, options, warrants, convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares.

Assuming there is no change in the issued share capital of the Company on or before the Record Date, the 300,000,000 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 100.0% of the total number of existing issued Shares as at the Latest Practicable Date; and (ii) 50.0% of the total number of issued Shares as enlarged by issue of the Rights Shares.

**Assessment on the principal terms of the Rights Issue**

***The Subscription Price***

The Subscription Price represents:

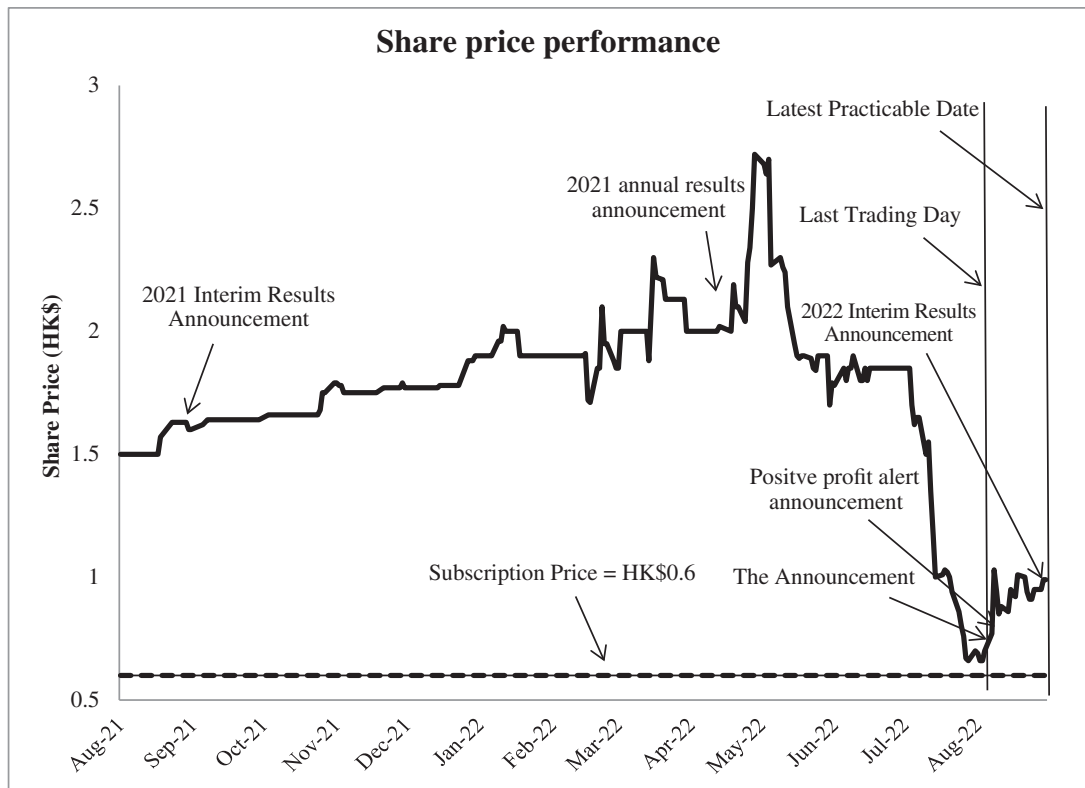
- (i) a discount of approximately 39.39% to the closing price of HK\$0.990 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 14.29% to the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 12.02% to the average closing price of approximately HK\$0.682 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 16.20% to the average closing price of approximately HK\$0.716 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 7.69% to the theoretical ex-rights price of approximately HK\$0.650 per Share based on the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 7.14% of the theoretical diluted price of approximately HK\$0.650 per Share to the benchmarked price of HK\$0.700 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price of HK\$0.700 per Share on the Last Trading Day and the average closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days prior to the Last Trading Day of HK\$0.674 per Share);
- (vii) a discount of approximately 4.15% to the audited net asset value of the Company of approximately HK\$0.626 per Share based on the latest published audited net asset value attributable to owners of the Company of approximately RMB160,411,000 (equivalent to approximately HK\$187,680,870) as at 31 December 2021 as set out in the 2021 Annual Report and total number of issued Shares of 300,000,000 Shares as at the Latest Practicable Date; and
- (viii) a discount of approximately 4.76% to the unaudited net asset value of the Company of approximately HK\$0.630 per Share based on the latest published unaudited net asset value attributable to owners of the Company of approximately RMB161,566,000 (equivalent to approximately HK\$189,032,220) as at 30 June 2022 as set out in the 2022 Interim Result Announcement and total number of issued Shares of 300,000,000 Shares as at the Latest Practicable Date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among others, the market price of the Shares under the prevailing market conditions, the financial condition of the Company and the reasons for and benefits of Rights Issue as discussed in the Letter from the Board.

### *Comparison with historical closing prices of the Shares*

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 1 August 2021 up to and including the Latest Practicable Date (the “**Review Period**”) (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider the Review Period is an adequate period covering the annual operating cycle of the Company for analysis purpose, to illustrate the general trend and level of movement of the daily closing price and trading volume of the Shares and the Review Period is fair and representative to reflect the market assessment on the financial performance of the Group and the general market sentiment.



Source: website of the Stock Exchange

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the chart above, during the Review Period, the average closing price was approximately HK\$1.71 per Share (the “**Average Closing Price**”). The daily closing price ranged from HK\$0.66 per Share recorded on 29 July 2022 and 3 August 2022 to 4 August 2022 (the “**Lowest Closing Price**”) to HK\$2.72 per Share recorded on 29 April 2022 (the “**Highest Closing Price**”). We note that Shares were traded above the Subscription Price throughout the Review Period. The Subscription Price of HK\$0.6 represents (i) a discount of approximately 9.09% to the Lowest Closing Price; (ii) a discount of approximately 77.94% to the Highest Closing Price; and (iii) a discount of approximately 64.91% to the Average Closing Price. As discussed in the section headed “Comparison with recent rights issues transactions” below, we note that it is a common practice (10 out of 12 Comparables, excluding the outlier) to set the subscription price at a discount to the prevailing trading prices of the relevant shares in order to increase the attractiveness and encourage shareholders to participate in the right issues.

There was an uptrend from early-August 2021 to late-April 2022. The closing price of the Shares steadily increased from HK\$1.5 at the beginning of the Review Period to the Highest Closing Price on 29 April 2022, despite no particular news was announced by the Company during that period. After reaching the Highest Closing Price, the closing price of the Shares then exhibited a sharp downward trend and hit the Lowest Closing Price on 29 July 2022 and 3 August 2022 to 4 August 2022, being the day immediately before the Announcement was made by the Company on 5 August 2022. On the 8 August 2022, the Company published a positive profit alert announcement and the closing price of the Shares rebounded afterwards and closed at HK\$0.99 on the Latest Practicable Date. As advised by the Company, it was not aware of any reasons leading to the downward trend of the closing prices of the Shares during the period from May 2022 to the Last Trading Day.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

*Historical trading liquidity of the Shares*

| <b>Month</b> | <b>Total<br/>volume of<br/>Shares<br/>traded<br/>(Shares)</b> | <b>Number of<br/>trading days<br/>(days)</b> | <b>Approximate<br/>average<br/>daily trading<br/>volume of<br/>the Shares<br/>(Shares)</b> | <b>Approximate<br/>percentage<br/>of average<br/>daily trading<br/>volume to<br/>the total<br/>number of<br/>issued<br/>Shares held<br/>by public<br/>Shareholders<br/>(Note 2)</b> |
|--------------|---|--|--|---|
| <b>2021</b>  |   |  |  |   |
| August       | 66,000  | 18   | 3,667  | 0.01%   |
| September    | —   | 16   | —  | 0.00%   |
| October      | 202,000   | 17   | 11,882   | 0.02%   |
| November     | 238,000   | 22   | 10,818   | 0.01%   |
| December     | 158,000   | 21   | 7,524  | 0.01%   |
| <b>2022</b>  |   |  |  |   |
| January      | 274,000   | 18   | 15,222   | 0.02%   |
| February     | 1,182,000   | 15   | 78,800   | 0.11%   |
| March        | 1,420,000   | 23   | 61,739   | 0.08%   |
| April        | 1,790,000   | 18   | 99,444   | 0.13%   |
| May          | 20,624,000  | 20   | 1,031,200  | 1.38%   |
| June         | 5,446,000   | 21   | 259,333  | 0.35%   |
| July         | 2,916,000   | 20   | 145,800  | 0.19%   |
| August       | 12,650,320  | 23   | 550,014  | 0.73%   |

*Source: website of the Stock Exchange*

*Notes:*

1. Based on the number of total issued Shares as at each month end as disclosed in the monthly returns of the Company.
2. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by Spearhead Leader and Star Glide from the number of total issued Shares as at each month or period end.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the average daily trading volume of the Shares in each month ranged from 3,667 Shares in August 2021 to 1,031,200 Shares in May 2022 during the Review Period (except that there were no trading of Shares in September 2021), representing 0.01% to approximately 1.38% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, respectively, indicating a relatively thin trading liquidity during the Review Period.

Given such relatively thin liquidity of the Shares during the Review Period, it would be difficult for the Shareholders to acquire a substantial block of the Shares in the open market without exerting a significant impact on the Share price. We consider that the prices and general price trend of the Shares during the Review Period should have reflected market evaluation on the recent business performance of the Group.

In view of the above, we consider that it is fair and reasonable for the Company to determine the Subscription Price with reference to the prevailing market price of the Shares with a discount (which is analyzed below) to encourage Qualifying Shareholders to participate in the Rights Issue.

### *Comparison with recent rights issue transactions*

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified a list of 13 rights issue transactions (the “**Comparables**”) which (i) are conducted by companies listed on the Main Board of the Stock Exchange; (ii) are announced during the period of six months from February 2022 to the Last Trading Day (the “**Comparables Review Period**”).

Although the Comparables include rights issue in different basis and the listed companies are engaged in different business or have different financial performance and funding needs as compared with the Company, having considered that (i) all of the Comparables and the Company are listed on the Main Board of Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issue; and (iii) a six-month period for the selection of the Comparables is adequate to capture the prevailing market conditions of companies listed on the Main Board of the Stock Exchange, the Comparables represent an exhaustive list with reasonable samples size. Hence, we consider that the Comparables represent a true and fair view of the recent market trends for similar rights issue transactions conducted by other issuers listed on the Main Board of the Stock Exchange, and are fair and representative samples.

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Set out below are the details of the Comparables:

| Date of announcement | Company Name                                  | Stock Code | Basis of entitlement         | Premium/  | Premium/  | Premium/  | Premium/ | Underwriting | Fully | Excess | Maximum | Theoretical |
|----------------------|---|------------|------------------------------|---|---|---|----------|--------------|-------|--------|---------|-------------|
|                      |   |            |                              | (Discount) of the subscription price per rights share over/to the average closing price per share for the five consecutive trading days prior to and including the last trading day ("ATD Price") | (Discount) of the subscription price per rights share over/to theoretical ex-right price per share based on LTD Price ("Ex-rights Price") | (Discount) of the subscription price per rights share over/to net asset per share |          |              |       |        |         |             |
| 3 August 2022        | SJM Holdings Limited                          | 880        | 1 for 4                      | -33.80%   | -34.80%   | -29.00%   | -34.90%  | 2%           | Yes   | Yes    | 20%     | 7.10%       |
| 3 August 2022        | Kwan On Holdings Limited                      | 1559       | 1 for 4                      | 0%  | 0.40%   | 0.00%   | 44.42%   | N/A          | N/A   | Yes    | 20%     | 0.08%       |
| 28 July 2022         | China Financial Leasing Group Limited         | 2312       | 2 for 1                      | -29.10%   | -29.20%   | -12.10%   | -52.80%  | 1.00%        | Yes   | Yes    | 66.67%  | 19.60%      |
| 12 July 2022         | Besunyen Holdings Company Limited             | 926        | 2 for 1                      | -14.22%   | -15.87%   | -5.91%  | 92.63%   | 1.00%        | No    | Yes    | 66.67%  | 10.58%      |
| 13 June 2022         | China Water Industry Group Limited            | 1129       | 1 for 2                      | -31.37%   | -30.00%   | -23.25%   | -75.52%  | N/A          | N/A   | Yes    | 6.72%   | 10.46%      |
| 24 May 2022          | Progressive Path Group Holdings Limited       | 1581       | 1 for 1                      | -42.22%   | -39.95%   | -26.76%   | -72.69%  | 1.50%        | No    | No     | 50.00%  | 21.11%      |
| 21 April 2022        | Vixtel Technologies Holdings Limited          | 1782       | 1 for 2                      | -34.50%   | -39.20%   | -26.00%   | 25.43%   | 1.50%        | No    | Yes    | 33.33%  | 13.63%      |
| 12 April 2022        | CA Cultural Technology Group Limited          | 1566       | 1 for 2                      | -42.11%   | -29.90%   | -32.50%   | 88.00%   | 7.07%        | Yes   | Yes    | 33.33%  | 14.10%      |
| 23 March 2022        | Kiu Hung International Holdings Limited       | 381        | 3 for 1                      | 18.00%  | 17.00%  | 5.09%   | 88.67%   | N/A          | N/A   | No     | 75.00%  | 13.43%      |
| 15 March 2022        | Success Dragon International Holdings Limited | 1182       | 3 for 2                      | -2.86%  | -4.49%  | -1.16%  | -8.60%   | 1.00%        | No    | No     | 60.00%  | 2.77%       |
| 14 February 2022     | Gold Peak Industries (Holdings) Limited       | 40         | 1 for 6                      | -21.52%   | -20.92%   | -19.06%   | -81.38%  | 4.59%        | No    | Yes    | 14.29%  | 3.04%       |
|                      | Maximum                                       |            |                              | 18.00%  | 17.00%  | 5.09%   | 92.63%   | 7.07%        |       |        | 75.00%  | 21.11%      |
|                      | Minimum                                       |            |                              | -42.22%   | -39.95%   | -32.50%   | -81.38%  | 1.00%        |       |        | 6.72%   | 0.08%       |
|                      | Median  |            |                              | -29.10%   | -29.20%   | -19.06%   | -8.60%   | 1.50%        |       |        | 33.33%  | 10.58%      |
|                      | Average                                       |            |                              | -21.25%   | -20.63%   | -15.51%   | 1.21%    | 2.46%        |       |        | 40.55%  | 10.54%      |
|                      | Company                                       |            | 1 for 1                      | -14.29%   | -12.02%   | -7.69%  | -4.15%   | 5%           | Yes   | Yes    | 50%     | 7.14%       |
| Outlier              |   |            |                              |   |   |   |          |              |       |        |         |             |
| 18 April 2022        | DFZQ  | 3958       | 2.8 H Shares for 10 H Shares | 113.58%   | 115.71%   | 24.90%  | 0.00%    | N/A          | N/A   | Yes    | 21.88%  | N/A         |
| 2 March 2022         | Feiyang International Holdings Group Limited  | 1901       | 1 for 3                      | -56.52%   | -55.75%   | -49.49%   | 751.79%  | 2.50%        | No    | Yes    | 25.00%  | 13.91%      |

*Source: website of the Stock Exchange*

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Based on the table above, we noted that there are two outliers out of the 13 Comparables which are DFZQ (Stock code:3958) and Feiyang International Holdings Group Limited (Stock Code: 1901). The subscription price of DFZQ represented an extremely high premium either over its LTD Price, ATD Price or Ex-rights Price. The subscription price of Feiyang International Holdings Group Limited is higher than its net asset value per share by approximately 751.79%. As compared to the rest of 11 Comparables (“**Remaining Comparables**”), these two outliers are considered to skew the overall result. As illustrated from the above table, excluding the two outliers, it is a common market practice (9 out of 11 Remaining Comparables) that the subscription price of the rights issue represented a discount to the LTD Price, the ATD Price and the Ex-rights Price. The subscription prices of the Remaining Comparables:

- (i) ranged from a discount of approximately 42.22% to a premium of approximately 18.00%, with a median of a discount of approximately 29.10% and an average of a discount of approximately 21.25%, over/to their respective LTD Prices;
- (ii) ranged from a discount of approximately 39.95% to a premium of approximately 17.00%, with a median of a discount of approximately 29.20% and an average of a discount of approximately 20.63%, over/to their respective ATD Prices;
- (iii) ranged from a discount of approximately 32.50% to a premium of approximately 5.09%, with a median of a discount of approximately 19.06% and an average of a discount of approximately 15.51% over/to their respective Ex-rights Prices; and
- (iv) ranged from a discount of approximately 81.38% to a premium of approximately 92.63%, with a median of a premium of approximately 8.60% and an average of a discount of approximately 1.21% over/to their respective net asset values per share.

When comparing the Rights Issue to the Remaining Comparables as shown above, it is noted that the discounts of the Subscription Price to the closing price per Share on the Last Trading Day, the average closing price per Share for the five consecutive trading days up to and including the Last Trading Day and the theoretical ex-rights price per Share are approximately 14.29%, 12.02% and 7.69%, respectively, which are lower than the average and median of those of the Remaining Comparables. It is also noted that the Subscription Price represents a discount of approximately 4.76% to the unaudited net asset value per Share as at 30 June 2022, whereas the average of the subscription price to the net asset value per share of the Remaining Comparables is at a premium of 1.21%. However, the Directors are of the view that the net asset value per Share may not be an appropriate factor in determining the Subscription Price considering the fact that recent trading price of the Shares is a better indicator of the market sentiment under the prevailing market condition; and the Company intends to encourage Qualifying

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shareholders participating in the Rights Issue as such the Subscription Price should be in line with the prevailing trading price of the Shares rather than of the net asset value per Share.

Having considered that (i) it is a common market practice that subscription price of a rights issue to be subject to a discount to the LTD Price and Ex-rights Price; (ii) the recent trading price of the Shares appropriately reflect the market sentiment under the prevailing market condition; (iii) the discount of the Subscription Price could increase the willingness of the Qualifying Shareholders to participate in the Rights Issue; (iv) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; (v) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market; and (vi) the discounts of the Subscription Price to the LTD Price, ATD Price and the Ex-rights Price are still lower than the average and median of those of the Comparables, we are of the view that the Subscription Price is justifiable so far as the Independent Shareholders are concerned.

### *Application for excess Rights Shares*

As stated in the Letter from the Board, Qualifying Shareholders shall be entitled to apply, by way of excess application, for:

- (i) any unsold entitlement of the Excluded Shareholders (if any); and
- (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise not subscribed for by transferees of nil-paid Rights Shares.

As set out in the table under the sub-section headed “Comparison with recent rights issue transactions” above, 10 out of the 13 Comparables have the arrangement for excess application for the qualifying shareholders. With the arrangement of application for excess Rights Shares, the Qualifying Shareholders shall be given a pre-emption right to subscribe for excess Rights Shares if they wish to do so. Moreover, the allocation basis adopted by the Company is in line with the normal market practice of other rights issue with arrangement of application for excess rights shares and the shareholding of each Qualifying Shareholder, except those who do not take up their full entitlements or those who apply for excess Rights Shares, will be largely maintained after the completion of the Rights Issue. Based on the above, we consider that the arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation method for the excess Rights Shares are fair and reasonable so far as the Independent Shareholders are concerned.

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### *Underwriting Agreement*

With reference to the Letter from the Board, the terms of the Underwriting Agreement, including the Subscription Price and the underwriting commission rate, were determined after arm's length negotiation between the Company and the Underwriter by reference to the market practice. The Company has approached three underwriters to explore interest in underwriting the Underwritten Shares. Two of the approached underwriters refused to underwrite the Underwritten Shares on a fully-underwritten basis for the Company in view of the current market condition. The Board considered it to be contrary to the Company's initial objective for the Rights Issue, which is to raise funds by way of Rights Issue with certainty, as such the Rights Issue must be fully-underwritten. First Shanghai was the only underwriter that agreed to proceed with the further negotiation on the terms and structure of the Rights Issue given the required fully-underwriting basis. The Directors and the Underwriter agreed upon the underwriting commission rate after a lengthy negotiation, as the initial commission rate was approximately 20% higher than the agreed commission rate. According to the Company, the Underwriter offered the commission rate of 5.0% based on its past experience and its assessment on the likelihood of low acceptance rate by the Qualifying Shareholders given the latest pricing trend of the Shares, the low trading volume for the Review Period as well as the lower-than-average discount to the LTD Price, the ATD Price and the Ex-rights Price.

Furthermore, among the 13 Comparables set out under the sub-section headed "Comparison with recent rights issue transactions", only 3 out of the 13 Comparables were conducted on fully-underwritten basis ("**Fully-underwritten Comparables**"), with underwriting commission rates ranging from 1.00% to 7.07%. We noted that the underwriting commission for the Rights Issue of 5.0% falls within this range.

In addition, we also reviewed the Underwriter's background and note that, the Underwriter is a licensed corporation under SFO and has extensive experience in acting as bookrunners, lead managers, underwriter for the fundraising activities of companies listed on the Stock Exchange.

Having considered (i) the Underwriter is the only underwriter that is willing to fully underwrite the Underwritten Shares amongst all underwriters that the Company approached; (ii) the Company's objective is to raise sufficient funds by way of Rights Issue with certainty; (iii) the low trading volume and the decreasing price trend of the Shares for the Review Period imply that the Qualifying Shareholders may not be willing to subscribe for new shares under the Rights Issue. The Underwriter may need to solicit more potential investors to participate in the Rights Issue, if not, the Underwriter is required to take up the remaining Untaken Shares, implying higher business risk for being the Underwriter of the Rights Issues; (iv) the underwriting commission of 5.0% falls within the range of those for the Fully-underwritten Comparables; and (v) the Underwriter's extensive experience for similar fundraising activities, we consider that the terms of the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Irrevocable Undertakings*

As of the Latest Practicable Date, Spearhead Leader and Star Glide hold 209,362,000 Shares and 15,638,000 Shares, representing approximately 69.79% and 5.21% of the issued share capital of the Company respectively. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader and Mr. Feng beneficially owns the entire issued share capital of Star Glide. Pursuant to the Irrevocable Undertakings, each of Mr. Yang and Mr. Feng has irrevocably undertaken in favour of the Company that (a) Mr. Yang shall procure Spearhead Leader to fully subscribe for 209,362,000 Rights Shares, which will be provisionally allotted to Spearhead Leader under the Rights Issue; (b) Mr. Feng shall procure Star Glide to fully subscribe for 15,638,000 Rights Shares, which will be provisionally allotted to Star Glide under the Rights Issue; and (c) Mr. Yang and Mr. Feng shall respectively procure Spearhead Leader and Star Glide not to directly or indirectly sell or transfer the Shares beneficially held by them from the date of Irrevocable Undertakings to the Record Date.

Each of Mr. Yang and Mr. Feng has further provided written confirmation confirming that they would not, and would procure Spearhead Leader and Star Glide not to, make any excess application under the Rights Issue.

Pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by the Controlling Shareholder or its associates (together, the “**Relevant Shareholders**”), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders’ applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

Having considered that (a) the Irrevocable Undertakings were given by Mr. Yang and Mr. Feng in favour of the Company which solely represents the intention of Mr. Yang and Mr. Feng in respect of their respective interests in the Shares under the Rights Issue; (b) the Irrevocable Undertaking indicates Mr. Yang and Mr. Feng’s support for the Rights Issue as it has undertaken to take up its own pro-rata entitlement under the Rights Issue; and (c) the Irrevocable Undertaking, coupled with the arrangement under the Underwriting Agreement, ensures a minimum amount of fund to be raised under the Rights Issue, we consider that the terms of the Irrevocable Undertaking are fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 5. Dilution effect of the Rights Issue on the shareholding of the Company

As at the Latest Practicable Date, the Company has 300,000,000 existing Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue (assuming full acceptance by the Qualifying Shareholders); and (iii) immediately upon completion of the Rights Issue (assuming, other than the Undertaken Shares pursuant to the Irrevocable Undertakings, nil acceptance by the Qualifying Shareholders and the Underwriter takes up all Rights Shares pursuant to the Underwriting Agreement).

| <i>Shareholders</i>                | (i) As at the<br>Latest Practicable Date |                      | (ii) Immediately upon<br>completion of the Rights<br>Issue (assuming full<br>acceptance by the<br>Qualifying Shareholders) |                      | (iii) Immediately upon<br>completion of the Rights<br>Issue (assuming, other than<br>the Undertaken Shares<br>pursuant to the Irrevocable<br>Undertakings, nil<br>acceptance by the<br>Qualifying Shareholders<br>and the Underwriter takes<br>up the Rights Shares<br>pursuant to the<br>Underwriting Agreement) |                      |
|------------------------------------|--|----------------------|--|----------------------|---|----------------------|
|                                    | <i>Number of<br/>Shares held</i>         | <i>%</i>             | <i>Number of<br/>Shares held</i>   | <i>%</i>             | <i>Number of<br/>Shares held</i>  | <i>%</i>             |
| Spearhead Leader ( <i>Note 1</i> ) | 209,362,000                              | 69.79                | 418,724,000  | 69.79                | 418,724,000   | 69.79                |
| Star Glide ( <i>Note 2</i> )       | 15,638,000                               | 5.21                 | 31,276,000   | 5.21                 | 31,276,000  | 5.21                 |
| Underwriter                        | —  | —                    | —  | —                    | 75,000,000  | 12.50                |
| Other Public Shareholders          | <u>75,000,000</u>                        | <u>25.00</u>         | <u>150,000,000</u>   | <u>25.00</u>         | <u>75,000,000</u>   | <u>12.50</u>         |
| Total                              | <u><u>300,000,000</u></u>                | <u><u>100.00</u></u> | <u><u>600,000,000</u></u>  | <u><u>100.00</u></u> | <u><u>600,000,000</u></u>   | <u><u>100.00</u></u> |

#### *Notes*

- Mr. Yang, the chairman of the Board and executive Director, beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 shares of the Company held by Spearhead Leader for the purpose of the SFO.
- Mr. Feng, the non-executive Director, beneficially owns the entire issued share capital of Star Glide. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide for the purpose of the SFO.
- These scenarios are for illustrative purpose only. Under the Underwriting Agreement, the Underwriter has undertaken that it shall use its reasonable endeavours to ensure that (i) each of the subscribers of the Underwritten Shares procured by it shall be an Independent Third Party; and (ii) none of the subscribers, together with any party(ies) acting in concert with it/them, will hold such number of Underwritten Shares which will trigger a mandatory general offer obligation under the Takeovers Code on the part of such sub-underwriters or subscribers or purchasers and parties acting in concert (within the meaning of the Takeovers Code) with it upon completion of the Rights Issue.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their provisional allotments in full under the Rights Issue, their shareholding interests in the Company will remain unchanged upon completion of the Rights Issue (assuming full acceptance of the Rights Issue). Qualifying Shareholders who do not accept the Rights Issue entitlements can, subject to the then prevailing market conditions, consider selling their nil-paid Rights Shares in the market. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company may be reduced by a maximum of 50.0%.

We note that assuming no subscription by the Qualifying Shareholders other than the Undertaken Shares pursuant to the Irrevocable Undertakings under the Rights Issue, the shareholding interest of the existing public Shareholders would be diluted from 25.00% to 12.50% of the total number of issued Shares immediately before and after the Rights Issue respectively. However, such dilution effect may only arise when Qualifying Shareholders do not subscribe for their pro-rata Rights Shares. Those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company and have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market. We also note that as shown in the table of Comparables in the section headed “Comparison with recent rights issue transactions” above, the maximum dilution of the Comparables ranged from approximately 6.72% to approximately 75.00%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 50.00%, which fall within the range of the Comparables. In addition, we note that the theoretical dilution effect of 7.14% of the Rights Issue is below the average and median of theoretical dilution effect of the Comparables (i.e. 10.82% and 12.01% respectively).

Having considered that (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and public Shareholders’ interests in the Company will be not diluted if they choose to subscribe for their pro-rata entitlement of the Rights Shares; (ii) the Qualifying Shareholders have the opportunity to realize their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in the Rights Issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed “6. Possible Financial Effect of the Rights Issue” below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is acceptable.

## **6. Possible Financial Effect of the Rights Issue**

### *Net tangible assets*

According to the “Unaudited pro forma financial information of the Group” set out in Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group attributable to owners of the Company was approximately RMB157.0 million as at 30 June 2022; upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company would increase to approximately RMB307.2 million. As such, the Rights Issue is expected to have a positive impact on the financial position of the Group.

### *Liquidity*

Upon completion of the Rights Issue, approximately 96.6% of the net proceeds from the Rights Issue will be used for financing the Group’s various business developments, the remaining 3.4% of the net proceeds (equivalent to approximately HK\$5.5 million) will be retained for the Group’s general working capital, which will enhance its liquidity position.

### *Gearing ratio*

The gearing ratio (measured by the aggregate amount of borrowings and notes payable over total assets of the Company) of the Company as at 30 June 2022 was approximately 40.41%. The net proceeds from the Rights Issue will reduce the gearing ratio of the Group as the net proceed will enlarge its total assets without altering its borrowings.

After taking into consideration of the above, particularly, the improvement in liquidity position and the reduction in gearing ratio of the Group, we are of the view that the Rights Issue is in the interest of the Company and the Shareholders as a whole.

The analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will become upon completion of the Rights Issue.

## **OPINION AND RECOMMENDATION**

Having taken into account the principal factors and reasons discussed above including but not limited to:

- (i) due to the limitations of the Existing Factory, the Group sees a genuine need to relocate production facilities and warehouse of Hubei Golden Three Gorges in order to increase the production efficiency and storage capacity as well as to prevent the potential environmental impact to the local residents caused by Existing Factory;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) there is a genuine need of funding to develop the e-cigarette market in view of the promising profitability of the e-cigarette segment during the six months ended 30 June 2022 and the growing market of e-cigarette in China and the international market;
- (iii) the Rights Issue is fully underwritten, in addition to the Irrevocable Undertaking being in place, the Group will have a higher certainty to raise sufficient proceeds from the Rights Issue;
- (iv) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares so as to maintain their respective proportionate shareholding interest in the Company;
- (v) the shareholding interests of the Qualifying Shareholders would not be diluted if they elect to subscribe for in full of their entitled Rights Shares; and
- (vi) the Rights Issue allows Qualifying Shareholders to have more flexibility by providing them the option to sell the nil-paid rights;

we are of the opinion that the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole, despite the Rights Issue, the Underwriting Agreement and the transactions contemplated under the Underwriting Agreement are not in the ordinary and usual course of business.

Accordingly, we would recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the upcoming EGM to approve the Rights Issue and the Underwriting Agreement and the transactions contemplated respectively thereunder.

Yours faithfully  
For and on behalf of  
**Octal Capital Limited**  
**Alan Fung**                      **Wong Wai Leung**  
*Managing Director*              *Executive Director*

*Note:* Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.

## 1. FINANCIAL INFORMATION

The consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.jiayaoholdings.com>):

- Annual report for the year ended 31 December 2019 (pages 55 to 111):  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0508/2020050800821.pdf>
- Annual report for the year ended 31 December 2020 (pages 55 to 105):  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0416/2021041600419.pdf>
- Annual report for the year ended 31 December 2021 (pages 64 to 117):  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042501326.pdf>
- Interim results announcement for the six months ended 30 June 2022 (pages 1 to 13):  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0830/2022083001264.pdf>

## 2. INDEBTEDNESS

As at the close of business on 31 July 2022, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding indebtedness comprising bank borrowings of approximately RMB50.0 million and lease liabilities of approximately RMB4.1 million. All the outstanding bank borrowings as at 31 July 2022 was unguaranteed and secured by the pledge of the Group's certain property, plant and equipment, land use rights, investment properties and trade receivables.

As at 31 July 2022, the Group had contracted commitment of property, plant and equipment of approximately RMB0.6 million and no material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, normal trade payables and other payables in the ordinary course of business, at the close of business on 31 July 2022, the Group did not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, loans, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages or charges, material contingent liabilities or guarantees outstanding.

### 3. WORKING CAPITAL

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

### 4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Company were made up) up to and including the Latest Practicable Date.

### 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in design, printing, and distribution of paper cigarette packages in China and to a lesser extent, social product paper packages in China.

Despite that China's economy saw strong pick-up last year, a winter surge in COVID-19 cases driven by the Omicron variant has dampened the market sentiment and brought uncertainties to the ongoing economic recovery and business operating environment. However, with various stimulus measures implemented by the Chinese Government and relatively strong domestic demand for tobacco market, the Group remains cautiously optimistic about the development of China's economy and the tobacco industry. The Center for Forecasting Science of Chinese Academy of Sciences expects China's economy to grow 5.5% in 2022, while consumption and net exports will drive GDP growth by 3.9 and 0.7 percentage points respectively, demonstrating a steady upside trend of the economic activities.

With solid position in the tobacco package industry, the Group remains active in expanding its footprint to other cities and capture the arising opportunity. The Group plans to open an office in Jilin in 2022 to deeply explore and develop its business in the city. The Jilin office will also be served as a base for further business expansion in the northern market.

In view of Chinese government's tightening controls to reduce cigarette consumption and regulate the e-cigarette industry, the Group regards this as a good opportunity to stand out its quality cigarette printing product and service in the market. In fact, the market for both traditional tobacco and e-cigarette is growing, with revenue in the tobacco products market amounting to US\$244,428 million in 2022. The market is expected to grow annually by 2.36% (CAGR 2022–2025). The market size of Chinese e-cigarettes and auxiliary products amounted to RMB5.52 billion, and it is predicted to grow more than double to RMB11.28 billion by 2022. The trend presented enormous market opportunities that the Group will not be missed.

To further strengthen the business development of e-cigarette, the Group has invested in Shenzhen Haohan Yangtian Technology Co., Ltd. (“**Shenzhen Haohan**”), which is engaged in product research and development of electronic cigarettes. Leveraging on Shenzhen Haohan’s technological expertise and the Group’s client network, the Group will be able to accelerate the expansion of its e-cigarette segment and eventually diversify its tobacco related business.

**(A) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the independent reporting accountant's assurance report received from Yongtuo Fuson CPA Limited, Certified Public Accountants, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of inclusion in this circular.*



永拓富信會計師事務所有限公司  
YONGTUO FUSON CPA LIMITED

**To the directors of Jia Yao Holdings Limited**

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Jia Yao Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2022 and related notes (the “Unaudited Pro Forma Financial Information”) as set out on pages II-4 to II-5 of the circular dated 5 September 2022 issued by the Company (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section (B) of Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue on the basis of one Rights Share for every one existing share of the Company at the close of business on the Record Date (the “Rights Issue”) on the Group's unaudited consolidated net tangible assets attributable to owners of the Company as at 30 June 2022 as if the Rights Issues had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2022, on which no audit or review report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circular (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).



### **Our Independence and Quality Control**

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

Our firm applies Hong Kong Standard on Quality Control 1 (Clarified) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, 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, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the significant event or transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Rights Issue at 30 June 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

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

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

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

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

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**Yongtuo Fuson CPA Limited**  
*Certified Public Accountants*

**Fok Tat Choi**  
Practicing Certificate Number: P06895  
Hong Kong, 5 September 2022

**(B) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared by the Directors (the “Unaudited Pro Forma Financial Information”) in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set out to illustrate the effect of the Rights Issue on the Group’s unaudited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2022 as if the Rights Issue had been completed on 30 June 2022.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only, based on the judgments, estimates and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2022 or any further dates following the Rights Issue.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2022, as extracted from published interim results announcement of the Company for the six months ended 30 June 2022, with adjustments described below.

| Unaudited<br>consolidated<br>net tangible<br>assets of the<br>Group<br>attributable<br>to owners of<br>the Company<br>as at 30 June<br>2022<br>RMB'000<br>(note 1) | Unaudited<br>estimated net<br>proceeds<br>from the<br>Rights Issue<br>RMB'000<br>(note 2) | Unaudited<br>pro forma<br>adjusted<br>consolidated<br>net tangible<br>assets of the<br>Group<br>attributable<br>to owners of<br>the Company<br>immediately<br>after<br>completion of<br>the Rights<br>Issue<br>RMB'000 | Unaudited<br>consolidated<br>net tangible<br>assets of the<br>Group per<br>share<br>attributable<br>to owners of<br>the Company<br>as at 30 June<br>2022<br>RMB<br>(note 3) | Unaudited<br>pro forma<br>adjusted<br>consolidated<br>net tangible<br>assets of the<br>Group per<br>share<br>attributable<br>to owners of<br>the Company<br>immediately<br>after<br>completion of<br>the Rights<br>Issue<br>RMB<br>(note 4) |
|--|---|--|---|---|
|--|---|--|---|---|

Based on 300,000,000

Rights Shares to be issued  
at Subscription Price of  
HK\$0.60 per Rights Share

|         |         |         |      |      |
|---------|---------|---------|------|------|
| 156,956 | 150,248 | 307,204 | 0.52 | 0.51 |
|---------|---------|---------|------|------|

*Notes:*

1. The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2022 of approximately RMB156,956,000 is arrived at after deducting other intangible assets of RMB4,610,000 from the consolidated net assets attributable to owners of the Company of RMB161,566,000, which is extracted from the interim results announcement of the Company for the six months ended 30 June 2022.
2. The estimated net proceeds from the Rights Issue of approximately HK\$176,000,000 (equivalent to RMB150,248,000) is calculated based on 300,000,000 Rights Shares to be issued (in the proportion of one (1) Rights Share for every one (1) existing share held as at the Rights Issue record date) at the subscription price of HK\$0.60 per Rights Share, after deduction of the estimated related expenses of approximately HK\$4,000,000 (equivalent to RMB3,415,000), assuming that the Rights Issue had been completed on 30 June 2022.
3. The consolidated net tangible assets attributable to owners of the Company per share as at 30 June 2022 is approximately RMB0.52, which is calculated based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2022 of approximately RMB156,956,000 divided by 300,000,000 shares in issue as at 30 June 2022.
4. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per share immediately after completion of the Rights Issue is approximately RMB0.51, which is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue of approximately RMB307,204,000 divided by 600,000,000 shares, which represents 300,000,000 shares of the Company in issue as at 30 June 2022 and 300,000,000 Rights Shares to be issued, pursuant to the Rights Issue (in the proportion of one (1) Rights Share for every one (1) existing share held as at the Rights Issue record date), assuming that the Rights Issue had been completed on 30 June 2022.
5. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2022.

## 1. RESPONSIBILITY STATEMENT

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

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Rights Issue (assuming no other change in the number of issued Shares and full acceptance of Rights Shares by all Qualifying Shareholders) are set out as follows:

### (i) As at the Latest Practicable Date

|                               |                   |
|-------------------------------|-------------------|
| <i>Authorised:</i>            | <i>HK\$</i>       |
| <u>2,000,000,000</u> Shares   | <u>20,000,000</u> |
| <i>Issued and fully paid:</i> | <i>HK\$</i>       |
| <u>300,000,000</u> Shares     | <u>3,000,000</u>  |

### (ii) Immediately after completion of the Rights Issue (assuming no other change in the number of issued Shares and full acceptance of Rights Shares by all Qualifying Shareholders)

|   |                  |
|---|------------------|
| <i>Authorised:</i>  | <i>HK\$</i>      |
| 2,000,000,000 Shares  | 20,000,000       |
| <i>Issued and fully paid:</i>   | <i>HK\$</i>      |
| 300,000,000 Shares  | 3,000,000        |
| 300,000,000 Rights Shares to be allotted and issued under the Rights Issue                  | 3,000,000        |
| <u>600,000,000</u> Shares in issue immediately following the completion of the Rights Issue | <u>6,000,000</u> |

All the existing Shares in issue are fully-paid and rank *pari passu* in all respects including all rights as to dividends, voting and return of capital. The Rights Shares (when allotted, issued and fully-paid) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares in their fully-paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights 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 or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

The Company did not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

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

As at the Latest Practicable Date, no share or loan capital of the Company or any members of the Group had been put under option or agreed conditionally or unconditionally to be put under option.

### **3. DISCLOSURE OF INTERESTS**

#### **(a) Director's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules on the Stock Exchange, notified to the Company and the Stock Exchange were as follows:

*(i) Long positions in the Shares of the Company*

| <b>Name of Director</b> | <b>Capacity and nature of interest</b>                 | <b>Number of Shares held</b> | <b>Percentage of interest</b> |
|-------------------------|--|------------------------------|-------------------------------|
| Mr. Yang                | Interest of a controlled corporation ( <i>Note 1</i> ) | 209,362,000                  | 69.79%                        |
| Mr. Feng                | Interest of a controlled corporation ( <i>Note 2</i> ) | 15,638,000                   | 5.21%                         |

*(ii) Long position in the ordinary shares of associated corporation*

| <b>Name of Director</b> | <b>Name of associated corporation</b> | <b>Capacity and nature of interest</b> | <b>Number of Shares held</b> | <b>Percentage of interest</b> |
|-------------------------|---------------------------------------|--|------------------------------|-------------------------------|
| Mr. Yang                | Spearhead Leader Limited              | Beneficial owner                       | 1                            | 100%                          |

*Notes:*

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader Limited. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 shares of the Company held by Spearhead Leader Limited for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader Limited.
2. Mr. Feng beneficially owns the entire issued share capital of Star Glide Limited. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide Limited for the purpose of the SFO. Mr. Feng is the sole director of Star Glide Limited.
3. Calculated on the basis of 300,000,000 shares of the Company in issue as at the Latest Practicable Date and without taking into account of the Undertaken Shares.



**(b) Substantial shareholders' interests and short positions in shares and underlying shares**

As at the Latest Practicable Date, so far as any Directors are aware, the interest or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares, underlying Shares or debentures of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group were as follows:

| <b>Name of shareholders</b> | <b>Capacity and nature of interest</b> | <b>Number of Shares held</b> | <b>Percentage of the Company's issued share capital</b> |
|-----------------------------|--|------------------------------|---|
| Spearhead Leader Limited    | Beneficial owner                       | 209,362,000                  | 69.79%  |
| Ms. Cai Yaohui              | Interest of spouse<br>(Note 1)         | 209,362,000                  | 69.79%  |
| Star Glide Limited          | Beneficial owner                       | 15,638,000                   | 5.21%   |
| Ms. Zhao Yi                 | Interest of spouse<br>(Note 2)         | 15,638,000                   | 5.21%   |

*Notes:*

- Ms. Cai Yaohui is the spouse of Mr. Yang. Accordingly, Ms. Cai Yaohui is deemed, or taken to be, interested in all shares of the Company in which Mr. Yang is interested in for the purpose of the SFO.
- Ms. Zhao Yi is the spouse of Mr. Feng. Accordingly, Ms. Zhao Yi is deemed, or taken to be, interested in all shares of the Company in which Mr. Feng is interested in for the purpose of the SFO.
- Calculated on the basis of 300,000,000 shares of the Company in issue as at the Latest Practicable Date and without taking into account of the Undertaken Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, there are no other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### 5. COMPETING INTERESTS

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

#### 6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

#### 7. DIRECTOR'S INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

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

#### 8. MATERIAL CONTRACTS

The following contract(s) (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

- (i) the investment cooperation agreement dated 29 December 2021 and entered into between Shenzhen Jiayao Biological Technology Co., Ltd.\* (深圳市嘉耀生物科技有限公司), (the “**Shenzhen Jiayao**”) a subsidiary of the Company, Mr. Zhan Xingyu, Mr. Kong Lei and Shenzhen Haohan Yangtian Technology Co., Ltd.\* (深圳浩瀚陽天科技有限公司) (the “**Target Company**”), pursuant to which Shenzhen Jiayao agreed to subscribe for the increased registered capital of the Target Company of RMB14,000,000 at the consideration of RMB14,000,000; and
- (ii) the Underwriting Agreement.

## 9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have been named in this circular or has given opinions, letter or advice contained in this circular:

| <b>Name</b>               | <b>Qualification</b>  |
|---------------------------|---|
| Octal Capital Limited     | A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO |
| Yongtuo Fuson CPA Limited | Certified Public Accountants  |

As at the Latest Practicable Date, the above experts had no shareholding, directly or indirectly, in any member of the Group or any 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 above experts had no interest, direct or indirect, in the promotion of, or in any assets of the Group which since 31 December 2021, the date to which the latest published audited financial statements of the Company were made up, have been acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which they are included.

## 10. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

|   |   |
|---|---|
| <b>Headquarter and Principal Place of Business in the PRC</b> | No. 6 Qingdao Road<br>Dongshan Economic Developing District<br>Yichang, Hubei                           |
| <b>Principal Place of Business in Hong Kong</b>               | Suite 3212, 32nd Floor, Tower One,<br>Times Square, No. 1 Matheson Street<br>Causeway Bay<br>Hong Kong  |
| <b>Registered office</b>                                      | Second Floor, Century Yard,<br>Cricket Square, P.O. Box 902<br>Grand Cayman, KY1-1103<br>Cayman Islands |

|  |   |
|--|---|
| <b>Legal advisers to the Company<br/>as to the Rights Issue</b>        | <b>ONC Lawyers</b><br>19th Floor, Three Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong  |
| <b>Underwriter</b>   | <b>First Shanghai Securities Limited</b><br>1903 Wing On House<br>71 Des Voeux Road<br>Central<br>Hong Kong   |
| <b>Reporting accountants to the<br/>Company as to the Rights Issue</b> | <b>Yongtuo Fuson CPA Limited</b><br>Unit 1020, 10th Floor, Tower B<br>New Mandarin Plaza<br>14 Science Museum Road<br>Tsim Sha Tsui East<br>Kowloon,<br>Hong Kong   |
| <b>Principal bankers</b>   | <b>China Merchants Bank Yichang Branch</b><br>No. 18-3 Xi Ling Yi Road<br>Xi Ling District<br>Yichang, Hubei<br><br><b>Hubei Bank Corporation Yichang Branch</b><br>No. 109 Zhen Zhu Road<br>Xi Ling District<br>Yichang, Hubei |
| <b>Hong Kong branch share<br/>registrar and transfer office</b>        | <b>Union Registrars Limited</b><br>Suites 3301-04, 33/F.<br>Two Chinachem Exchange Square<br>338 King's Road<br>North Point<br>Hong Kong  |

**Authorised representatives****Mr. Yang Fan**

Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

**Mr. Wu Hung Wai**

Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

**Company secretary****Mr. Wu Hung Wai**

*Certified Public Accountants*

**11. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT****(a) Name and address of the Directors and senior management of the Company****Name****Correspondence Address***Executive Director*

Mr. Yang Yoong An

Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

*Non-executive Directors*

Mr. Feng Bin

Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

Mr. Yang Fan

Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

*Independent non-executive Directors*

Mr. Gong Jinjun Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

Mr. Zeng Shiquan Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

Mr. Wang Ping Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

*Senior management*

Ms. Song Chun No. 6 Qingdao Road  
Dongshan Economic Developing District  
Yichang, Hubei  
China

Mr. Li Shaoan No. 6 Qingdao Road  
Dongshan Economic Developing District  
Yichang, Hubei  
China

Mr. Wu Hung Wai Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

**(b) Profiles of Directors***Executive Director*

**Mr. Yang Yoong An (楊詠安)** (formerly known as Yang An (楊安)), aged 59, was first appointed as a Director on 5 August 2013, and was redesignated as executive Director from 24 March 2014 to 17 March 2017, as a non-executive Director from 17 March 2017 to 18 February 2019, and as an executive Director since 18 February 2019. Mr. Yang was the Chairman of the Company up to 17

March 2017 and has been the Chairman of the Company again since 18 February 2019. Mr. Yang is primarily responsible for overall management and formulation of business strategy of the Group.

Mr. Yang had engaged in various businesses since the 1980s such as trading of fishery products and cigarette-related accessories products.

With the acquisition of the equity interests in Hubei Golden Three Gorges Printing Industry Co., Ltd.\* (湖北金三峽印務有限公司) (“**Hubei Golden Three Gorges**”) in 2001, Mr. Yang developed the business of production of cigarette packages in the PRC. In 2010, Mr. Yang became the chairman of Hubei Golden Three Gorges and he has been responsible for the overall day to day management of Hubei Golden Three Gorges.

Since 2012, Mr. Yang has been the vice president of the Hubei Province Guangdong Chamber of Commerce (湖北省廣東商會). Mr. Yang has brought over 10 years of extensive business and management experience in commercial business to the management team of the Company. He currently serves as a director of the subsidiaries of the Company including Giant Harmony Limited, Park Linker Limited, King Gather Limited, Easy Creator Limited, Hubei Golden Three Gorges and 當陽金三峽聯通印務有限公司 (Dangyang Liantong Printing Industry Co., Ltd.\*) (“**Dangyang Liantong**”), and the legal representative of Hubei Golden Three Gorges and Dangyang Liantong. Mr. Yang is the father of Mr. Yang Fan, a non-executive Director of the Company.

As at the Latest Practicable Date, Mr. Yang is the beneficial owner of the entire issued capital of Spearhead Leader Limited, which in turn holds 209,362,000 shares representing approximately 69.79% of the issued share capital of the Company.

#### *Non-executive Directors*

**Mr. Feng Bin (豐斌)**, aged 51, was appointed as an executive Director of the Company on 24 March 2014 and resigned on 17 March 2017. On 18 February 2019, Mr. Feng Bin was appointed as a non-executive Director of the Company. Mr. Feng Bin is primarily responsible for overseeing the general corporate, financial and compliance affairs of the Group.

Mr. Feng Bin graduated from the Southwestern University of Finance and Economics (西南財經大學) majoring in accounting in June 1992 through higher education self-taught examination. An accountant qualification was conferred on him by Ministry of Finance of the PRC in October 1994. In June 2008, Mr. Feng obtained a self-study undergraduate certificate (Adult Higher Education) in accounting from the Zhongnan University of Economics and Law (中南財經政法大學). In January 2011, Mr. Feng obtained a part-time master degree (professional degree) in executive management business administration from the Tsinghua University (清華大學). Mr. Feng has more than 15 years of experience in the cigarette packaging trading field. From August 1987 to December 1989, Mr. Feng



worked at 四川省德昌縣王所鄉政府 (Dechang Wangsuo Township Government\*). From December 1989 to July 2002, Mr. Feng worked at 中共德昌縣委辦公室 (Committee Office of Dechang County\*), during which Mr. Feng was attached to work at 四川省德昌縣菸葉複烤廠 (Sichuan Dechang Tobacco Redrying Factory\*) as a factory manager from June 1996 to February 2001. From October 2005 to June 2008, Mr. Feng served as deputy general manager of 成都今辰科技發展有限公司 (Chengdu Jinchen Sci-Tech. Development Co., Ltd.\*). Mr. Feng joined Hubei Golden Three Gorges in March 2001 and was appointed as the chief financial officer and was the deputy general manager when he left Hubei Golden Three Gorges in 2005. Mr. Feng re-joined Hubei Golden Three Gorges in July 2008 as the deputy general manager and has been the general manager of Hubei Golden Three Gorges from February 2012 to December 2016.

As at the Latest Practicable Date, Mr. Feng Bin is the beneficial owner of the entire issued capital of Star Glide Limited, which in turn holds 15,638,000 shares, representing approximately 5.21% of the issued share capital of the Company.

**Mr. Yang Fan (楊帆)**, aged 35, was appointed as a non-executive Director of the Company on 24 March 2014 and resigned on 17 March 2017. On 18 February 2019, Mr. Yang Fan was appointed as a non-executive Director of the Company. Mr. Yang Fan is primarily responsible for overseeing the general corporate, financial and compliance affairs of the Group. Mr. Yang Fan obtained a Bachelor of Arts degree in economics from the University of Cambridge in June 2012. In August 2013, he obtained a Master of Science degree in financial economics from the University of Oxford. Mr. Yang Fan is the son of Mr. Yang, the executive director of the Company. He is a director of Hubei Golden Three Gorges and a non-executive director of Tian Yuan Group Holdings Limited (Stock Code: 6119).

#### ***Independent non-executive Directors***

**Mr. Gong Jinjun (龔進軍)** (“**Mr. Gong**”), aged 65, was appointed as an independent non-executive Director on 5 June 2014, a member of the audit committee on 17 March 2017, the chairman of the remuneration committee and a member of the nomination committee on 6 June 2014. Mr. Gong is primarily responsible for overseeing the management independently.

Mr. Gong obtained a bachelor degree in economics and geography from Peking University (北京大學) in July 1982. He was accredited as an engineer by 中華人民共和國建設部 (The Ministry of Construction of People’s Republic of China\*) in March 1988. He was also accredited as a senior architectural engineer by 廣東省深圳建築工程技術人員高級職務評審委員會 (Constructional Engineering Technician Senior Title Evaluating Committee of Shenzhen, Guangdong Province\*) in December 1994. In April 2001, Mr. Gong received the second class prize of the 廣東省科學技術獎勵 (Guangdong Province Science and Technology Achievements Award\*) presented by the 廣東省人民政府 (People’s Government of Guangdong Province\*).

Prior to joining the Group, Mr. Gong was a civil servant of the PRC. He was appointed as an engineer by 中華人民共和國建設部 (The Ministry of Construction of People's Republic of China\*) from March 1988 to December 1989. He was then appointed as a researcher of 深圳市規化與國土資源局地質礦產處 (Shenzhen Municipality Geology and Mineral Resources Department\*) in August 2003 and was then appointed as a researcher of 深圳市國土資源和房產管理局物業監管處 (Shenzhen Municipality Land Resources and Housing Administrative Bureau\*) in June 2004. Mr. Gong retired in 2006.

**Mr. Zeng Shiquan (曾石泉) (“Mr. Zeng”)**, aged 74, was appointed as an independent non-executive Director on 5 June 2014 and a member of the audit and nomination committees on 5 June 2014. Mr. Zeng is primarily responsible for overseeing the management independently.

Mr. Zeng graduated from the department of economics of Wuhan University (武漢大學) in July 1970. He graduated from Sun Yat-sen University (中山大學) as a postgraduate in political economy in December 1981. He was accredited as a senior economist by 深圳市職稱改革領導小組 (Shenzhen City Job Title Reform Leadership Unit\*) in February 1993. Mr. Zeng passed the Training Course for Independent Directors of Listed Companies (上市公司獨立董事培訓班) jointly held by The Securities Association of China (中國證券業協會) and the School of Management, Fudan University (復旦大學管理學院) in July 2003.

From November 2013 to July 2017, Mr. Zeng has been appointed as an independent director of Shenzhen Kedali Industry Co., Ltd. (深圳市科達利實業股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Shenzhen Exchange stock code: 002850). From June 2013 to May 2015, Mr. Zeng was appointed as an independent non-executive director of Beijing Enterprises Clean Energy Group Limited (北控清潔能源集團有限公司) (formerly known as Jin Cai Holdings Company Limited (金彩控股有限公司)), whose shares are listed on the Main Board of the Stock Exchange (Stock code: 01250). From January 2016 to February 2016, Mr. Zeng was appointed as an independent non-executive director of Aurum Pacific (China) Group Limited (奧栢中國集團有限公司) whose shares are listed on GEM of the Stock Exchange (Stock code: 08148). Mr. Zeng has been appointed as an independent non-executive Director of StarGlory Holdings Company Limited (榮暉控股有限公司) (formerly known as New Wisdom Holding Company Limited (新智控股有限公司)), shares of which are listed on the GEM of the Stock Exchange (stock code: 08213).

**Mr. Wang Ping (王平) (“Mr. Wang”)**, aged 51, was appointed as an independent non-executive Director on 5 June 2014, the chairman of the audit committee and a member of the remuneration committee on 6 June 2014. Mr. Wang is primarily responsible for overseeing the management independently.

Mr. Wang studied at Nanjing University (南京大學) and received a self-study undergraduate diploma in economic management in December 1993. Mr. Wang obtained a master degree in Business Administration from Sun Yat-Sen University

(中山大學) in June 2004. He is a fellow non-practising member of the Chinese Institute of Certified Public Accountants and has over 20 years of experience in corporate finance, audit, accounting and taxation.

Mr. Wang worked at Deloitte Touche Tohmatsu CPA Ltd from September 1999 to August 2002 where he joined as a senior accountant and was later promoted to manager at the audit department. From February 2004 to March 2007, Mr. Wang was employed by China Jishan Holdings Limited (中國稽山控股有限公司), the shares of which are listed on the main board of Singapore Stock Exchange, as the chief financial officer. Mr. Wang worked for EV Capital Pte Ltd. (萬嘉資本私人有限公司) from May 2007 to March 2010 as the vice president. In December 2010, Mr. Wang joined Guang Da (China) Automotive Components Holdings Limited (光大(中國)車輛零部件控股有限公司), a subsidiary of China Vehicle Components Technology Holdings Limited as a senior vice president. Mr. Wang was an executive director and chief financial officer of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 01269) from April 2014 to December 2015 and from March 2012 to December 2015, respectively.

Mr. Wang was or has been appointed as an independent non-executive director of following companies whose shares are listed on the Main Board of the Hong Kong Stock Exchange: (a) China Hanking Holdings Limited (Stock code: 03788) since February 2011; (b) China Tianrui Group Cement Company Limited (Stock code: 01252) since December 2012; and (c) China Sinostar Group Limited (華星集團有限公司) (formerly known as Shihua Development Company Limited (實華發展有限公司)) (Stock code: 00485) from July 2014 to May 2020.

Further, Mr. Wang was or has been appointed as an independent non-executive director of following companies whose shares are listed on the Shenzhen Stock Exchange: (a) Shenzhen Fuanna Bedding and Furnishing Co. Ltd. (深圳市富安娜家居用品股份有限公司) (Shenzhen Exchange stock code: 002327) from December 2013 to September 2017 and October 2021 to present; (b) Shenzhen Zowee Technology Co., Ltd (深圳市卓翼科技股份有限公司) (Shenzhen Exchange stock code: 002369) from July 2016 to January 2020; and (c) Yunnan Energy New Material Co., Ltd. (雲南恩捷新材料股份有限公司) (Shenzhen Exchange stock code: 002812) from April 2017 to April 2020. Mr. Wang also has been appointed as non-executive director of following companies whose shares are listed on the Shenzhen Stock Exchange: (a) Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (Shenzhen Exchange stock code: 002378) from May 2017 to May 2020; (b) Sichuan CRUN Co., Ltd (四川川潤股份有限公司) (Shenzhen Exchange stock code: 002272) from August 2017 to March 2019; and (c) Bojun Education Company Limited (博駿教育有限公司) (Stock code: 01758) from September 2016 to September 2019.

*Senior Management*

**Ms. Song Chun (宋春) (“Ms. Song”)**, aged 53, has been the deputy general manager of Hubei Golden Three Gorges since 18 November 2010 and is responsible for the design, research and development for technology and products. Ms. Song graduated from Guizhou Academy of Arts (貴州藝術專科學校) majoring in arts in July 1993. Ms. Song has over 14 years of experience in design, printing and packaging industry. Before joining the Group, Ms. Song worked as a designer at Shenzhen Jinjia Color Printing Group Co., Ltd. (深圳勁嘉彩印集團股份有限公司) (Shenzhen Exchange stock code: 002191), shares of which are listed on the Shenzhen Stock Exchange, from November 2000 to July 2002. She then joined the Group as a designer from July 2002 until she left the Group to join Shenzhen Jinjia Color Printing Group Co., Ltd. as vice technical director in January 2008. In April 2009, Ms. Song rejoined the Group as the deputy general manager. She was accredited as 全國十佳優秀煙標設計師 (National Top Ten Cigarette Package Designer\*) by 中國煙草學會 (China Tobacco Society\*) and 中國收藏家協會 (China Association of Collectors\*) in 2006.

**Mr. Li Shaoan (李少安) (“Mr. Li”)**, aged 49, is the finance director of Hubei Golden Three Gorges since 17 May 2013 and is responsible for overall financial management. Mr. Li graduated from Hubei College of Finance and Economics (湖北財經高等專科學校, formerly known as 中南財經大學湖北財政分校) majoring in taxation in July 1994. Mr. Li completed the Global Capital Operation Programme held by School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in December 2008. In July 2009, Mr. Li obtained a graduation certificate in accounting from Dongbei University of Finance and Economics (東北財經大學) through online course. Mr. Li became a PRC certified tax agent in November 2008 and a non-practising member of Hubei Institute of Certified Public Accountants (湖北省註冊會計師協會) in December 2009. Mr. Li has over 10 years of experience in the printing industry. Before joining the Group, Mr. Li worked at the finance department of Yichang Xiarun Cooperation Co. Ltd. (宜昌峽潤合作有限公司) from October 1998 to June 2004. Mr. Li held a number of positions at Hubei Golden Three Gorges including the finance manager and deputy finance director from July 2004 to May 2013.

**Mr. Wu Hung Wai (吳鴻偉) (“Mr. Wu”)**, aged 40, has been the chief financial officer and company secretary of the Company since June 2014, responsible for compliance and financial management of the Group. Mr. Wu obtained a bachelor degree in business from the University of Technology, Sydney in October 2003. Mr. Wu is a member of Hong Kong Institute of Certified Public Accountants. Mr. Wu worked in PKF Hong Kong from April 2005 to July 2010 and his last position in PKF Hong Kong was senior supervisor. From October 2010 to January 2013, Mr. Wu worked at Ernst & Young as senior accountant. From August 2013 to February 2014, he worked at Aussco Hong Kong Limited as finance manager. Mr. Wu has over 15 years of experience in auditing, management accounting, financial reporting and company secretarial management.

**12. RESTRICTION AFFECTING REMITTANCE OF PROFIT AND CAPITAL**

As the Group receive most of its revenues in RMB, which is not a currently not a freely convertible currency. The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under the existing PRC foreign exchange regulations, the foreign exchange disbursements under current accounts (including payment of dividends, trade and service-related foreign exchange) can be paid with self-owned foreign exchange or foreign exchange bought from designated financial institutions for foreign exchange operations without prior approval from PRC foreign exchange administrative department by complying with certain procedural requirements. However, for the foreign exchange disbursements under capital account (such as the repayment of foreign debts and foreign investments), which are required to be registered with or approved by the competent bank or governmental authority according to applicable PRC laws and regulations, such registration or approval shall be obtained before paying the foreign exchange disbursements with self-owned foreign exchange or foreign exchange bought from designated financial institutions for foreign exchange operations.

Save as disclosed above, the Directors are not aware of any other restriction affecting the remittance of profits or repatriation of capital of the Group into Hong Kong from outside Hong Kong.

**13. EXPENSES**

The expenses in connection with the Rights Issue, including professional fees payable to lawyers, reporting accountants and financial printer, etc., are estimated to be approximately HK\$4 million and will be payable by the Company.

**14. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.jiayaoholdings.com>) from the date of this circular up to and including the date of the EGM:

- (i) the annual reports of the Company for the financial years ended 31 December 2019, 2020 and 2021;
- (ii) the interim results announcement of the Company for the six months ended 30 June 2022;
- (iii) the letter from the Board, the text of which is set out on pages 10 to 32 of this circular;
- (iv) the letter from the Independent Board Committee, the text of which is set out on page 33 of this circular;
- (v) the letter from the Independent Financial Adviser, the text of which is set out on pages 34 to 61 of this circular;

- (vi) the letter issued by Yongtuo Fuson CPA Limited regarding the unaudited pro forma financial information as set out in Appendix II to this circular;
- (vii) the material contracts referred to in the paragraph headed “8. Material Contracts” in this appendix; and
- (viii) the written consents referred to in the paragraph headed “9. Experts and Consents” in this appendix.

**15. MISCELLANEOUS**

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



# NOTICE OF EXTRAORDINARY GENERAL MEETING



## Jia Yao Holdings Limited 嘉耀控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 01626)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Jia Yao Holdings Limited (the “**Company**”) will be held at Room 2, 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on Tuesday, 20 September 2022 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

1. “**THAT:** subject to the satisfaction of the conditions set out in the letter from the board under the heading “Conditions of the Rights Issue” in the circular of the Company dated 5 September 2022 (the “**Circular**”):
  - (a) the issue by way of rights shares (the “**Rights Issue**”) of 300,000,000 Shares (the “**Rights Shares**” and each a “**Rights Share**”) at a subscription price of HK\$0.60 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the register of members of the Company on Friday, 30 September 2022 or such other date as may be determined by the Company for the determination of the entitlements under the Rights Issue (the “**Record Date**”) (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the Directors of the Company, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) on the basis of one (1) Rights Share for every one share of the Company then held on the Record Date and pursuant to the terms and conditions as set out in the circular issued by the Company dated 5 September 2022 of which this notice convening the EGM forms part, be and is hereby approved;
  - (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 5 August 2022 and entered into among the Company and First Shanghai Securities Limited (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;



## NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any one of the Directors be and is hereby authorised to allot and issue the Rights Shares (in their nil-paid form and fully-paid form) pursuant to and in connection with the Rights Issue notwithstanding the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Director be and is hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or the Excluded Shareholder(s) as he deems necessary, desirable or expedient having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
- (d) any one of the Directors be and is hereby authorised to do all such acts and things, as he may in his discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Rights Issue and the Underwriting Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Rights Issue and the Underwriting Agreement and the implementation of all transactions contemplated thereunder, including but not limited to the issue and allotment of Rights Shares and to agree with such variation, amendment or waiver as, in his opinion, appropriate and in the interests of the Company and its shareholders as a whole.”

By order of the Board  
**Jia Yao Holdings Limited**  
**Yang Yoong An**  
*Chairman and Executive Director*

Hong Kong, 5 September 2022

*Registered Office:*  
Second Floor, Century Yard  
Cricket Square, P.O. Box 902  
Grand Cayman, KY1-1103  
Cayman Islands

*Principal Place of Business in Hong Kong:*  
Suite 3212, 32nd Floor, Tower One  
Times Square  
No. 1 Matheson Street  
Causeway Bay  
Hong Kong

## NOTICE OF EXTRAORDINARY GENERAL MEETING

*Notes:*

1. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member 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 EGM. A proxy need not be a member of the Company. On a poll, votes may be given either in person or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, the instrument appointing a proxy and (if required by the board of the directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
4. Where there are joint holders of any shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM, 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.
5. The above resolution will be put to vote at the EGM by way of poll.
6. The register of members of the Company will be closed from Wednesday, 14 September 2022 to Tuesday, 20 September 2022 (both dates inclusive), during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 13 September 2022.
7. If Typhoon Signal No. 8 or above is hoisted, or a "black" rainstorm warning signal or "extreme conditions" after super typhoons announced by the Government of Hong Kong is/are in force in Hong Kong at or at any time after 7:00 a.m. on the date of the meeting, the EGM will be postponed. The Company will post an announcement on the website of the Company at [www.jiayaoholdings.com](http://www.jiayaoholdings.com) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) to notify Shareholders of the date, time and venue of the rescheduled EGM.