

14 October 2022

To the Shareholder(s)

Dear Sir or Madam,

**(1) CAPITAL REORGANISATION;
(2) CONNECTED TRANSACTION
IN RELATION TO
PROPOSED ALTERATION OF TERMS OF
CONVERTIBLE NOTES;
(3) PROPOSED AMENDMENTS TO MEMORANDUM OF ASSOCIATION
AND BYE-LAWS;
AND
(4) NOTICE OF SPECIAL GENERAL MEETING**

BACKGROUND

Reference is made to the announcement of the Company dated 11 August 2022 in relation to the Capital Reorganisation and the entering into of the Deed of Further Variation 2022 to amend certain terms and conditions of the Convertible Notes.

The purpose of this circular is to provide you with, among other things, details of the Capital Reorganisation, the Deed of Further Variation 2022 and the Alteration of Terms contemplated thereunder, the proposed amendments to the Memorandum of Association and Bye-Laws, the letters from the Independent Board Committee and the Independent Financial Adviser and the notice convening the SGM for the Shareholders or the Independent Shareholders (as the case may be) to consider and, if thought fit, to approve the respective resolution(s) in relation to the Capital Reorganisation, the Deed of Further Variation 2022 and the transactions contemplated thereunder, and the proposed amendments to the Memorandum of Association and Bye-Laws.

CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation which will comprise:

- (i) the Share Consolidation whereby every ten (10) issued and unissued Shares with a par value of HK\$0.20 each will be consolidated into one (1) Consolidated Share with a par value of HK\$2.00 each;
- (ii) the Capital Reduction whereby the par value of each issued Consolidated Share will be reduced from HK\$2.00 to HK\$0.10 by cancelling the paid-up capital to the extent of HK\$1.90 on each issued Consolidated Share and any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation will be cancelled;
- (iii) the Share Subdivision of every unissued Consolidated Share with a par value of HK\$2.00 each in the authorised share capital of the Company into twenty (20) New Shares with a par value of HK\$0.10 each;
- (iv) the credit arising from the Capital Reduction being credited to the contributed surplus account of the Company within the meaning of the Companies Act; and
- (v) the application of the credit in the contributed surplus account of the Company being applied in full to set off the accumulated losses of the Company as permitted under all applicable laws of Bermuda and the Bye-Laws.

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$600,000,000 divided into 3,000,000,000 Shares, out of which 840,174,214 Shares are issued and credited as fully paid. Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Capital Reorganisation becomes effective, the issued share capital of the Company will be HK\$8,401,742.10 divided into 84,017,421 New Shares with a par value of HK\$0.10 each upon the Capital Reorganisation becoming effective.

Upon the Capital Reorganisation becoming effective, the New Shares shall rank *pari passu* in all respects with each other.

Based on 840,174,214 Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$159,633,100.66 arising from the Capital Reduction will be credited to the contributed surplus account of the Company within the meaning of the Companies Act which will be applied in full by the Board to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the Bye-Laws and all applicable laws of Bermuda.

Upon the Capital Reorganisation becoming effective, the authorised share capital of the Company would remain to be HK\$600,000,000 with no change but divided into 6,000,000,000 New Shares of HK\$0.10 each.

Other than the relevant expenses to be incurred by the Company, including but not limited to professional fees and printing charges, the implementation of the Capital Reorganisation will not alter the underlying assets, business operations, management or the financial position of the Company or the proportionate interests or rights of the Shareholders, save for any fractional Consolidated Shares which will not be allocated to the Shareholders who may otherwise be entitled to.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of a special resolution by the Shareholders to approve the Capital Reorganisation at the SGM;
- (b) compliance with section 46(2) of the Companies Act 1981 of Bermuda, including (i) the publication of a notice in relation to the Capital Reduction in an appointed newspaper in Bermuda on a date not more than thirty days and not less than fifteen days before the effective date of the Capital Reduction; and (ii) the Board being satisfied that on the effective date of the Capital Reduction, there are no reasonable grounds for believing the Company is, or after the proposed Capital Reduction would be, unable to pay its liabilities as they become due;
- (c) the Stock Exchange granting the listing of, and the permission to deal in, the New Shares in issue and to be issued (including the New Shares which may fall to be allotted or issued upon exercise of the conversion rights attaching to the Convertible Notes) upon the Capital Reorganisation becoming effective; and

- (d) the compliance with all relevant procedures and requirements under the laws of Bermuda (where applicable) and the Listing Rules to effect the Capital Reorganisation.

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

The Capital Reorganisation shall become effective on the second Business Day immediately following the fulfilment of all the above conditions.

EFFECTS OF THE CAPITAL REORGANISATION

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

	As at the Latest Practicable Date	Immediately after the Share Consolidation becoming effective	Immediately after the Capital Reorganisation becoming effective
Authorised share capital	HK\$600,000,000	HK\$600,000,000	HK\$600,000,000
Par value	HK\$0.20 per Share	HK\$2.00 per Consolidated Share	HK\$0.10 per New Share
Number of authorised shares	3,000,000,000	300,000,000	6,000,000,000
Issued share capital	HK\$168,034,842.80	HK\$168,034,842.80	HK\$8,401,742.10
Number of issued shares	840,174,214	84,017,421 <i>(note)</i>	84,017,421

Note: round down from 84,017,421.40 Consolidated Shares for illustrative purpose.

Fractional shares

Upon the Capital Reorganisation becoming effective, fractional New Shares, if any, will be disregarded and will not be issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional New Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of existing share certificates held by such holder.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, which is currently expected to be Wednesday, 9 November 2022, being the second Business Day immediately following the fulfilment of the conditions set out in the section headed “Conditions of the Capital Reorganisation” of this circular, Shareholders may during the period from Wednesday, 9 November 2022 to Thursday, 15 December 2022 (both days inclusive), submit their existing share certificates for the Shares, which are in pink colour, to the Registrar, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong to exchange for new share certificates for the New Shares, which will be in green colour at the expense of the Company.

It is expected that new share certificates for the New Shares will be available for collection within 10 Business Days from the date of submission for the exchange. Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 each (or such other amount as may from time to time be specified by the Stock Exchange) will be payable by the Shareholders to the Registrar for each share certificate for the Shares submitted for cancellation or each new share certificate issued for the New Shares, whichever the number of share certificates cancelled/issued is higher.

After 4:10 p.m. on Tuesday, 13 December 2022, existing share certificates for the Shares will only remain effective as documents of title and may be exchanged for certificates for the New Shares at any time but will not be accepted for delivery, trading and settlement purposes.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares as a result of the Capital Reorganisation, the Company has appointed Phillip Securities (Hong Kong) Limited as an agent to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares during the period from 9:00 a.m. on Wednesday, 23 November 2022 to 4:00 p.m. on Tuesday, 13 December 2022 (both days inclusive). Shareholders who wish to take advantage of this facility should contact Mr. Aric Au or Ms. Panny Fung or Mr. Yam, Shun Hung of Phillip Securities (Hong Kong) Limited at 11th Floor, United Centre, 95 Queensway, Hong Kong or at telephone number (852) 2277 6769 or (852) 2277 6617 or (852) 2277 6615, respectively, during office hours (i.e. 8:30 a.m. to 4:30 p.m.) of such period.

Holders of odd lots of the New Shares should note that the matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

Board lot size

As at the Latest Practicable Date, the Shares are traded on the Stock Exchange in the board lot size of 10,000 Shares. There will be no change to the board lot size as a result of the Capital Reorganisation.

ADJUSTMENTS TO THE CONVERTIBLE NOTES AND THE SHARE OPTIONS

Convertible Notes

As at the Latest Practicable Date, the Company has Outstanding Convertible Notes in the principal amount of HK\$158,400,000 which is convertible into 720,000,000 Shares at the conversion price of HK\$0.22 per Share. Pursuant to the terms of the Convertible Notes, the Capital Reorganisation will cause adjustments to the Current Conversion Price and/or the number of New Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Outstanding Convertible Notes. A calculation agent will certify any adjustment which is required to be made in respect of the above as a result of the Capital Reorganisation. Assuming that the Current Conversion Price of HK\$0.22 per Share will be adjusted to the Adjusted Conversion Price of HK\$2.20 per New Share as a result of the Capital Reorganisation becoming effective (but before the Alteration of Terms comes into effect), the Outstanding Convertible Notes in the principal amount of HK\$158,400,000 will be convertible into 72,000,000 New Shares. Further announcement(s) will be made by the Company regarding the final adjustment as and when appropriate.

Share Options

As at the Latest Practicable Date, there are no outstanding share options.

Save for the aforesaid, as at the Latest Practicable Date, the Company has no other outstanding options, warrants or securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any Shares or New Shares, as the case may be.

REASONS FOR THE CAPITAL REORGANISATION

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

Based on the closing price of HK\$0.023 per Share as at the date of the announcement of the Company dated 11 August 2022 (equivalent to the theoretical closing price of HK\$0.230 per New Share upon the Capital Reorganisation becoming effective), the value of each board lot of the Shares is HK\$230 and the theoretical market value of each board lot of the New Shares, assuming the Capital Reorganisation had become effective, would be HK\$2,300.

The Capital Reorganisation also involves the Capital Reduction whereby the par value of the issued Consolidated Shares shall be reduced from HK\$2.00 each to HK\$0.10 each. Under the laws of Bermuda, a company may not issue shares at a discount to the par value of such shares. Accordingly, the Capital Reduction will allow greater flexibility in the pricing for any issue of New Shares in the future.

The Board considers that (i) the Share Consolidation will reduce the transaction costs for dealing in the Shares, including those fees which are charged with reference to the number of board lots; (ii) the Capital Reduction and the Share Subdivision will provide the Company with greater flexibility in possible fund raisings in the future; and (iii) the credit in the contributed surplus account of the Company arising from the Capital Reduction can be used to set off the accumulated losses of the Company as permitted by all applicable laws of Bermuda and the Bye-Laws.

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

It is expected that the Capital Reorganisation will facilitate the Company in potential equity fund raising by providing flexibility in the pricing of New Shares and it is the Company's intention to conduct equity fund raising within the financial year of 2022 after the Capital Reorganisation becoming effective when suitable fund-raising opportunities arise in order to improve the financial position and support future development of the Group. The Company will make further announcement(s) in this regard in accordance with the Listing Rules as and when appropriate.

WARNING

Shareholders should take note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed "Conditions of the Capital Reorganisation" above. Therefore, the Capital Reorganisation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

DEED OF FURTHER VARIATION 2022

Background

References are made to the announcements dated 23 September 2009, 14 November 2014, 17 November 2014, 14 December 2016, 12 November 2018 and 14 January 2022, and the circulars dated 19 October 2009, 19 December 2014, 29 December 2016 and 11 December 2018 of the Company in relation to, among other things, (1) the issue of the Convertible Notes; and (2) the alteration of certain terms and conditions of the Convertible Notes pursuant to the Deed of Variation, the Deed of Further Variation 2016 and the Deed of Further Variation 2018.

The Convertible Notes in the total principal amount of HK\$950,400,000 were issued by the Company on 16 November 2009 pursuant to the S&P Agreement as partial settlement of the consideration for the acquisition of CITIC Logistics (International) Company Limited. Pursuant to the Deed of Variation, the maturity date of the Convertible Notes was extended from 15 November 2014 to 31 December 2016 and the original conversion price of HK\$0.12 per share was adjusted to HK\$0.035 per share, which relieved the pressure of the Company to seek urgent funding to redeem the then outstanding Convertible Notes and provided an incentive to the Noteholder to consider the option of converting part or all of the Convertible Notes. Subsequently, the maturity date of Convertible Notes was further extended to 31 January 2019 pursuant to the Deed of Further Variation 2016, which relieved the pressure on the Company to seek funding to redeem the then outstanding Convertible Notes. Pursuant to the Deed of Further Variation 2018, following the completion of partial conversion of the Convertible Notes, the maturity date of the remaining Convertible Notes was further extended to 31 January 2022 and the conversion price of HK\$0.035 per share was further adjusted to HK\$0.011 per share, to relieve the imminent pressure on the Company to seek funding to redeem the then outstanding Convertible Notes.

As at the Latest Practicable Date, the Convertible Notes in an aggregate principal amount of HK\$158,400,000, convertible into Shares at the Current Conversion Price of HK\$0.22 per Share, are outstanding and held by the Noteholder. The Outstanding Convertible Notes are unsecured and have matured on 31 January 2022. The Company has received an irrevocable letter of undertaking dated 13 January 2022 from the Noteholder, pursuant to which the Noteholder has irrevocably undertaken in favour of the Company that before the Alteration of Terms comes into effect, he will not, among others, request the Company to repay the outstanding principal amount of the Convertible Notes and to pay any default interest and other related sums within one year from the maturity date of 31 January 2022.

In view of the financial conditions of the Company, after arm's length negotiations, on 11 August 2022 (after trading hours), the Company and the Noteholder entered into the Deed of Further Variation 2022 in respect of the proposed alteration of certain terms and conditions of the Convertible Notes.

Alteration of Terms

Set out below are the principal terms of the Deed of Further Variation 2022.

Date: 11 August 2022 (after trading hours)

Parties: (i) the Company
(ii) the Noteholder

Pursuant to the Deed of Further Variation 2022, it is agreed that (i) the maturity date of the Outstanding Convertible Notes will be extended from 31 January 2022 to 31 January 2025; and (ii) the Adjusted Conversion Price will be further adjusted to the Conversion Price of HK\$1.00 per New Share.

In addition, the Noteholder has irrevocably undertaken that, irrespective of whether the Alteration of Terms will become effective, he shall not exercise any of his rights under the Convertible Notes to demand for repayment of the principal amount of the Outstanding Convertible Notes and/or payment of any default interest and other related sums on the Outstanding Convertible Notes for the period from 1 February 2022 to 31 January 2023 (both days inclusive), and shall forgo his right to receive, and fully release and discharge the Company from, the payment of the default interest, if any, accrued on the Outstanding Convertible Notes during such period.

Save for the above proposed Alteration of Terms, all other terms and conditions of the Convertible Notes shall remain unchanged.

The Alteration of Terms was arrived at after arm's length negotiations between the Company and the Noteholder with reference to, among others, the existing financial condition and resources of the Group and the prevailing market price of the Shares.

Conversion Shares

Assuming full conversion of the Outstanding Convertible Notes in the principal amount of HK\$158,400,000 at the Conversion Price of HK\$1.00 per New Share, 158,400,000 New Shares will be allotted and issued by the Company, representing:

- (i) approximately 188.53% of issued share capital of the Company as at the date of the Deed of Further Variation 2022 as adjusted for the effect of the Capital Reorganisation; and
- (ii) approximately 65.34% of issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon the Capital Reorganisation becoming effective and the completion of the conversion of the Convertible Notes in accordance with the conditions of the Convertible Notes as amended by the Deed of Further Variation 2022.

Conversion Price

The Conversion Price of HK\$1.00 per New Share represents:

- (i) a premium of approximately 400.00% over the theoretical closing price of HK\$0.200 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.0200 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 334.78% over the theoretical closing price of HK\$0.230 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.0230 per Share as quoted on the Stock Exchange on 11 August 2022, being the date of the Deed of Further Variation 2022;
- (iii) a premium of approximately 331.03% over the average theoretical closing price of HK\$0.232 per Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0232 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Deed of Further Variation 2022; and
- (iv) a premium of approximately 332.90% over the average theoretical closing price of HK\$0.231 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.0231 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Deed of Further Variation 2022.

Conditions Precedent

The Alteration of Terms shall become effective upon the fulfilment of all the following Conditions Precedent:

- (a) the passing of ordinary resolution(s) by the Independent Shareholders at the SGM approving (i) the Deed of Further Variation 2022 and the transactions contemplated thereunder and (ii) upon the exercise of the conversion rights attaching to the Outstanding Convertible Notes, the allotment and issue of the Conversion Shares in accordance with the conditions of the Convertible Notes as varied by the Deed of Further Variation 2022;
- (b) the Capital Reorganisation becoming effective;
- (c) the Company having obtained the approval from holders of more than 50% of the aggregate outstanding principal amount of HK\$158,400,000 of the Convertible Notes for the Alteration of Terms;
- (d) the Listing Committee having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares falling to be allotted and issued upon an exercise of the conversion rights attaching to the Outstanding Convertible Notes in accordance with the conditions of the Convertible Notes as amended by the Deed of Further Variation 2022; and
- (e) the Company having obtained from the Stock Exchange all requisite approval or consent to the Alteration of Terms as set out in the Deed of Further Variation 2022.

The Alteration of Terms shall take effect on the date on which the Company notifies the Noteholder in writing the fulfilment of the Conditions Precedent as set out above, being a date that is not more than five business days after the fulfilment of the condition precedent last in time to be fulfilled.

None of the Conditions Precedent can be waived. If any of the Conditions Precedent above has not been fulfilled on or before 30 November 2022 (or such other date as may be agreed by the parties to the Deed of Further Variation 2022 in writing), the Deed of Further Variation 2022 shall lapse and be of no further effect and none of the parties to the Deed of Further Variation 2022 will have any claim against or liability to the other parties in respect of the Deed of Further Variation 2022 save for any antecedent breaches thereof.

As at the Latest Practicable Date, Condition Precedent (c) above has been fulfilled.

REASONS FOR ENTERING INTO THE DEED OF FURTHER VARIATION 2022

As reported in the 2021 Annual Report, the Group incurred a loss of approximately HK\$54.2 million for the year ended 31 December 2021. Further, as at 31 December 2021, the Group's total assets were approximately HK\$113.0 million, majority of which comprised inventories of approximately HK\$21.3 million, trade receivables of approximately HK\$68.8 million and bank balances and cash of approximately HK\$9.2 million. The Board is of the view that these assets are operational in nature and should not be liquidated for the purpose of funding the redemption of the Outstanding Convertible Notes. As stated in the 2021 Annual Report, the Group had net liabilities of approximately HK\$102.6 million as at 31 December 2021 (including the carrying value of liability component of the Outstanding Convertible Notes of approximately HK\$156.8 million) and the Group did not forecast that it could fully redeem the Outstanding Convertible Notes.

In this respect, the Company had negotiated with the Noteholder in relation to the alteration of terms of the Convertible Notes. At the same time, the Company has also considered fund raising possibility including but not limited to (i) allotting and issuing new shares under general mandate and specific mandate and (ii) debt financing. However, as (i) potential investors may cast doubt on the Company's viability in light of the net liabilities position of the Group; (ii) there is uncertainty in the Share price performance due to the recent volatile economic environment amid the Covid-19 pandemic; and (iii) the Company may not issue shares at a discount to the par value under the laws of Bermuda, the Company has encountered practical difficulties to entice potential investors to subscribe for its shares. Furthermore, debt financing such as bank borrowing will result in additional interest burden and the Group will be subject to additional repayment obligations in addition to the Outstanding Convertible Notes. Given the recent financial performance and financial position of the Group, debt financing may not be achievable on acceptable terms in a timely manner and it may also require pledge of assets and/or other kind of securities which may reduce the Group's flexibility in managing its portfolio. Given the foregoing, the Directors are of the view that the Alteration of Terms may be the most appropriate method given the circumstances of the Group and is in the best interest of the Company and the Shareholders as a whole.

The Alteration of Terms are on commercial terms as a result of arm's length negotiations between the Noteholder and the Company.

The Alteration of Terms, in particular the alteration in conversion price, will provide certain incentive to the Noteholder to consider the option of converting part or all of the Outstanding Convertible Notes into Conversion Shares of the Company. Should the Noteholder choose to convert part or all of the Outstanding Convertible Notes into Conversion Shares, it will allow the Company to free up and apply its financial resources for working capital and improve the financial position of the Group by capitalising liabilities. In addition, the Conversion Price of HK\$1.00 per New Share is well above the closing prices of the Shares in the past three years prior to the Latest Practicable Date adjusted for the effect of the Capital Reorganisation.

Pursuant to the Deed of Further Variation 2022, the maturity date of the Outstanding Convertible Notes will be revised to 31 January 2025, which will relieve the imminent pressure on the Company to seek urgent funding to redeem the Outstanding Convertible Notes. Further, as the Convertible Notes are zero coupon and do not carry any interest charges, the Company shall incur no interest payment to the Noteholder by entering into of the Deed of Further Variation 2022.

Having considered that (i) the amended Conversion Price under the Alteration of Terms is at a premium to the recent market price of the Shares adjusted for the effect of the Capital Reorganisation and (ii) the extension of the maturity date of the Outstanding Convertible Notes will relieve the imminent pressure on the Company to seek urgent funding to redeem the Outstanding Convertible Notes, the Directors (excluding (i) the independent non-executive Directors whose views are set out in the section headed “Letter from the Independent Board Committee” in this circular; and (ii) Ms. Li Yang who abstained from voting on the relevant Board resolutions) are of the view that the Alteration of Terms are fair and reasonable and on normal commercial terms and the entering into of the Deed of Further Variation 2022 is in the interests of the Company and the Shareholders as a whole.

APPLICATION FOR LISTING

No application will be made by the Company for the listing of the Convertible Notes. Application will be made to the Listing Committee for the listing of, and permission to deal in, the New Shares and the Conversion Shares which may fall to be allotted and issued upon conversion of the Outstanding Convertible Notes pursuant to the conditions of the Convertible Notes as amended by the Deed of Further Variation 2022.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, upon the Capital Reorganisation becoming effective, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the New Shares to be admitted into CCASS established and operated by HKSCC.

None of the Shares are listed or dealt on any other stock exchanges other than the Stock Exchange, and at the time when the Capital Reorganisation becomes effective, the New Shares in issue will not be listed or dealt on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

MANDATE FOR THE ISSUE OF THE CONVERSION SHARES

The Company will seek the grant of a specific mandate from the Independent Shareholders at the SGM to cater for the allotment and issue of the Conversion Shares upon conversion of the Convertible Notes pursuant to the conditions of the Convertible Notes as amended by the Deed of Further Variation 2022.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming no other changes in the issued share capital of the Company from the Latest Practicable Date up to the full conversion of the Outstanding Convertible Notes by the Noteholder, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the full conversion of the Outstanding Convertible Notes as at the Latest Practicable Date; (iii) immediately upon the Capital Reorganisation becoming effective; and (iv) immediately upon the Capital Reorganisation becoming effective and the full conversion of the Outstanding Convertible Notes at HK\$1.00 per New Share upon the Alteration of Terms becoming effective are illustrated as follows:

Name	As at the Latest Practicable Date (Note 1)		Immediately upon the full conversion of the Outstanding Convertible Notes as at the Latest Practicable Date (Note 2)		Immediately upon the Capital Reorganisation becoming effective		Immediately upon the Capital Reorganisation becoming effective and full conversion of the Outstanding Convertible Notes upon the Alteration of Terms becoming effective (Note 2)	
	Number of Shares		Number of Shares		Number of New Shares		Number of New Shares	
	Approx. %	Approx. %	Approx. %	Approx. %	Approx. %	Approx. %	Approx. %	Approx. %
Mr. Li Weimin	232,863,576	27.72	952,863,576	61.07	23,286,357	27.72	181,686,357	74.95
Public Shareholders	607,310,638	72.28	607,310,638	38.93	60,731,064	72.28	60,731,064	25.05
Total	840,174,214	100.00	1,560,174,214	100.00	84,017,421	100.00	242,417,421	100.00

Note:

- Mr. Li is interested in 952,863,576 Shares, consisting of (i) an interest in 232,863,576 Shares beneficially owned and held in his own name; and (ii) a derivative interest in 720,000,000 conversion Shares to be allotted and issued upon full conversion of the Outstanding Convertible Notes issued to him by the Company with an aggregate principal amount of HK\$158,400,000.
- Full Conversion of the Outstanding Convertible Notes is for illustration purpose only. Pursuant to the terms of the S&P Agreement, no conversion of the Convertible Notes shall be made unless such conversion complies with the Listing Rules and the Takeovers Code (including but not limited to the public float requirement under Rule 8.08 of the Listing Rules). In addition, no conversion rights may be exercised by the Noteholder unless prior written confirmation has been given by the Noteholder to the Company that all the shares of the Company (including the conversion shares under the Convertible Notes issued or to be issued) held by the Noteholder, its associates and persons acting in concert (as defined under the Takeovers Code) on the conversion date will not become obliged to make a mandatory general offer in accordance with Rule 26 of the Takeovers Code. Accordingly, Mr. Li and parties acting in concert with him or successors of the holder(s) of the Outstanding Convertible Notes individually will not directly or indirectly control or be interested in Shares of 30% or more in the Company.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

IMPLICATIONS UNDER THE LISTING RULES

Rule 28.05 of the Listing Rules provides that any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As such, an application for the approval of the Alteration of Terms has been submitted to the Stock Exchange by the Company.

Mr. Li is interested in approximately 27.72% of the total issued share capital of the Company and a substantial Shareholder as at the Latest Practicable Date. As Mr. Li is a connected person of the Company, the entering into of the Deed of Further Variation 2022 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Deed of Further Variation 2022 and the transactions contemplated thereunder are subject to reporting, announcement and the Independent Shareholders' approval requirements pursuant to the Listing Rules.

GENERAL

The Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components.

The Independent Board Committee (comprising all the independent non-executive Directors) has been established to give recommendation to the Independent Shareholders on the Deed of Further Variation 2022 and the transactions contemplated thereunder. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Deed of Further Variation 2022 and the transactions contemplated thereunder has been set out on pages 29 to 30 of this circular.

Ms. Li Yang, the Chairman and an executive Director, is the daughter of Mr. Li. Accordingly, Ms. Li Yang is deemed to be interested in the Alteration of Terms and therefore has abstained from voting on the relevant Board resolutions. Apart from Ms. Li Yang, none of the Directors has any material interest in the Alteration of Terms and is required to abstain from voting on the Board resolutions approving the Deed of Further Variation 2022 and the transactions contemplated thereunder.

Frontpage Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Deed of Further Variation 2022 and the transactions contemplated thereunder, and a letter from Frontpage Capital to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Deed of Further Variation 2022 and the transactions contemplated thereunder has been set out on pages 31 to 49 of this circular.

PROPOSED AMENDMENTS TO THE MEMORANDUM OF ASSOCIATION AND BYE-LAWS AND ADOPTION OF THE NEW MEMORANDUM OF ASSOCIATION AND BYE-LAWS

On 1 January 2022, the Listing Rules were amended by, among others, adopting a uniform set of 14 core standards for shareholder protections for issuers regardless of their place of incorporation set out in Appendix 3 to the Listing Rules. The Board proposes to make certain amendments to the Memorandum of Association and Bye-Laws to conform to the said core standards for shareholder protections and to incorporate certain housekeeping changes. The Board also proposes to adopt the new Memorandum of Association and Bye-Laws in substitution for, and to the exclusion of, the existing Memorandum of Association and Bye-Laws.

Details of the proposed amendments to the Memorandum of Association and Bye-Laws are set out in Appendix II to this circular. A special resolution will be proposed at the SGM to approve the proposed amendments to the Memorandum of Association and Bye-Laws.

The Company's legal advisers have confirmed that the proposed amendments conform with the requirements of the Listing Rules, where applicable, and the Bermuda laws. The Company also confirms that there is nothing unusual about the proposed amendments for a company listed in Hong Kong.

SGM

Set out on pages 144 to 148 of this circular is a notice convening the SGM to be held at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong on Monday, 7 November 2022 at 11:00 a.m. at which relevant resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Capital Reorganisation, the Deed of Further Variation 2022 and the transactions contemplated thereunder, and the proposed amendments to the Memorandum of Association and Bye-Laws by way of poll. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, (i) no Shareholders will be required to abstain from voting on the resolution(s) in relation to the Capital Reorganisation and the proposed amendments to the Memorandum of Association and Bye-Laws at the SGM; and (ii) Mr. Li together with his associates, who altogether held 232,863,576 issued Shares, representing approximately 27.72% of the total issued share capital of the Company as at the Latest Practicable Date are required to abstain from voting in respect of the resolution(s) approving the Deed of Further Variation 2022 and the transactions contemplated thereunder at the SGM. Saved as disclosed above, no other Shareholders have a material interest in the Deed of Further Variation 2022 and the transactions contemplated thereunder and are required to abstain from voting at the SGM.

Approval of the Shareholders by way of poll is proposed to be sought at the SGM in respect of the Capital Reorganisation and the proposed amendments to the Memorandum of Association and Bye-Laws. Approval of the Independent Shareholders by way of poll is proposed to be sought at the SGM in respect of the Deed of Further Variation 2022 and the transactions contemplated thereunder.

A form of proxy for use at the SGM is enclosed with this circular. If you are unable to attend the SGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the meeting if they so wish.

RECOMMENDATION

With reference to the “Reasons for the Capital Reorganisation” as stated above, the Board considers that the Capital Reorganisation are in the interests of the Company and the Shareholders as a whole.

Furthermore, with reference to the “Reasons for entering into the Deed of Further Variation 2022” as stated above, the Board (excluding (i) the independent non-executive Directors whose views have been set out in the “Letter from the Independent Board Committee” in this circular after having considered the advice from the Independent Financial Adviser in respect of the Alteration of Terms; and (ii) Ms. Li Yang who abstained from voting on the relevant Board resolutions in respect of the Alteration of Terms) considers that the terms of the Deed of Further Variation 2022 and the transactions contemplated thereunder and the Capital Reorganisation are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends (i) the Shareholders to vote in favour of the proposed special resolution(s) in relation to the Capital Reorganisation; (ii) the Independent Shareholders to vote in favour of the proposed ordinary resolution(s) in relation to the Deed of Further Variation 2022 and the transactions contemplated thereunder; and (iii) the Shareholders to vote in favour of the proposed special resolution(s) in relation to the amendments to the Memorandum of Association and Bye-Laws and adoption of the new Memorandum of Association and Bye-Laws, as set out in the notice of SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Ruixin International Holdings Limited



Li Yang
Chairman