
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Virtual Mind Holding Company Limited** (the “**Company**”), you should at once hand this circular together with the accompanying form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agents through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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Virtual Mind Holding Company Limited **天機控股有限公司**

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1520)

DISCLOSEABLE AND CONNECTED TRANSACTION ASSIGNMENT OF LOANS AND NOTICE OF EGM

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



Capitalised terms used in this cover shall have the same meanings as defined in this circular.

A notice convening the EGM to be held at Room 2511-15, 25/F, Peninsula Tower, 538 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 28 February 2023, in the event that a black rainstorm warning is issued, or No. 8 signal or above is hoisted, or “extreme conditions” are announced by the government of Hong Kong at or any time between 9:00 a.m. and 11:00 a.m. or remain in force in Hong Kong, at the same time and place on the second Business Day after Tuesday, 28 February 2023 or any adjournment thereof, 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 accompanying form of proxy in accordance with the instructions printed thereon and deposit the same as soon as possible and in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. 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 case, the form of proxy previously submitted shall be deemed to be revoked.

10 February 2023

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 8 December 2022 in relation to, among other things, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Assignee” or “Ms. Tin”	Ms. Tin Yat Yu Carol, an executive Director and the sole director of the Assignor
“Assigned Debt”	all loans, obligations, liabilities and debts owing or incurred by the Borrowers to the Assignor from time to time under the Loan Agreements, including but not limited to the aggregate outstanding principal of and the outstanding interest accrued thereon, which as at 30 June 2022, amounted to approximately HK\$24,466,000 and approximately HK\$303,000 respectively
“Assignment”	the assignment of the Assigned Debt pursuant to the Sale and Purchase Agreement
“Assignor”	Delta Wealth Finance Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Borrowers”	Borrower A and Borrower B
“Borrower A”	Mr. Chan Chun Wai, the borrower under the Loan Agreement A, being an individual and an Independent Third Party
“Borrower B”	Master Success Limited, a company incorporated in Hong Kong, the borrower under the Loan Agreement B, being an Independent Third Party
“Business Day”	a day (other than a Saturday or Sunday) on which banks are normally open in Hong Kong for the transaction of business
“Company”	Virtual Mind Holding Company Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1520)

DEFINITIONS

“Completion”	completion of the Assignment in accordance with the Sale and Purchase Agreement
“Completion Date”	any Business Day within 5 Business Days following the date on which the conditions precedent are fulfilled or such other date as the Assignor and the Assignee may agree
“Consideration”	HK\$22,952,679, being the total consideration to be satisfied by the Assignee to the Assignor for the Assignment
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other matters, the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company established by the Board, comprising all the independent non-executive Directors, to advise the Independent Shareholders on the Assignment, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Merdeka Corporate Finance Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Assignment and the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders and/or their respective associates who are not required under the Listing Rules to abstain from voting at the EGM, other than those persons who have material interest in the Assignment

DEFINITIONS

“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third party(ies) independent of the Company and its connected persons in accordance with the Listing Rules
“Latest Practicable Date”	3 February 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreements”	Loan Agreement A and Loan Agreement B
“Loan Agreement A”	the loan agreement and the supplemental loan agreement dated 10 September 2012 and 1 September 2016 and the extension letter dated 1 December 2016 respectively entered into between the Assignor as lender and Borrower A as the borrower, pursuant to which the Assignor has agreed to make available to Borrower A a loan in the aggregate principal amount of HK\$7,800,000 subject to the terms and conditions therein
“Loan Agreement B”	the loan agreement dated 1 April 2015 (as supplemented by the supplemental loan agreement dated 1 May 2016 and the extension letter and settlement agreement dated 3 January 2017 and 20 March 2020, respectively) entered into between the Assignor as the lender and Borrower B as the borrower, pursuant to which the Assignor has agreed to make available to Borrower B a loan in the aggregate principal amount of HK\$20,000,000 subject to the terms and conditions therein
“Long Stop Date”	31 May 2023 (or such later date as the Assignee and Assignor may agree)
“Sale and Purchase Agreement”	a sale and purchase agreement dated 8 December 2022 entered into between the Assignor and the Assignee in relation to the Assignment, pursuant to which the Assignor agreed to sell to the Assignee and the Assignee agreed to purchase from the Assignor the Assigned Debt
“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 issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

LETTER FROM THE BOARD



Virtual Mind Holding Company Limited 天機控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1520)

Executive Directors:

Mr. LI Yang (*Chairman*)
Ms. TIN Yat Yu Carol
Mr. CHEUNG Ka Lung
Mr. CHAN Ming Leung Terence
Mr. GONG Xiaohan

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Independent non-executive Directors:

Mr. TANG Shu Pui Simon
Mr. HON Ming Sang
Ms. LO Wing Sze *BBS, JP*

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

Room 2511-15, 25/F,
Peninsula Tower,
538 Castle Peak Road,
Cheung Sha Wan,
Kowloon, Hong Kong

10 February 2023

To the Shareholders

Dear Sir or Madam

DISCLOSEABLE AND CONNECTED TRANSACTION ASSIGNMENT OF LOANS AND NOTICE OF EGM

1. INTRODUCTION

Reference is made to (i) the Announcement; (ii) the annual report of the Company for the year ended 31 December 2021 published on 29 April 2022; and (iii) the announcement of the Company dated 1 September 2022, with respect to, amongst other things, supplemental information to the Shareholders regarding the Group's money lending business.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Assignment and the Sale and Purchase Agreement; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Assignment and the Sale and Purchase Agreement; and (iv) the notice of EGM and the form of proxy.

2. THE ASSIGNMENT

On 8 December 2022 (after trading hours of the Stock Exchange), the Assignor, being a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Assignee, pursuant to which the Assignor has agreed to assign, and the Assignee has agreed to purchase from the Assignor all of the Assignor's legal and beneficial right in the Loan Agreements (including but not limited to the Assigned Debt).

Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date : 8 December 2022

Parties Assignor: Delta Wealth Finance Limited, a wholly-owned subsidiary of the Company

Assignee: Ms. Tin Yat Yu Carol, an executive Director and the sole director of the Assignor

Subject matter

The Assignor has agreed to assign, and the Assignee has agreed to purchase from the Assignor all of the legal and beneficial right in the Loan Agreements (including but not limited to the Assigned Debt).

Consideration

The Consideration is HK\$22,952,679, which shall be paid by the Assignee to the Assignor by cash in the following manner:

- (i) as to HK\$11,019,800 shall be paid by the Assignee to the Assignor as down payment in two installments, HK\$5,509,900 (the “**Initial Deposit**”) upon signing of the Sale and Purchase Agreement (or such later date as the Assignor and the Assignee may agree) and HK\$5,509,900 (the “**Second Deposit**”, together with the Initial Deposit, the “**Deposits**”) on 30 December 2022 (or such later date as the Assignor and the Assignee may agree); and

LETTER FROM THE BOARD

- (ii) the remaining sum of HK\$11,932,879 shall be paid by the Assignee to the Assignor in 36 equal monthly installments, while the first instalment shall be payable on 1 February 2023 or the Completion Date (whichever is later) (or such later date as the Assignor and the Assignee may agree) and the remaining instalments be payable by the Assignee to the Assignor by the end of each subsequent calendar month.

Notwithstanding the above, the Assignee undertakes to use her best endeavour to liaise with the Borrowers to recover the Assigned Debt, and shall use the net amount so successfully recovered to settle the outstanding Consideration as soon as possible within 10 Business Days upon receipt of the same, and settle the Consideration in entirety within three years from the date of Completion in any event.

The Consideration, representing the difference of the original aggregated principal amounts of the Assigned Debt of HK\$27,800,000 and all repayment (including interest payments) previously made by the Borrowers up to 30 June 2022 of HK\$4,847,321.

The Consideration was determined after arm's length negotiations between the Assignor and the Assignee, having considered (i) the outstanding principal and interests owed by the Borrowers under the Loan Agreements; (ii) the possibility of the recovery of the Loan Agreements and the interests thereon, taking into account, among others, the indication from the Borrowers of their respective inability to repay the Assigned Debt fully and punctually; (iii) the time and costs that are expected to be incurred by the Group if the Assignor takes legal action against the Borrowers to enforce the Loan Agreements; and (iv) the current global circumstances and uncertainties in the economic outlook.

The Board (excluding the independent non-executive Directors who will give their opinion based on the recommendations from the Independent Financial Adviser and Ms. Tin who has abstained from voting due to her material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder) is of the view that the Consideration is fair and reasonable and on normal commercial terms and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company has received all the Deposits from the Assignee.

Conditions Precedent

Completion shall be conditional upon and subject to:

- (a) the passing by the Independent Shareholders at the EGM of all necessary resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and all other consents and acts required under the Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;

LETTER FROM THE BOARD

- (b) all Assignor's representations and warranties stated in the Sale and Purchase Agreement remaining true and correct in all respects and not misleading; and
- (c) all Assignee's representations and warranties stated in the Sale and Purchase Agreement remaining true and correct in all respects and not misleading.

The Assignor shall have the absolute discretion to waive the condition set out in (c) above and the Assignee shall have the absolute discretion to waive the condition set out in (b) above. Neither the Assignor nor the Assignee may waive condition (a) above.

If the above conditions precedent have not been satisfied (or as the case may be, waived by the Assignee or the Assignor) on or before 5:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall cease and determine and in which event any amount of the Deposits (without interest) received by the Assignor shall be refunded to the Assignee forthwith and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Completion

Upon fulfilment or waiver of all the Conditions Precedent, Completion shall take place on the Completion Date.

Upon Completion, the Assignor and the Assignee shall execute a deed of assignment, pursuant to which the Assignor shall assign all the rights and interests under the Loan Agreements to the Assignee.

3. REASONS FOR AND BENEFITS OF THE ASSIGNMENT AND USE OF PROCEEDS

Money lending is one of the original course of businesses of the Group. The Assigned Debt are pre-existing loans granted prior to the acquisition (the "**Acquisition**") of the Assignor by the Company in November 2016. As at 30 June 2022, the aggregate amount owed by Borrower A to the Assignor under Loan Agreement A, including the outstanding principal and interest was approximately HK\$6,156,990, and the aggregate amount owed by Borrower B to the Assignor under Loan Agreement B, including the outstanding principal and interest was approximately HK\$18,611,600. Since the Borrowers' default, the Group has been in various discussions with the Borrowers as to the repayment of the principal amount and the payment of the interest under the Loan Agreements.

In light of the above, the Assignee, an executive Director who was and is the director of the Assignor prior to the Acquisition, has agreed to take full responsibility to recover the outstanding loan balances from Borrower A and Borrower B by assignment of the rights, titles and benefits of the Assigned Debt to her at the Consideration of HK\$22,952,679, representing the principal amount of the Assigned Debt less all amounts previously repaid (including interest payments) made by the Borrower A and the Borrower B respectively.

LETTER FROM THE BOARD

The Assignment provides a one-off solution to the Group to recover a large portion of the long outstanding amount owed under the Loan Agreements within a foreseeable timeframe, thereby minimizing the uncertainty and the credit risks associated with the Assigned Debt. The Assignment allows the Group to mitigate losses and protect its interests in connection with the Assigned Debt. It is intended that the net proceeds from the Assignment of approximately HK\$22,952,000 will be used as general working capital of the Group.

Having regard to the reasons for and benefits of the Assignment, the Board (excluding the independent non-executive Directors who will give their opinion based on the recommendations from the Independent Financial Adviser and Ms. Tin who has abstained from voting due to her material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder) is of the view that the Assignment and the terms of the Sale and Purchase Agreement, which have been reached after arm's length negotiations between the parties, and the transactions contemplated thereunder are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

4. FINANCIAL EFFECTS OF THE ASSIGNMENT

Upon Completion, the deemed consideration transferred pertaining the Assignment would be approximately HK\$5,124,000, representing the receivable (the “**Receivable**”) from the Group of approximately HK\$24,769,000 (being the aggregate outstanding principal amount of the Assigned Debt of approximately HK\$24,466,000 and the outstanding interests accrued thereon up to 30 June 2022 of approximately HK\$303,000) after provision for an unaudited impairment loss on the Assigned Debt of approximately HK\$19,645,000 as of 30 June 2022.

Based on, among other things, the Consideration of HK\$22,952,679 and the related expenses, a gain of approximately HK\$17,500,000 is expected to be recorded for the Assignment, being the difference between (i) the Consideration; and (ii) the book value of the Assigned Debt as at 30 June 2022 of approximately HK\$5,124,000 and the amount of the related expenses. There will also be an increase in net asset of approximately HK\$17,829,000, resulting from the reversal of the impairment allowance made on the Assigned Debt of approximately HK\$19,645,000 as of 30 June 2022 less approximately HK\$1,816,000 to be written off over the Receivable.

The aforesaid estimation is for illustrative purpose only and does not purport to represent how the financial position of the Group will be after the Assignment.

LETTER FROM THE BOARD

5. INFORMATION OF THE PARTIES

The Group and the Assignor

The Group principally engages in (i) design, manufacture and trading of apparel and (ii) provision of money lending services. The Assignor is a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company. Its principal activity is the provision of money lending business mainly to individual consumers and small businesses in Hong Kong.

The Assignee

The Assignee is an executive Director and the sole director of the Assignor since 2015 and remains as its sole director after the Company's completion in the acquisition of the Assignor in November 2016. The Assignee has more than 15 years of experience in financial management, corporate finance, money lending business and fine dining business.

6. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Assignment exceed 5% but are less than 25%, the Assignment constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Assignee is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being an executive Director and the sole director of the Assignor. Therefore, the Assignment also constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best knowledge, information and belief of the Directors, no Shareholder has a material interest in the Assignment and the Sale and Purchase Agreement and is required to abstain from voting on the resolution(s) approving the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

LETTER FROM THE BOARD

7. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Tang Shui Pui Simon, Mr. Hon Ming Sang and Ms. Lo Wing Sze *BBS, JP*, being all independent non-executive Directors, has been established to advise the Independent Shareholders on matters relating to the Assignment, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Company has, with the approval of the Independent Board Committee, appointed Merdeka Corporate Finance Limited as the Independent Financial Adviser in accordance with the requirements under the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in this regard.

8. EGM

The EGM will be convened and held at Room 2511-15, 25/F, Peninsula Tower, 538 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 28 February 2023 for the purpose of considering and, if thought fit, approving the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder.

The notice of the EGM 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 accompanying form of proxy in accordance with the instructions printed thereon and deposit the same as soon as possible and in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. 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 case, the form of proxy previously submitted shall be deemed to be revoked.

To determine the entitlement of the members of the Company to attend and vote at the EGM to be held on Tuesday, 28 February 2023, the register of members of the Company will be closed on Friday, 24 February 2023 to Tuesday, 28 February 2023, both days inclusive. In order to qualify for attending and voting at the EGM, all transfer documents should be lodged for registration with the share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Thursday, 23 February 2023.

All the resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the results of the EGM.

LETTER FROM THE BOARD

9. GENERAL

Completion is subject to and conditional upon the fulfillment of the terms and conditions precedent set out in the Sale and Purchase Agreement and the Assignment may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

10. RECOMMENDATION

The Directors (including the independent non-executive Directors whose view are expressed in the letter from the Independent Board Committee) consider that the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, and the terms and transactions contemplated are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors recommend that the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder.

11. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices and the notice of EGM, which form part of this circular.

Yours faithfully,
By order of the Board
Virtual Mind Holding Company Limited
Li Yang
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Virtual Mind Holding Company Limited 天機控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1520)

10 February 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ASSIGNMENT OF LOANS AND NOTICE OF EGM

We refer to the circular of the Company dated 10 February 2023 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings herein.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Assignment, being a connected transaction, pursuant to the terms and conditions of the Sale and Purchase Agreement, and to advise the Independent Shareholders as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

Merdeka Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

We would like to draw your attention to the letter from the Board set out on pages 5 to 12 of the Circular which contains, among other things, information on the Assignment and the letter from the Independent Financial Adviser set out on pages 15 to 29 of the Circular which contains its advice in respect of the Assignment. Your attention is also drawn to the additional information set out in the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons underlying the Assignment as well as the advice of the Independent Financial Adviser, we consider that (i) the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the Assignment, although not conducted in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Tang Shu Pui Simon
*Independent non-executive
Director*

Mr. Hon Ming Sang
*Independent non-executive
Director*

Ms. Lo Wing Sze BBS, JP
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Merdeka Corporate Finance Limited setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Assignment, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in the Circular.



Room 1108-1110, 11/F,
Wing On Centre,
111 Connaught Road, Central,
Hong Kong

10 February 2023

*To: Independent Board Committee and the Independent Shareholders of
Virtual Mind Holding Company Limited*

Dear Sirs/Madams,

CONNECTED TRANSACTION IN RELATION TO ASSIGNMENT OF LOANS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 10 February 2023 (the “**Circular**”). Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 8 December 2022 (after trading hours of the Stock Exchange), the Assignor, being a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Assignee, pursuant to which the Assignor has agreed to assign, and the Assignee has agreed to purchase from the Assignor all of the Assignor’s legal and beneficial right in the Loan Agreements (including but not limited to the Assigned Debt).

As set out in the Board Letter, as at the Latest Practicable Date, the Assignee is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being an executive Director and the sole director of the Assignor. Therefore, the Assignment constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. To the best knowledge, information and belief of the Directors, no Shareholder has a material interest in the Assignment and the Sale and Purchase Agreement and is required to abstain from voting on the resolution(s) approving the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors who are not interested in the Assignment, Mr. Tang Shu Pui Simon, Mr. Hon Ming Sang and Ms. Lo Wing Sze *BBS, JP*, has been established to consider, and advise the Independent Shareholders as to whether the Assignment, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole and how to vote on the resolution(s) regarding the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder.

We, Merdeka Corporate Finance Limited, with the approval of the Independent Board Committee, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders and to provide recommendation on whether the Assignment, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, in the interests of the Independent Shareholders and to give our recommendation as to the voting in respect of the resolution(s) to be proposed at the EGM for approving the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this appointment as the Independent Financial Adviser in respect of the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder, there were no other engagements between us and the Group in the past two years. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, inter alia, (i) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the supplemental announcement of the Company dated 1 September 2022 in relation to the 2021 Annual Report (the “**Supplemental Announcement**”); (ii) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); (iii) the Sale and Purchase Agreement; (iv) the Loan Agreements; (v) other information as set out in the Circular; and (vi) relevant market data and information available from public sources. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and/or the senior management of the Company (the “**Management**”) and/or the representatives of the Company (the “**Representatives**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Directors, the Management and the Representatives, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors and/or the Management and/or the Representatives in the Circular were reasonably made after due enquiry and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any such statement contained in the Circular misleading. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors, the Management and/or the Representatives.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1. Background information of the Parties

1.1 Information on the Assignor and the Group

As set out in the Board Letter, the Group principally engages in (i) design, manufacture and trading of apparel; and (ii) provision of money lending services. The Assignor is a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company. Its principal activity is the provision of money lending business mainly to individual consumers and small businesses in Hong Kong.

Set out below is a summary of the financial information of the Group for the year ended 31 December 2020 (“FY2020”) and 2021 (“FY2021”) as extracted from the 2021 Annual Report; and for the six months ended 30 June 2021 (“HY2021”) and 2022 (“HY2022”) as extracted from the 2022 Interim Report, respectively:

	For the six months ended 30 June		For the year ended 31 December	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2021 (Audited) HK\$'000	2020 (Audited) HK\$'000
Revenue	23,224	32,081	139,818	114,474
— Design, manufacture and trading of and apparels	15,162	26,630	129,254	107,053
— Money lending services	8,062	5,451	10,564	7,421
Cost of sales	(17,025)	(29,658)	(101,119)	(89,517)
Gross profit	6,199	2,423	38,699	24,957
Other income and gains	1,267	3,700	1,831	9,663
Impairment of goodwill	—	—	—	(22,734)
Reversal of expected credit loss on trade receivables	85	297	125	8
Provision of expected credit loss on loans and interest receivables	(9,382)	(1,106)	(18,042)	(17,021)
Selling and distribution expenses	(929)	(4,508)	(17,197)	(16,271)
Administrative expenses	(37,838)	(20,582)	(51,070)	(45,325)
Finance costs	(369)	(122)	(366)	(315)
(Loss) before tax	(40,967)	(19,898)	(46,020)	(67,038)
(Loss) for the period/year attributable to owners of the Company	(40,967)	(20,522)	(46,271)	(68,115)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2022 (Unaudited) <i>HK\$'000</i>	As at 31 December 2021 (Audited) <i>HK\$'000</i>	As at 31 December 2020 (Audited) <i>HK\$'000</i>
Total non-current assets	50,016	51,520	52,096
Total current assets	181,363	183,312	231,604
Total assets	231,379	234,832	283,700
Total current liabilities	31,094	37,643	43,954
Total non-current liabilities	15,439	932	1,321
Total liabilities	46,533	38,575	45,275
Total equity	184,846	196,257	238,425

FY2020 and FY2021

The Group's revenue for FY2021 increased by approximately 22.1% to approximately HK\$139.8 million from approximately HK\$114.5 million for FY2020. As disclosed in the 2021 Annual Report, such increase thanks to the continued revival in demand in the major market of the Group.

The Group recorded gross profit for FY2021 of approximately HK\$38.7 million, representing an increase of approximately 55.1% compared to approximately HK\$25.0 million for FY2020. During FY2021, the gross profit from apparel operation increased by approximately 60.4% from approximately HK\$17.5 million to approximately HK\$28.1 million due to increase in revenue from apparel operation for FY2021. The gross profit from money lending operation increased by approximately 42.3% from approximately HK\$7.4 million to approximately HK\$10.6 million as there was an increase in revenue from money lending operation for FY2021.

Provision for expected credit loss ("ECL") on loans and interest receivables of approximately HK\$18.0 million was recorded for FY2021, increased by approximately 6.0% comparing to that of approximately HK\$17.0 million for FY2020. As disclosed in the 2021 Annual Report, in assessing the provision for ECL, the Group considered (i) the loan receivables which have been past due as at 31 December 2021; (ii) the repayment history of loan and interest receivables of each borrower during the year; and (iii) the probability of default rate due to the inability of the borrowers to make repayments to the Group when due. The increase in the provision for ECL was due to an increase in the loans and interest receivables, and deterioration of the credit status of certain borrowers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The loss attributable to owners of the Company for FY2021 was approximately HK\$46.3 million in comparison of that of approximately HK\$68.1 million for FY2020, representing a decrease in loss attributable to the owners of the Company of approximately 32.1%. As disclosed in the 2021 Annual Report, the revenue increased for FY2021 due to rebound in demand in the major market of the Group, and no impairment loss on goodwill for FY2021 were primarily contributed to the decrease in loss attributable to the owners of the Company.

The total assets of the Group amounted to approximately HK\$234.83 million as at 31 December 2021, representing a decrease of approximately 17.23% as compared to approximately HK\$283.70 million as at 31 December 2020. In addition, the Group's total liability decreased by approximately 14.80% from approximately HK\$45.28 million as at 31 December 2020 to approximately HK\$38.58 million as at 31 December 2021. The net asset value of the Group decreased by approximately 17.69% from approximately HK\$238.43 million as at 31 December 2020 to approximately HK\$196.26 million as at 31 December 2021.

HY2021 and HY2022

As mentioned in the 2022 Interim Report, difficult business environment had an adverse impact on the Group's revenue for HY2022. Revenue of the Group for HY2022 decreased by approximately 27.6% to approximately HK\$23.2 million from approximately HK\$32.1 million for HY2021 as a result of the spread of Omicron virus and the corresponding preventive and control measures imposed by the governments, economic activities in major economies and the Group's operation were disrupted and dampened.

The gross profit of the Group for HY2022 was approximately HK\$6.2 million, increased by approximately 155.8% as compared to approximately HK\$2.4 million for HY2021. As disclosed in the 2022 Interim Report, apparel operation recorded gross loss of approximately HK\$1.9 million for HY2022 (HY2021: approximately HK\$3.0 million) while money lending operation earned gross profit of approximately HK\$8.1 million for HY2022 (HY2021: approximately HK\$5.5 million). As advised by the Management, the incremental gross profit of the money lending operation was due to change in the basis of the revenue recognition suggested by the auditors of the Company.

Provision for ECL on loans and interest receivables of approximately HK\$9.4 million was recorded for HY2022, increased by approximately 748.3% as compared to approximately HK\$1.11 million for HY2021. As noted from the 2022 Interim Report, in assessing the provision for ECL, the Group considered (i) the loan receivables which have been past due as at 30 June 2022; (ii) the repayment history of loan and interest receivables of each borrower during the year; and (iii) the probability of default rate due to the inability of the borrowers to make repayments to the Group when due. Such increase was due to an increase in the loans and interest receivables, and deterioration of the credit status of certain borrowers. The loans and interest receivables (net of allowances) increased by approximately 2.1%, from approximately HK\$114.7 million as at 31 December 2021 to approximately HK\$117.1 million as at 30 June 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The loss for the period attributable to owners of the Company was approximately HK\$41.0 million for HY2022 increased by approximately 99.7% from approximately HK\$20.5 million for HY2021. As disclosed in the 2022 Interim Report, the substantial increase in the loss for the period attributable to owners of the Company was primarily due to decrease in revenue from apparel operation, and increase in provision for ECL on loans and interest receivable and increase in administrative expenses respectively.

The total assets of the Group amounted to approximately HK\$231.4 million as at 30 June 2022, representing a decrease of approximately 1.4% as compared to approximately HK\$234.8 million as at 31 December 2021. In addition, the Group's total liability increased by approximately 20.6% from approximately HK\$38.6 million as at 31 December 2021 to approximately HK\$46.5 million as at 30 June 2022. The net asset value of the Group decreased by approximately 5.8% from approximately HK\$196.3 million as at 31 December 2021 to approximately HK\$184.9 million as at 30 June 2022.

1.2 Information on the Assignee

As disclosed in the Board Letter, the Assignee is the executive Director and the sole director of the Assignor since 2015 and remains as its sole director after the Company's completion in the acquisition of the Assignor in November 2016 (the "**Acquisition**"). The Assignee has more than 15 years of experience in financial management, corporate finance, money lending business and fine dining business.

2. Reasons for and benefits of the Assignment and use of proceeds

As disclosed in the Board Letter, the Assigned Debt are pre-existing loans granted prior to the Acquisition in November 2016. According to the Supplemental Announcement, the Assignee has been the sole director of the Assignor since 2015, and remains as the sole director of the Assignor after completion of the Acquisition, when the Assignee has become a director of a wholly-owned subsidiary of the Group since then. Based on our discussion with the Representatives, we understood the Assigned Debt had existed before the Acquisition and were solely determined and approved by the then management of the Assignor, and the Company was not involved in the decision-making process of granting the Loan Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In relation to the Loan Agreement A, we obtained and reviewed the relevant loan agreements and a summary table of all repayment records of Borrower A with relevant supporting documents e.g. bank deposit form and accounting voucher. Given the supporting documents of the repayment records we have obtained and reviewed represent the entire repayment amount of Borrower A to the Assignor as at the Latest Practicable Date, we consider the repayment records obtained by us to be fair and representative. Based on the aforesaid documents obtained from the Representatives, we noted that the agreement was matured on 30 November 2017 and Borrower A had repaid a sum of HK\$2,397,230 to the Assignor by the end of 2018. Nevertheless, Borrower A has failed to make further repayment since 2019. In early 2021, the Assignor was informed by Borrower A that he had financial difficulties and hardship in repaying the outstanding loan balances. Subsequently, the Assignor had issued call loan letters to Borrower A on a monthly basis from 1 January 2021 till 1 December 2021. As noted from the discussion between the Assignor and Borrower A in late October 2022, the Assignor understood Borrower A's willingness on the settlement of the outstanding loan balance by end of April 2023. As at 30 June 2022, the aggregate amount owed by Borrower A to the Assignor under Loan Agreement A, including the outstanding principal and interest was approximately HK\$6,156,990.

In relation to the Loan Agreement B, we obtained and reviewed the relevant loan agreements and a summary table of all repayment records of Borrower B with relevant supporting documents e.g. bank deposit form and accounting voucher. Given the supporting documents of the repayment records we have obtained and reviewed represent the entire repayment amount of Borrower B to the Assignor as at the Latest Practicable Date, we consider the repayment records obtained by us to be fair and representative. Based on the aforesaid documents obtained from the Representatives, we noted that the agreement was matured on 30 April 2018 and Borrower B had repaid the Assignor a sum of HK\$2,450,091 by October 2019, since then Borrower B has failed to make further repayment. In 2021, the Assignor took actions against Borrower B including the issuance of call loan letters on a monthly basis from 1 January 2021 till 1 February 2022. Afterwards, the director of Borrower B discussed with the Assignor and has indicated his willingness to sell the residential property owned by Borrower B to settle the outstanding loan balances. As at 30 June 2022, the aggregate amount owed by Borrower B to the Assignor under Loan Agreement B, including the outstanding principal and interest was approximately HK\$18,611,600.

As mentioned above, the Group has been in various discussions with the Borrowers as to the repayment plan(s) of the principal amount and the payment of the interest under the Loan Agreements since the default of the Borrowers. Although each of the Borrowers expresses his willingness to repay the Loans, as at the Latest Practicable Date, neither of them has formulated any concrete repayment schedules nor entered into any agreements with the Assignor to commit the settlement of the outstanding loans. On the other hand, the Sale and Purchase Agreement and the Assignment provide the Group with a clear plan on the collection of the Assigned Debt. Moreover, in view of the fluctuations and uncertainties of the current economy market, the Directors are not confident in the capability of the Borrowers' repayment under the indicative schedule.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the above, the Assignee, an executive Director who was and is the director of the Assignor prior to the Acquisition, has agreed to take full responsibility to recover the outstanding loan balances under the Loan Agreements through the Assignment at the Consideration, and settle the Consideration in entirety within three years from the Completion Date in any event.

Given the aforesaid, it is anticipated that the Assignment would minimise the uncertainty and the Group's inherent risk of non-recoverability associated with the Assigned Debt by providing a one-off solution on the recovery of a large portion of the long outstanding amount owed under the Loan Agreements within a foreseeable timeframe. Therefore, we concur with the Board's view that the Assignment allows the Group to mitigate its losses and protect its interests in connection with the Assigned Debt.

Moreover, as disclosed in the Board Letter, the Directors intended to apply the net proceeds from the Assignment of approximately HK\$22,952,000 as general working capital of the Group, and the Assignment is expected to give rise to an increase in the net assets of the Group of approximately HK\$17,829,000, resulting from the reversal of the impairment allowance made on the Assigned Debt of approximately HK\$19,645,000 as at 30 June 2022 less approximately HK\$1,816,000 to be written-off over the outstanding principal and interest, details of which have been set out in the section headed "4. Financial effects of the Assignment" below.

In view of (i) the Assigned Debt are pre-existing loans granted prior to the Acquisition and were solely determined and approved by the then management of the Assignor; (ii) the execution of the Assignment by the Group will mitigate its losses and protect its interests in connection with the Assigned Debt; (iii) the Assignment will eliminate potential risk of non-recoverability of the outstanding principal amount owed by the Borrowers under the Loan Agreements; (iv) our analysis on the Consideration as set out in the section headed "3. The Sale and Purchase Agreement" below; (v) net proceeds from the Assignment will be used as general working capital of the Group; and (vi) the expected increase in the net asset of the Group arising from the Assignment, details of which has been set out in the section headed "4. Financial effects of the Assignment" below, we are of the view that the Assignment and the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. The Sale and Purchase Agreement

3.1 *Principal terms*

Principal terms of the Sale and Purchase Agreement are set out as follows:

Date	8 December 2022
Parties	Assignor: Delta Wealth Finance Limited, a wholly-owned subsidiary of the Company Assignee: Ms. Tin Yat Yu Carol, an executive Director and the sole director of the Assignor
Subject matter	The Assignor has agreed to assign, and the Assignee has agreed to purchase from the Assignor all of the legal and beneficial right in the Loan Agreements (including but not limited to the Assigned Debt).
Consideration	The Consideration is HK\$22,952,679, which shall be paid by the Assignee to the Assignor by cash in the following manner: i. as to HK\$11,019,800 shall be paid by the Assignee to the Assignor as down payment in two installments, being the Initial Deposit of HK\$5,509,900 upon signing of the Sale and Purchase Agreement (or such later date as the Assignor and the Assignee may agree) and the Second Deposit of HK\$5,509,900 on 30 December 2022 (or such later date as the Assignor and the Assignee may agree); and ii. the remaining sum of HK\$11,932,879 shall be paid by the Assignee to the Assignor in 36 equal monthly installments, while the first instalment shall be payable on 1 February 2023 or the Completion Date (whichever is later) (or such later date as the Assignor and the Assignee may agree) and the remaining instalments be payable by the Assignee to the Assignor by the end of each subsequent calendar month.

Notwithstanding the above, the Assignee undertakes to use her best endeavour to liaise with the Borrowers to recover the Assigned Debt, and shall use the net amount so successfully recovered to settle the outstanding Consideration as soon as possible within 10 Business Days upon receipt of the same, and settle the Consideration in entirety within three years from the Completion Date in any event.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As noted from the Board Letter, the Consideration of HK\$22,952,679, which represents the difference between the original aggregated principal amounts of the Assigned Debt of HK\$27,800,000, which is equivalent to the aggregate principal amounts of the Loan Agreement A of HK\$7,800,000 and the Loan Agreement B of HK\$20,000,000, and all repayments (including interest payments) previously made by the Borrowers up to 30 June 2022 of HK\$4,847,321, was determined after arm's length negotiations between the Assignor and the Assignee, having considered: (i) the outstanding principal and interests owed by the Borrowers under the Loan Agreements; (ii) the possibility of the recovery of the Loan Agreements and the interests thereon, taking into account, among others, the indication from the Borrowers of their respective inability to repay the Assigned Debt fully and punctually; (iii) the time and costs that are expected to be incurred by the Group if the Assignor takes legal action against the Borrowers to enforce the Loan Agreements; and (iv) the current global circumstances and uncertainties in the economic outlook.

For our due diligence purpose, we have obtained and reviewed the Loan Agreements. According to the Loan Agreement A, we noted that the loan agreement was initially entered into between the Assignor and Borrower A on 10 September 2012 and supplemented on 1 September 2016. On 1 December 2016, the Assignor and Borrower A agreed to extend the maturity date of the loan to 30 November 2017. In accordance with the Loan Agreement B, we noted that the loan agreement was initially entered into between the Assignor and Borrower B on 1 April 2015 and supplemented on 1 May 2016. The Assignor and Borrower B entered into an extension letter on 3 January 2017 to extend maturity date of the loan to 30 April 2018. On 20 March 2020, Borrower B issued a request letter to the Assignor for waiving the interest payable under the Loan Agreement B, which would decrease the Group's interest income for the relevant reporting period. As confirmed by the Management, the Assignor agreed to waive off the interest payable under the Loan Agreement B. Given the Consideration is equivalent to the difference between the original aggregated principal amounts of the Assigned Debt and all repayments made by the Borrowers as mentioned above, the Consideration has not taken into account of the interest payables under the Loan Agreement B waived by the Assignor. We have also discussed with the Representatives and understood that each Borrower has failed to repay the outstanding loan and interest amount in entirety by the respective maturity day in accordance with the Loan Agreements, and the aggregate outstanding principal and interests owed by the Borrowers under the Loan Agreements as at 30 June 2022 were approximately HK\$24,769,000.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Management, although the Consideration was determined with reference to factors including but not limited to the outstanding principal and interests owed by the Borrowers, the Assignor and the Assignee also took into account, among other things, the possibility and ability of the Borrowers to repay the Assigned Debt fully and punctually. After considering (i) the Borrowers' unsatisfactory historical repayment records; (ii) the respective default status of the Loan Agreements; and (iii) the Assignor's effort in recovering the outstanding principal and interests owed by the Borrowers as mentioned in the section headed "2. Reasons for and benefits of the Assignment and use of proceeds" in this letter, we are of the view that the Consideration of HK\$22,952,679, which represents the difference of the original aggregated principal amounts of the Assigned Debt of HK\$27,800,000 and all repayment (including interest payments) previously made by the Borrowers up to 30 June 2022 of HK\$4,847,321 is acceptable and the best available option.

As stated in the Board Letter, upon to 30 June 2022, the aggregate amount repaid by the Borrowers to the Assignor was HK\$4,847,321. Based on the repayment record obtained from the Representatives, we understood that neither of the Borrowers had ever repaid the accrued interest and/or the principal in full and on time. Due to the default of the Borrowers, the Assignor had taken different actions to chase the Borrowers to repay the outstanding principal and interest, i.e. by issuing the monthly call loan letters and undergoing various discussions. Despite each Borrower has indicated his willingness to settle the outstanding balances under the Loan Agreements, no concrete repayment schedules have been formulated and thus the Group was still uncertain whether the Borrowers would be capable of repaying the outstanding loan amounts as at the Latest Practicable Date. Based on the unsatisfactory historical repayment record of the Borrowers and the respective default of the Loan Agreements, which have been overdue for more than 24 months, the Board anticipates that the Borrowers would be least likely to repay the Assigned Debt fully and punctually.

In addition, the time and costs expected to be incurred by taking legal action by the Assignor against the Borrowers to enforce the Loan Agreements are uncertain and hard to be estimated, while the Assignment enables the Group to save time and resources that will otherwise be incurred for recovering and collecting the Assigned Debt and provides the Group a foreseeable timeframe on recovery of the long-outstanding amount owed under the Loan Agreements. Hence, the Board considers that it is in the interest of the Company to execute the Assignment instead of taking legal actions against the Borrowers.

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Moreover, as advised by the Representatives, Borrower A is principally engaged in global investment and Borrower B is principally engaged in business investment in the PRC, thus, the uncertainties in the global and PRC economy may have a negative impact on the performance of the Borrowers' principal business investment which will affect the Borrower's repayment capability in return. As mentioned in the 2021 Annual Report, although COVID-19 vaccination programs have been rolled out globally, some countries and territories, including Hong Kong, are still dealing with significant outbreaks of COVID-19 variants, and many are operating under a range of restrictive measures, all of which may have a negative impact on social and economic development in the future. In addition, geopolitics is another major challenge for the global economy in 2022. The Group expects that the global economy will continue to recover in 2022, but probably at a more moderate pace than that in 2021, given the restrictive pandemic control measures that may hold back the economic recovery if the threat of COVID-19 variants persists for an extended period. In light of the aforesaid, we concur with the Board's view that the uncertainties in global and PRC economy and the potential pandemic measures that may be imposed by the PRC government in response to the spreading status of the latest COVID-19 pandemic situation will increase the level of uncertainty over the Borrowers' repayment capability.

Having considered (i) the Borrowers' default of the Loan Agreements which have exceeded 24 months; (ii) the unsatisfactory historical repayment record of the Borrowers; (iii) the uncertainty on the time and costs that are expected to be incurred if legal action against the Borrowers will be taken; (iv) the principal business of the Borrowers and the uncertainties in the global and PRC economy and the potential pandemic restrictions that may adversely affect the repayment capability of the Borrowers; (v) the reasons for the Assignment as stated under the section headed "2. Reasons for and benefits of the Assignment and use of proceeds"; and (vi) the potential financial effects of the Assignment as referred to under the section headed "4. Financial effects of the Assignment", we consider that the Assignment alleviates the Group's inherent risk of non-recoverability associated with the Assigned Debt, and concur with the Directors' view that the Consideration is fair and reasonable and on normal commercial terms and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

3.2 *The settlement of the Consideration*

As stated in the Board Letter, as to HK\$11,019,800 of the Consideration shall be paid by the Deposits and as to HK\$11,932,879 (being the remaining sum of the Consideration) shall be paid by 36 equal monthly installments, and in any event the Consideration shall be settled in entirety within three years from the Completion Date. We have discussed with the Representatives and noted that the payment terms were arrived at after arm's length negotiations between the Assignor and the Assignee after taking into account the Assignee's estimation on the possible and reasonable timeframe that allows the Borrowers to repay her the outstanding amount under the Loan Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As noted from the Board Letter, the Company has received all the Deposits from the Assignee as at the Latest Practicable Date. We obtained the bank receipts from the Management which show that the Deposits of HK\$11,019,800 have been paid by the Assignee to the Assignor as at the Latest Practicable Date.

Having considered that (i) the payment term was determined on the Assignee's best estimation on the reasonable timeframe of the possibility for the Borrowers to settle the Assigned Debt; (ii) the Assignee undertakes to repay the outstanding Consideration as soon as possible within 10 Business Days upon receipt of the net amount of the Assigned Debt from the Borrowers; and (iii) the latest settlement date for the Consideration will be three years from the Completion Date, which sets out a foreseeable timeline for the Group to recover the Assigned Debt, we consider the settlement term of the Consideration to be fair and reasonable.

4. Financial effects of the Assignment

As disclosed in the Board Letter, upon Completion, the deemed consideration transferred pertaining the Assignment would be approximately HK\$5,124,000, representing the receivable (the "**Receivable**") from the Group of approximately HK\$24,769,000 (being the aggregate outstanding principal amount of the Assigned Debt of approximately HK\$24,466,000 and the outstanding interests accrued thereon up to 30 June 2022 of approximately HK\$303,000) after provision for an unaudited impairment loss on the Assigned Debt of approximately HK\$19,645,000 as of 30 June 2022.

Based on, among other things, the Consideration of HK\$22,952,679 and the related expenses, a gain of approximately HK\$17,500,000 is expected to be recorded for the Assignment, being the difference between (i) the Consideration; and (ii) the book value of the Assigned Debt as at 30 June 2022 of approximately HK\$5,124,000 and the amount of the related expenses. There will also be an increase in net asset of approximately HK\$17,829,000, resulting from the reversal of the impairment allowance made on the Assigned Debt of approximately HK\$19,645,000 as of 30 June 2022 less approximately HK\$1,816,000 to be written off over the Receivable.

The aforesaid estimation is for illustrative purpose only and does not purport to represent how the financial position of the Group will be after the Assignment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view the Sale and Purchase Agreement and the transactions contemplated thereunder to be fair and reasonable and on normal commercial terms, and the entering into of the Sale and Purchase Agreement, while not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders to vote in favour of the relevant resolution(s) for approving the Assignment, the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Merdeka Corporate Finance Limited
Jeannie Chan
Director

Ms. Jeannie Chan is a Responsible Officer of Merdeka Corporate Finance Limited under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests in securities of the company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Appendix 10 “Model Code for Securities Transactions by Directors of Listed Issuers” (“**Model Code**”) contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares and underlying shares of the Company

As at the Latest Practicable Date, the interests of the directors and the chief executive in the ordinary shares of the Company were as follows:

Name	Capacity	Nature of shares/underlying shares held/interested in			Approximate percentage of shareholdings (Note 2)
		Ordinary shares	Shares issuable on share options held (Note 1)	Total interests	
Li Yang	Beneficial owner	—	36,700,000	36,700,000	1.84%
Tin Yat Yu Carol	Beneficial owner	—	36,700,000	36,700,000	1.84%
Cheung Ka Lung	Beneficial owner	—	5,000,000	5,000,000	0.25%
Chan Ming Leung Terence	Beneficial owner	—	17,900,000	17,900,000	0.90%
Gong Xiaohan	Beneficial owner	—	36,700,000	36,700,000	1.84%
Tang Shu Pui Simon	Beneficial owner	5,000,000	2,000,000	7,000,000	0.35%
Hon Ming Sang	Beneficial owner	—	2,000,000	2,000,000	0.10%
Lo Wing Sze	Beneficial owner	—	2,000,000	2,000,000	0.10%

Notes:

- The options were respectively granted by the Company on 8 December 2021, 19 April 2022 and 17 January 2023. For details of the options granted, please refer to the announcements of the Company published on the respective dates.
- Based on 1,993,663,096 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the directors or chief executive of the Company have or are deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Company under Section 352 of the SFO, or as otherwise notifiable to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial shareholders' and other persons' interests and short positions in Shares, underlying shares and debentures

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) 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 were 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:

Name	Capacity	Nature of shares/underlying shares held/interested in			Approximate percentage of shareholdings (Note 1)
		Ordinary shares	Underlying shares in respect of the share options granted/the convertible bonds issued	Total interests	
World Field Industries Limited (Note 2)	Beneficial owner	283,994,000	—	283,994,000	14.24%
Anli Investment Fund SPC-Anli Greater China Opportunity Fund Segregated Portfolio (Note 3)	Beneficial owner	265,650,887	—	265,650,887	13.32%
Value Convergence Holdings Limited (Note 4)	Beneficial owner Interest of controlled corporation	140,538,000 2,688,000	66,844,919 —	210,070,919	10.54%
Zeng Ge (Note 5)	Beneficial owner Interest of controlled corporation	— 180,000,000	19,800,000 —	199,800,000	10.02%

Notes:

1. Based on 1,993,663,096 Shares in issue as at the Latest Practicable Date.
2. Based on the disclosure of interests forms filed on 19 July 2022, World Field Industries Limited is owned as to 100% by Green Astute Limited, which is in turn owned as to 100% by Hao Tian Media & Culture Holdings Limited, which is in turn owned as to 100% by Aceso Life Science Group Limited (“Aceso”), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 474.HK). Based on the disclosure of interest forms in relation to Aceso filed on 25 March 2022 and 24 August 2021 respectively, Aceso is owned as to 49.19% by Asia Link Capital Investment Holdings Ltd. (“Asia Link”) and as to 10.83% by Century Golden Resources Investment Co., Ltd (“Century Golden”). Asia Link is owned as to 100% by Li Shao Yu (李少宇). Century Golden is owned as to 50% by Huang Tao (黄涛) and as to 40% by Huang Shiyang (黄世熒).

3. Based on the disclosure of interests forms filed on 16 September 2022, Anli Asset Management Limited, the investment manager of Anli Investment Fund SPC-Anli Greater China Opportunity Fund Segregated Portfolio, is a wholly-owned subsidiary of Anli Holdings Limited.
4. Based on the disclosure of interest forms filed on 18 January 2023, Value Convergence Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 821.HK), was (i) deemed, by virtue of Part XV of the SFO, to be interested in 2,688,000 shares of the Company beneficially owned by VC Brokerage Limited, which is owned as to 100% by VC Financial Group Limited, which is in turn owned as to 100% by Value Convergence Holdings Limited; and (ii) the beneficial owner of 207,382,919 shares / underlying shares of the Company, of which 66,844,919 referred to interests in underlying shares (unlisted derivatives – convertible instruments). Value Convergence Holdings Limited was deemed to be interested in 66,844,919 underlying shares of the Company which may be issued and allotted upon exercise of the conversion rights attaching to the convertible bonds at a principal amount of HK\$10,000,000 at the conversion price of HK\$0.1496 per share. For details, please refer to the announcements of the Company dated 13 December 2021 and 6 January 2022.
5. Based on the disclosure of interests forms filed on 20 January 2023, Mr. Zeng Ge (曾軻) is a director and the beneficial owner of 100% shareholding in Dreamtoys Ltd., and is thus deemed, by virtue of Part XV of the SFO, to be interested in 180,000,000 shares beneficially owned by Dreamtoys Ltd. Besides, Mr. Zeng Ge has been granted share options by the Company on 17 January 2023.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons/ entities (other than the directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, its Group members or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO; or as otherwise notified to the Company and the Stock Exchange.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

4. COMPETING INTERESTS

Ms. Tin, an executive Director and the sole director of the Assignor, is also a director of Finsoft Financial Investment Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on GEM of the Stock Exchange (Stock code: 8018), which is principally engaged in money lending business in Hong Kong.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any of their respective close associates has 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.

5. INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for Ms. Tin's interest in the Sale and Purchase Agreement, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2021, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

6. QUALIFICATIONS AND EXPERT'S CONSENT

The following are the qualifications of the expert who has been named in this circular or has given opinion or letter contained in this circular:

Name	Qualifications
Merdeka Corporate Finance Limited	A corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

The above expert has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGE

The Directors confirmed that as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up.

8. DOCUMENTS ON DISPLAY

Copies of the following documents are available on the website of the Company at <http://www.vmh.com.hk/> and on the website of the Stock Exchange from the date of this circular up to and including the date of EGM:

- (a) the Sale and Purchase Agreement, being the contract pertaining to the transaction disclosed in this circular;
- (b) the letter from the Board as set out in this circular;
- (c) the letter from the Independent Board Committee as set out in this circular;
- (d) the letter from the Independent Financial Adviser as set out in this circular;
- (e) the written consent of the expert as referred to in the section headed “Qualifications and Expert’s Consent” of this appendix; and
- (f) this circular.

9. MISCELLANEOUS

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

NOTICE OF EGM



Virtual Mind Holding Company Limited 天機控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1520)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of the shareholders (the “**Shareholders**”) of Virtual Mind Holding Company Limited (the “**Company**”) will be held at Room 2511-15, 25/F, Peninsula Tower, 538 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 28 February 2023 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution(s) as ordinary resolution of the Company:

“**THAT:**

- (a) the Sale and Purchase Agreement (as defined in the circular of the Company dated 10 February 2023, a copy of which marked “A” is produced to the meeting and signed by the chairman of the meeting for the purpose of identification) contemplated thereunder be and is hereby approved, confirmed and ratified; and
- (b) any one of the directors of the Company (“**Directors**”) be and is hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he/she considers necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided for in the Sale and Purchase Agreement) as are, in the opinion of such Director, in the interest of the Company and its shareholders as a whole.”

By order of the Board
Virtual Mind Holding Company Limited
Li Yang
Chairman & Executive Director

Hong Kong, 10 February 2023

NOTICE OF EGM

As at the date hereof, the Board comprised the following Directors:

Executive Directors

Mr. LI Yang (*Chairman*)
Ms. TIN Yat Yu Carol
Mr. CHEUNG Ka Lung
Mr. CHAN Ming Leung Terence
Mr. GONG Xiaohan

Independent non-executive Directors

Mr. TANG Shu Pui Simon
Mr. HON Ming Sang
Ms. LO Wing Sze *BBS, JP*

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

Room 2511-15, 25/F, Peninsula Tower,
538 Castle Peak Road, Cheung Sha Wan,
Kowloon, Hong Kong

Notes:

1. Business Day means any day (excluding Saturday and Sunday) on which no black rainstorm warning is issued, no No. 8 signal or above is hoisted, and no “extreme conditions” are announced by the government of Hong Kong at any time between 9:00 a.m. and 11:00 a.m. or remain in force in Hong Kong; and on which banks in Hong Kong are generally open for business. In the event that a black rainstorm warning is issued, or No. 8 signal or above is hoisted, or “extreme conditions” are announced by the government of Hong Kong at any time between 9:00 a.m. and 11:00 a.m. or remain in force in Hong Kong, the EGM will not be held on that day but will be held at the same time and place on the second Business Day after Tuesday, 28 February 2023 or any adjournment thereof.
2. Due to the constantly evolving COVID-19 pandemic situation in Hong Kong, the Company may be required to change the EGM arrangements at short notice. Shareholders are advised to check the websites of the Company (www.vmh.com.hk) and the Stock Exchange (www.hkexnews.hk) for the latest announcement(s) and information on the EGM arrangements.
3. For ascertaining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 24 February 2023 to Tuesday, 28 February 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 23 February 2023.
4. Any Shareholder entitled to attend and vote at the EGM is entitled to appoint one or, if he/she is the holder of two or more Shares, more than one proxy to attend and vote on his/her behalf in accordance with the articles of association of the Company (as amended from time to time). A proxy need not be a Shareholder.
5. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in any event not later than 11:00 a.m. on Sunday, 26 February 2023.

NOTICE OF EGM

6. Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof and in such case, the form of proxy previously submitted shall be deemed to be revoked.
7. In the case of joint holders of a Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she was solely entitled thereto but if more than one of such joint holders are 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. For this purpose, seniority shall be determined by the order in which the names stand first in the register of members in respect of the joint holding.