

To the Shareholders

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY
TWO (2) SHARES HELD ON THE RECORD DATE;
(II) CONNECTED TRANSACTION IN RELATION
TO THE UNDERWRITING AGREEMENT;
(III) APPLICATION FOR WHITEWASH WAIVER;
(IV) SPECIAL DEAL; AND
(V) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver.

The purpose of this circular is to provide you with, among other things, (i) further details of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver; (iii) a letter of advice from Red Sun to the Independent Board Committee and the Independent Shareholders in regard to the aforesaid; (iv) other information required under the Listing Rules and the Takeovers Code; and (v) a notice convening the SGM.

PROPOSED RIGHTS ISSUE

The Board proposes the Rights Issue, details of which are summarised below:

Basis of the Rights Issue:	Three (3) Rights Shares (in nil-paid form) for every two (2) Shares held at the close of business on the Record Date
Subscription Price:	HK\$0.12 per Rights Share
Net price per Rights Share (the aggregate Subscription Price of the maximum number of Rights Shares to be issued less costs and expenses estimated to be incurred in the Rights Issue divided by the maximum number of Rights Shares to be issued):	Approximately HK\$0.115 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	492,161,490 Shares
Number of Rights Shares:	738,242,235 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares to be issued:	HK\$73,824,223.50 (assuming no change in the number of Shares in issue on or before the Record Date)
Number of issued Shares upon completion of the Rights Issue (assuming that the Rights Issue is fully subscribed):	1,230,403,725 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)

Gross proceeds from the Rights Issue (before expenses): Approximately HK\$88.6 million

Net proceeds from the Rights Issue: Approximately HK\$84.59 million

There are no options, warrants, derivatives or other convertible securities granted by the Company which confer rights to subscribe for, convert or exchange into Shares that are subsisting as at the Latest Practicable Date.

Assuming no change in the number of issued Shares on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the maximum of 738,242,235 Rights Shares proposed to be issued pursuant to the terms of the Rights Issue represent approximately (i) 150.0% of the existing issued share capital of the Company and (ii) 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

Subscription Price

The Subscription Price is HK\$0.12 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or, where applicable, when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 16.67% to the closing price of HK\$0.144 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 10.45% to the closing price of HK\$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iii) a discount of approximately 16.67% to the average of the closing prices per Share as quoted on the Stock Exchange for the five previous consecutive trading days up to and including the Last Trading Day of HK\$0.144 per Share;
- (iv) a discount of approximately 17.24% to the average of the closing prices per Share as quoted on the Stock Exchange for the ten previous consecutive trading days up to and including the Last Trading Day of HK\$0.145 per Share;
- (v) a discount of approximately 7.41% to the ex-rights price of approximately HK\$0.1296 per Share based on the closing price of HK\$0.144 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a premium of approximately HK\$0.172 over the net capital deficiency attributable to the owners of the Company of approximately HK\$0.052 per Share calculated based on the audited consolidated net capital deficiency attributable to the owners of the Company of approximately HK\$25,773,000 as at 31 December 2022 and 492,161,490 Shares in issue; and
- (vii) a premium of approximately HK\$0.125 over the adjusted net capital deficiency attributable to the owners of the Company of approximately HK\$0.005 per Share calculated based on the adjusted consolidated net capital deficiency attributable to the owners of the Company of approximately HK\$2,644,109 as at 31 December 2022 (taking into account the valuation of the properties of the Group as at 31 March 2023 as set out in Appendix III – Property Valuation Report in this circular) and 492,161,490 Shares in issue.

The Rights Issue will result in a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 10.0% to the existing Shareholders if they elect not to participate in the Rights Issue, which is calculated based on the theoretical diluted price of approximately HK\$0.1296 per Share and the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK\$0.144 per Share.

The net price per Rights Share (i.e. the aggregate Subscription Price of the maximum number of Rights Shares to be issued less costs and expenses estimated to be incurred in the Rights Issue divided by the maximum number of Rights Shares to be issued), assuming that the Rights Issue is fully subscribed, will be approximately HK\$0.115.

The Subscription Price was determined by the Company with reference to (i) the average closing price of the Shares quoted on the Stock Exchange of approximately HK\$0.156 for the three months up to and including the Last Trading Day; (ii) the highest and lowest closing price of the Shares quoted on the Stock Exchange of HK\$0.186 and HK\$0.144 respectively for the three months up to and including the Last Trading Day; and (iii) the persistent loss-making position of the Company.

The Directors consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors:

- (i) issuance of new shares by way of rights issue at a discount to the then market price has been commonly adopted by listed issuers in Hong Kong to encourage existing shareholders to take up their entitlements so as to participate in the business development of the listed issuers;
- (ii) the Subscription Price represents a discount of approximately 16.67% and 23.08% to the closing price of the Shares on the Last Trading Day and the average of the closing prices of the Shares for the last three months up to and including the Last Trading Day respectively, and such discounts fall within the range of discounts to market price in the rights issues conducted by other listed issuers in Hong Kong and would encourage the Qualifying Shareholders to subscribe for their assured entitlements under the Rights Issue taking into account the persistent loss-making position of the Company;
- (iii) the Qualifying Shareholders are provided with an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company;
- (iv) the funding needs of the Group as set out in the section headed "Reasons for and benefits of the rights issue and use of proceeds" in this circular.

Qualifying Shareholders

The Rights Issue is available to the Qualifying Shareholders only. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and not being a Non-Qualifying Shareholder.

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the said nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company and are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date.

In order to be registered as members of the Company on the Record Date, all transfers of Shares (together with the relevant share certificate(s)) must be lodged with the Registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong by not later than 4:30 p.m. on Thursday, 25 May 2023. It is expected that the last day of dealings in the Shares on a cum-rights basis is Tuesday, 23 May 2023 and the Shares will be dealt with on an ex-rights basis from Wednesday, 24 May 2023.

The Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date.

Application for all or any part of a Qualifying Shareholder's entitlement to the Rights Shares should be made by completing the PAL and lodging the same with a cheque drawn on an account with, or bank cashier's order issued by, a licensed bank in Hong Kong for the Rights Shares being applied for with the Registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong on or before the Latest Time for Acceptance.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Shares arising from the aggregation of fractional entitlements). **If a Qualifying Shareholder does not take up any of his/her/its entitlements in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

Non-Qualifying Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. As at 10 April 2023, there were a total of 15 Overseas Shareholders with addresses in Taiwan and the US.

The Board will make enquiries regarding the legal restrictions under the laws of the relevant overseas jurisdiction(s) and the requirements of the relevant regulatory body(ies) or stock exchange(s) pursuant to Rule 13.36(2)(a) of the Listing Rules. If, after making such enquiries and based on legal opinions provided by the legal advisers to the Company, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to any Overseas Shareholders on account either of the legal restrictions under the laws of the relevant jurisdiction(s) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in the relevant place(s), no offer of the Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to such Overseas Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Prospectus.

The Company will send copies of the Overseas Letter and the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send the PAL to them. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained above.

The Non-Qualifying Shareholders (which are excluded from the Rights Issue) would not have any entitlement under the Rights Issue. Such Rights Shares will form part of the Unsubscribed Rights Shares and if possible, be placed by the Placing Agent to independent places under the Compensatory Arrangements.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in their nil-paid form, to be sold in the market as soon as practicable after dealings in the nil-paid Rights Shares commence, and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained. Proceeds from each sale, less expenses and stamp duty, of not less than HK\$100 will be paid pro-rata (rounded down to the nearest cent) to the relevant Non-Qualifying Shareholder(s) in Hong Kong dollars. The Company will retain individual amount of less than HK\$100 for its own benefit to cover the administrative costs that it would have incurred.

Any unsold entitlements of the Non-Qualifying Shareholders will be placed by the Placing Agent under the Placing Agreement together with Rights Shares that are not being taken up by the Qualifying Shareholders.

For the nil-paid Rights Shares that were sold in the market by the Company and the buyer of such nil-paid Rights Shares who will not take up the entitlement, such Unsubscribed Rights Shares will be subject to the Compensatory Arrangements under the Placing Agreement.

For details of the Compensatory Arrangements, please refer to the section headed "No excess application and procedures in respect of the Unsubscribed Rights Shares" in this circular.

The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Non-Qualifying Shareholders should exercise caution when dealing in the Shares.

Basis of provisional allotments

The basis of the provisional allotments shall be three (3) Rights Shares (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

Irrevocable Undertaking

First Steamship and parting acting in concert with it are interested in an aggregate of 142,628,902 Shares (representing approximately 28.98% of the entire issued share capital of the Company as at the Latest Practicable Date), of which 124,950,000 Shares (representing approximately 25.39% of the entire issued share capital of the Company as at the Latest Practicable Date) are held by it and 17,678,902 Shares (representing approximately 3.59% of the entire issued share capital of the Company as at the Latest Practicable Date) are held by Grand Citi, a 58.62% indirectly owned subsidiary of First Steamship.

Pursuant to the Irrevocable Undertaking, First Steamship has undertaken to the Company that (i) it will subscribe for and/or procure subscriptions for 213,943,353 Rights Shares which comprise the full acceptance of the provisional entitlement in respect of the aggregate of 142,628,902 Shares beneficially held by First Steamship and Grand Citi; (ii) it will not and will procure Grand Citi not to dispose of, or agree to dispose of, any of the 124,950,000 Shares and 17,678,902 Shares currently owned by it and Grand Citi, respectively, and such Shares will remain beneficially owned by it and Grand Citi, respectively, up to and including the Record Date; (iii) it will, and will procure Grand Citi to accept, its (as applicable) entitlements under the Rights Issue for an aggregate of 213,943,353 Rights Shares; and (iv) it will and will procure Grand Citi lodge or procure the subscription of the 187,425,000 Rights Shares and 26,518,353 Rights Shares respectively, which will be the number of Rights Shares provisionally allotted (on nil-paid basis) to it and Grand Citi respectively, under the Rights Issue, with the Registrar.

Save for the Irrevocable Undertaking, as at the Latest Practicable Date, the Company has not received any information or irrevocable undertaking from any other Shareholders (including Metroasset Investments Limited which holds 70,718,859 Shares (representing approximately 14.37% of the issued share capital of the Company) and is owned as to 45.09%, 43.38% and 10.53% by Mr. Hung, Ms. Chen Mei Huei (spouse of Mr. Hung) and Mr. Hung Chih Chun (son of Mr. Hung) respectively) of their intention to take up the Rights Shares to be provisionally allotted and issued to them under the Rights Issue.

Application for listing

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

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms with their board lot size being the same (i.e. 10,000) as their underlying Shares on the Stock Exchange, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second 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. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid with a record date falling on or after the date of allotment and issue of the Rights Shares in their fully-paid form.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

Share certificates for the Rights Shares and refund cheques

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be sent by ordinary post on Wednesday, 5 July 2023 to those persons who have validly accepted and, where applicable, applied for, and paid for the Rights Shares, at their own risk, to their registered addresses. Each allottee will receive one share certificate for all allotted Rights Shares.

If the Rights Issue does not proceed, the monies received by the Company in respect of the subscription of the Rights Shares will be refunded to the Qualifying Shareholders or such other person to whom the nil-paid rights have been validly renounced or transferred or, in the case of joint acceptances, to the first-named person, without interest and by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders or such other person to their registered addresses by the Registrar on Wednesday, 5 July 2023.

Fractional entitlement to the Rights Shares

No fractional entitlements to the Rights Shares shall be issued to the Shareholders and no entitlements of the Non-Qualifying Shareholders to the Rights Shares shall be issued to the Non-Qualifying Shareholders. All fractions of the Rights Shares shall be rounded down to the nearest whole number of Rights Shares and aggregated and, if a premium (net of expenses) can be achieved, sold in the market by the Company for its own benefit.

No excess application and procedures in respect of the Unsubscribed Rights Shares

There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules. The Underwriter is a substantial shareholder of the Company interested in 142,628,902 Shares, representing approximately 28.98% of the entire issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 7.21(2) of the Listing Rules, the Company will make arrangements to dispose of the Unsubscribed Rights Shares by offering the Unsubscribed Rights Shares to independent placees for the benefit of the relevant No Action Shareholders to whom they were offered under the Rights Issue. As the Compensatory Arrangements are in place, there will be no excess application arrangements in relation to the Rights Issue.

The Company appointed the Placing Agent to place the Unsubscribed Rights Shares after the Latest Time for Acceptance to the Placees on a best effort basis, and any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related costs and expenses), that is realised from the Placing (the “**Net Gain**”) will be paid to those No Action Shareholders in the manner set out below. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m. on Wednesday, 28 June 2023, the Placees for all (or as many as possible) of those Unsubscribed Rights Shares at a price not less than the Subscription Price. Any unsold Unsubscribed Rights Shares under the Compensatory Arrangements will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Net Gain (if any but rounded down to the nearest cent) will be paid on a pro-rata basis to the No Action Shareholders as set out below:

- (i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL; and
- (ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS.

It is proposed that if the Net Gain to any of the No Action Shareholder(s) mentioned above (i) is more than HK\$100, the entire amount will be paid to them; or (ii) is HK\$100 or less, such amount will be retained by the Company for its own benefit.

Placing Agreement for the Unsubscribed Rights Shares

Details of the Placing Agreement are summarised as follows:

Date:	15 March 2023 (after trading hours of the Stock Exchange), as supplemented on 27 March 2023 and 24 April 2023
Issuer:	The Company
Placing agent:	Morton Securities Limited. First Steamship and parties acting in concert with it (including Grand Citi) are interested in approximately 29.11% of the issued shares of Da Yu Financial Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1073), which in turn wholly owns the Placing Agent and Yu Ming.
Placing period:	The period commencing from the second Business Day after the Latest Time for Acceptance and ending on the sixth Business Day after the Latest Time for Acceptance.
Commission and expenses:	Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 2% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement. For the avoidance of doubt, the Placing Agent will not receive any fee/commission if no Unsubscribed Rights Share is placed out.
Placing price of the Unsubscribed Rights Shares:	The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price and the final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares during the process of placement.

Placees:	The Unsubscribed Rights Shares shall only be offered by the Placing Agent to Placee(s) who and whose ultimate beneficial owner(s) are Independent Third Party(ies) and not acting in concert with First Steamship and its concert parties (including Grand Citi) and/or any of the Company's connected persons. The Company will take all appropriate steps to ensure that sufficient public float be maintained in compliance with Rule 8.08 of the Listing Rules after completion of the Placing.
Ranking of the Unsubscribed Rights Shares:	The Unsubscribed Rights Shares (when placed, allotted, issued and fully paid) shall rank <i>pari passu</i> in all respects among themselves and with the Shares then in issue.

Conditions of the Placing Agreement

The obligations of the Placing Agent under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled or waived:

- (i) the passing by the Independent Shareholders at the SGM of (1) ordinary resolutions to approve the Underwriting Agreement, the Placing Agreement, the Rights Issue, the Special Deal and the transactions contemplated thereunder; and (2) a special resolution to approve the Whitewash Waiver (at least 75% of the Independent Shareholders at the SGM by way of poll) in accordance with the Listing Rules and the Takeovers Code respectively;
- (ii) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in the Rights Shares;
- (iii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained;
- (iv) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events; and
- (v) the posting of copies of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus (stamped "For Information Only") to the Non-Qualifying Shareholders for information purpose only.

As at the Latest Practicable Date, save for the approvals set out in conditions (i) and (ii) above, the granting of the Whitewash Waiver, the granting of the Executive's consent to the Special Deal and the authorisation and registration of the Prospectus Documents, the Company is not aware of other consents or approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder.

In the event that the above condition precedents have not been fulfilled on or before 30 June 2023 (or such later date as may be agreed between the Company and the Placing Agent in writing), all rights, obligations and liabilities of the parties under the Placing Agreement in relation to the placing shall cease and determine, and none of the Company or the Placing Agent shall have any claim against the other in respect of the placing (save for any antecedent breaches thereof).

As at the Latest Practicable Date, the Placing Agent, Yu Ming and their respective associates do not hold any Shares. The terms of the Placing Agreement, including the placing commission, were determined after arm's length negotiation between the Placing Agent and the Company with reference to the prevailing market rate and the Company considers the Placing Agreement to be on normal commercial terms.

The Company considers that the Placing Agreement will provide a compensatory mechanism for the No Action Shareholders, protect the interest of the Shareholders, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE UNDERWRITING AGREEMENT

The Rights Shares (other than those agreed to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) will be fully underwritten by First Steamship in accordance with the terms of the Underwriting Agreement. The principal terms and conditions of the Underwriting Agreement are set out below:

Date:	15 March 2023 (after trading hours of the Stock Exchange), as supplemented on 27 March 2023 and 24 April 2023
Underwriter:	First Steamship, a substantial shareholder of the Company as at the Latest Practicable Date, which complies with Rule 7.19(1)(b) of the Listing Rules. It is not in the ordinary course of business of First Steamship to underwrite securities. As at the Latest Practicable Date, the Underwriter has not entered into any sub-underwriting agreements in respect of the Rights Issue.
Number of Rights Shares to be underwritten by the Underwriter:	524,298,882 Rights Shares (assuming no new Shares will be issued or repurchased on or before the Record Date)

Underwriting Commission:	1% of the aggregate subscription amount in respect of the maximum number of 524,298,882 Rights Shares committed to be underwritten, subscribed for or procured subscription for by the Underwriter.
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Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associates.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms of the Underwriting Agreement, First Steamship has agreed to subscribe for the Untaken Rights Shares (being any Unsubscribed Rights Shares that are not placed by the Placing Agent under the Placing Agreement).

The terms of the Underwriting Agreement were determined after arm's length negotiations between the Company and First Steamship with reference to the financial position of the Group, the size of the Rights Issue, the current market conditions, taking into consideration the prevailing market practices and terms for rights issue exercises undertaken by Hong Kong listed issuers in the past six months. The Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) are of the view that the terms of the Underwriting Agreement are fair and reasonable, and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Conditions of the Rights Issue

The obligations of the Underwriter under the Underwriting Agreement are conditional on the fulfilment of the following conditions:

- (i) the passing by the Independent Shareholders at the SGM of (1) ordinary resolutions to approve the Underwriting Agreement, the Placing Agreement, the Rights Issue, the Special Deal and the transactions contemplated thereunder; and (2) a special resolution to approve the Whitewash Waiver (at least 75% of the Independent Shareholders at the SGM by way of poll) in accordance with the Listing Rules and the Takeovers Code respectively;
- (ii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly signed by the Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Prospectus Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders by the Prospectus Posting Date and the posting of the Prospectus and a letter to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;

- (iv) the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Business Day prior to the first day of their dealings;
- (v) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda;
- (vi) the Executive granting the Whitewash Waiver to the Underwriter and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (vii) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (viii) the compliance with and performance of all the undertakings and obligations of the Underwriter under the Irrevocable Undertaking;
- (ix) all necessary consents and approvals to be obtained on the part of each of the Underwriter and the Company in respect of the Underwriting Agreement and the transactions contemplated thereunder having been obtained; and
- (x) the Executive granting consent under Rule 25 of the Takeovers Code in respect of Special Deal.

The above conditions precedent are incapable of being waived. If any of the conditions precedent are not satisfied by the Latest Time for Termination, the Underwriting Agreement shall terminate and no party will have any claim against any other party (save for any antecedent breaches and claims thereof).

As at the Latest Practicable Date, save for the approvals set out in conditions (i), (iv), (vi) and (x) above, authorisation and registration of the Prospectus Documents, and the approval of the Underwriting Agreement by the board of directors of the Underwriter, the Company is not aware of other consents or approvals (including the regulatory requirements required under the listing rules of the Taiwan Stock Exchange) to be obtained on the part of each of the Underwriter and the Company in respect of the Underwriting Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, the Company does not believe that the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver would give rise to any concerns in relation to compliance with other applicable laws or regulations (including the listing rules of the Taiwan Stock Exchange and the Listing Rules).

Termination of the Underwriting Agreement

The Underwriter shall be entitled by a notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if, prior to the Latest Time for Termination:

1. in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
2. any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
3. there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially and adversely affect the prospects of the Group, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or the destruction of any material asset of the Group; or
4. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which in the reasonable opinion of the Underwriter will materially and adversely affect the success of the Rights Issue and/or the prospects of the Group taken as a whole; or

5. any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
6. any matter which, had it arisen or been discovered immediately before the date of the Prospectus Documents and not having been disclosed in the Prospectus Documents, would have constituted, in the reasonable opinion of the Underwriter, an omission which is material in the context of the Rights Issue; or
7. any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements in connection with the Rights Issue.

If prior to the Latest Time for Termination any such notice as is referred to above is given by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

EFFECTS ON THE SHAREHOLDING STRUCTURE

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Rights Issue (assuming full acceptance of the Rights Shares by all Qualifying Shareholders); (iii) immediately after completion of the Rights Issue (assuming no acceptance of the Rights Shares by the Qualifying Shareholders (other than First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and 100% of the Unsubscribed Rights Shares are fully placed to the Placees under the Compensatory Arrangements); and (iv) immediately after completion of the Rights Issue (assuming no acceptance of the Rights Shares by the Qualifying Shareholders (other than First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and 100% of the Untaken Rights Shares are taken up by the Underwriter):

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue (assuming full acceptance of the Rights Shares by all Qualifying Shareholders)		Immediately after completion of the Rights Issue (assuming no acceptance of the Rights Shares by the Qualifying Shareholders (other than First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and all of the Unsubscribed Rights Shares are fully placed to the Placees under the Compensatory Arrangements)		Immediately after completion of the Rights Issue (assuming no acceptance of the Rights Shares by the Qualifying Shareholders (other than First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and all of the Untaken Rights Shares are taken up by the Underwriter) (Note 3)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
First Steamship	124,950,000	25.39%	312,375,000	25.39%	312,375,000	25.39%	836,673,882	68.00%
Grand Citi	17,678,902	3.59%	44,197,255	3.59%	44,197,255	3.59%	44,197,255	3.59%
First Steamship and parties acting in concert with it	142,628,902	28.98%	356,572,255	28.98%	356,572,255	28.98%	880,871,137	71.59%
Metroasset Investments Limited (Note 1)	70,718,859	14.37%	176,797,147	14.37%	70,718,859	5.75%	70,718,859	5.75%
Legacy Trust Company Limited (Note 2)	76,520,000	15.55%	191,300,000	15.55%	76,520,000	6.22%	76,520,000	6.22%
Placees	-	-	-	-	524,298,882	42.61%	-	-
The Lender and its associates (Note 4)	24,000,000	4.88%	60,000,000	4.88%	24,000,000	1.95%	24,000,000	1.95%
Other public Shareholders	178,293,729	36.22%	445,734,322	36.22%	178,293,729	14.49%	178,293,729	14.49%
Public Shareholders	202,293,729	41.10%	505,734,322	41.10%	803,112,611	65.27%	278,813,729	22.66%
Total	492,161,490	100.00%	1,230,403,725	100.00%	1,230,403,725	100.00%	1,230,403,725	100.00%

Notes:

- These Shares are held by Metroasset Investments Limited, 45.09%, 43.38% and 10.53% of the issued share capital of which are beneficially owned by Mr. Hung (an executive Director), Ms. Chen Mei Huei (spouse of Mr. Hung) and Mr. Hung Chih Chun (son of Mr. Hung) respectively.
- These Shares are held by Legacy Trust Company Limited, which is wholly owned by Mr. Vincent Chok, an Independent Third Party (save for his capacity of being a substantial shareholding of the Company) and not acting in concert with First Steamship.
- This scenario is for illustration purpose only. Assuming no Rights Shares are taken up by the Qualifying Shareholders (other than those to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and no Unsubscribed Rights Shares are successfully placed under the Compensatory Arrangements, 278,813,729 Shares, representing approximately 22.66% of the total number of issued Shares as enlarged by the Rights Issue, will be held by the public (as defined in the Listing Rules). To ensure the compliance of Rule 8.08(1)(a) of the Listing Rules by the Company, the Underwriter will enter into a placing agreement with Yu Ming (as placing agent), pursuant to which Yu Ming shall assist the Underwriter in placing down such number of Shares to the Independent Third Parties, such that sufficient public float could be maintained by the Company in compliance with Rule 8.08(1)(a) of the Listing Rules. The Underwriter and Yu Ming will enter into the placing agreement before the Prospectus Posting Date.

4. These Shares are held by Universal Way Limited, an indirectly wholly-owned subsidiary of Allied Group Limited (the shares of which are listed on the Mainboard of the Stock Exchange (stock code: 373)) which in turn wholly owns the Lender.
5. Certain figures and percentage included in the above table have been subject to rounding adjustments.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will not take place if a tropical cyclone warning signal no. 8 or above, or “extreme conditions” caused by super typhoons, or a black rainstorm warning is:

- (a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead the deadline for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; and
- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead the deadline for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.

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

The Group is principally engaged in (i) trading and manufacturing of media entertainment platform related products; (ii) trading and manufacturing of components of audio and video electronic products; and (iii) trading and manufacturing of satellite TV equipment and antenna products.

As disclosed in the annual results announcement of the Company for the year ended 31 December 2022 published on 30 March 2023 (“**2022 Results Announcement**”), as at 31 December 2022, the bank and other borrowing of the Group amounts to approximately HK\$351.93 million (“**Outstanding Loans**”), out of which approximately HK\$269.94 million falls under current liabilities, HK\$244.46 million is secured loan and HK\$107.47 million is unsecured loan, and the Group has net current liabilities of approximately HK\$178.96 million. The interest rates on the Outstanding Loans ranged between 1.0% and 10% per annum. For the year ended 31 December 2022, the Group incurred finance costs of approximately HK\$28.16 million. As at 31 December 2022, the cash and bank balance of the Group amounted to approximately HK\$79.16 million. The Outstanding Loans falls under current liabilities of approximately HK\$269.94 million comprise the outstanding principal amount of the Loan of US\$25 million (equivalent to approximately HK\$194.94 million based on the exchange rate of US\$1 to HK\$7.7976 as per 2022 Results Announcement), bank borrowings of approximately HK\$68.71 million and other borrowings of approximately HK\$6.29 million. Other than the Loan, other borrowings of the Group of approximately HK\$3.95 million has been overdue since 6 April 2023. The Company is in the course of liaising with the lender for the extension of loans and will settle such loans with internal resources of the Group if the lender declines. The Company intends to renew bank borrowings of approximately HK\$68.71 million and other borrowings of approximately HK\$2.34 million upon their maturity.

Amongst the Outstanding Loans, the Loan has matured on 20 April 2023 and interest payment of the Loan has been overdue to the Lender since August 2022. The Loan was granted to the Company by the Lender pursuant to the Loan Agreement dated 19 September 2016. Since entering into the Loan Agreement and up to the Latest Practicable Date, the loans in an aggregate amount of approximately US\$49.29 million (equivalent to approximately HK\$386.93 million) were granted by the Lender to the Company with interest rate ranging between 10% and 13% per annum, out of which approximately US\$24.29 million (equivalent to approximately HK\$190.68 million) has been repaid by the Company to the Lender. As at the Latest Practicable Date, the outstanding principal amount of the Loan is US\$25 million (equivalent to approximately HK\$196.21 million) with interest rate of 10% per annum. For obtaining the Loan, the Company has (i) created a first fixed and floating charge over the entire Company’s undertaking, property and assets as securities to the Lender; and (ii) pledged all the shares owned by the Company in Pro Brand Technology Inc. (a 59.1%-owned subsidiary of the Company and principally engaged in the production and sale of satellite TV equipment and antenna products) to the Lender (the “**Loan Securities**”). The Company has fully applied the Loan as to approximately (i) US\$47.29 million (equivalent to approximately HK\$371.23 million) for the development and operation of satellite television broadcasting business in Middle East, Mediterranean and Africa including purchase of television contents, renting satellite transponder, purchase of set-top boxes and smart cards and other operating costs such as payment for dealers’ commission, marketing and promotion expenses; and (ii) US\$2 million (equivalent to approximately HK\$15.7 million) for general working capital of the Group (including but not limited to operating expenses of the production plant in Zhongshan). The Company disposed its interest in the satellite television broadcasting business on 25 June 2019. As at the Latest Practicable Date, the Lender is wholly-owned by Allied Group Limited, the shares of which are listed on the Mainboard of the Stock Exchange (stock code: 373). The Lender and its associates are interested in 24,000,000

Shares, representing approximately 4.88% of the issued share capital of the Company. The Company has requested the Lender for extending the Loan for a term of two years, but was declined by the Lender unless the Company pays up the interest in arrears and makes partial repayment of the principal. During the meetings with the Lender, the Lender has not indicated the amount of partial repayment of the Loan for obtaining its agreement on the extension of the Loan but requested the Company for making a repayment proposal for its consideration. In view of the financial position of the Group, the Company has imminent needs to raise fund for repaying the Loan.

The Company intends to apply the net proceeds of approximately HK\$84.59 million from the Rights Issue (assuming no further issue of new Shares or repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) as follows:

- (i) approximately HK\$73.61 million or 87% for repayment of part of the Loan (including principal amount of US\$7.5 million (equivalent to approximately HK\$58.88 million and representing about 30% of the outstanding principal amount of the Loan) and accrued interest of approximately HK\$14.73 million, "**Repayment Proposal**"). It is estimated that the finance costs of the Group will be reduced by approximately HK\$5.89 million per annum after repayment of such principal amount of the Loan and the financial results of the Group are expected to improve as a result. The Company considered that the repayment of about 30% of the outstanding principal amount of the Loan is considerable and would attract the Lender for its agreement on a further extension of two years and has presented the Repayment Proposal to the Lender. After reviewing the Repayment Proposal by the Lender, the Company and the Lender entered into an extension letter dated 21 March 2023 in respect of the Loan pursuant to which the Lender has agreed to extend the remaining principal amount of US\$17.5 million (equivalent to approximately HK\$137.38 million) of the Loan (the "**Remaining Loan**") for a term of two years to 20 April 2025 subject to the fulfilment of the repayment under the Repayment Proposal and entering into of a supplemental agreement to the Loan Agreement. Save for the extension of the maturity date of the Remaining Loan to 20 April 2025, other terms of the Loan Agreement (including interest rate of 10% and the Loan Securities) will remain unchanged. The Company and the Lender will enter into such supplemental agreement after fulfilment of the repayment under the Repayment Proposal. If the Lender did not satisfy with the Repayment Proposal or the repayment under the Repayment Proposal is not fulfilled, it is likely that the Lender will enforce the Loan Securities which is expected to cause disruptions to the business development of the Group such as disposal of the Company's business and assets. The Company will consider the repayment of the Remaining Loan from internal resources of the Group when the financial position of the Group improves in the future.

- (ii) approximately HK\$10.98 million or 13% for the general working capital of the Group (including approximately HK\$5.49 million for the working capital of the production plant in Zhongshan and HK\$5.49 million for administration and operation expenses of the headquarters in Hong Kong).

The Company has considered alternative fundraising methods which include debt financing or placing of new Shares or an open offer. For debt financing, in light of the loss-making position of the Group for the years ended 31 December 2021 and 2022 and the relatively high gearing ratio of the Group, it is difficult for the Group to obtain loans with favourable interest rate. For placing of new Shares, it would dilute the shareholding of the existing Shareholders while the Rights Issue will allow the Qualifying Shareholders to maintain their respective shareholdings in the Company on a pro rata basis. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market.

In view of the above and the reasons described in the sub-section headed "Subscription Price" under the section headed "Proposed Rights Issue", the Directors consider that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE UNDERWRITER

First Steamship is a company listed on the Taiwan Stock Exchange Corporation ("TWSE") (TWSE stock code: 2601). First Steamship's principal business activities include dry bulk carrier shipping, professional vessel management and crewing services and operation of department store. As at the Latest Practicable Date, Henghua Investment Co., Ltd., is the single largest shareholder of First Steamship, holding approximately 6.83% of the issued shares of First Steamship. Henghua Investment Co., Ltd. is principally engaged in investment holding.

As at the Latest Practicable Date, First Steamship and parties acting in concert with it (including Grand Citi) are interested in an aggregate of 142,628,902 Shares, representing approximately 28.98% of the issued share capital of the Company. In the event that First Steamship becomes the controlling shareholder of the Company as a result of taking up of the Unsubscribed Rights Shares under the Underwriting Agreement, it is the intention of First Steamship to continue the existing businesses of the Group. First Steamship has no intention to introduce any major changes to the businesses of the Group (including any redeployment of the fixed assets of the Group) or terminate the continued employment of the employees of the Group.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any fundraising activity involving issue of equity securities in the past twelve months immediately preceding the Announcement and up to the Latest Practicable Date.

LISTING RULES IMPLICATIONS

The Rights Issue upon completion, will increase the issued share capital of the Company by more than 50%. In accordance with Rule 7.19A and Rule 7.27A of the Listing Rules, the Rights Issue is conditional on approval by the Independent Shareholders (comprising both the Qualifying Shareholders and the Non-Qualifying Shareholders) at the SGM at which the controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue at the SGM. As such, the Directors (excluding independent non-executive Directors) and their associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, save for Mr. Hung (an executive Director) who is interested in 70,718,859 Shares, representing approximately 14.37% of the issued share capital of the Company, through Metroasset Investments Limited, a company beneficially owned as to 45.09%, 43.38% and 10.53% by Mr. Hung, Ms. Chen Mei Huei (spouse of Mr. Hung) and Mr. Hung Chih Chun (son of Mr. Hung) respectively, none of the Directors or their associates hold any Shares. As a result, Mr. Hung is required to abstain from voting the resolutions to approve the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and/or the Whitewash Waiver at the SGM pursuant to Rule 7.27A of the Listing Rules.

The Underwriter is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Underwriter and its associates shall abstain from voting in favour of the resolution(s) in relation to the Underwriting Agreement at the SGM.

Save for Mr. Kuo (a non-executive Director and a director and chairman of First Steamship and a director of the Placing Agent), no other Directors has a material interest in the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and/or the Whitewash Waiver and is required to abstain from voting at the meeting of the Board convened to consider such matters. Mr. Kuo has abstained from voting at the meeting of the Board convened to consider such matters. As at the Latest Practicable Date, Mr. Kuo does not hold any Shares.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEAL

Whitewash Waiver

As at the Latest Practicable Date, First Steamship and parties acting in concert with it (including Grand Citi) are interested in an aggregate of 142,628,902 Shares, representing approximately 28.98% of the issued share capital of the Company. First Steamship has provided the Irrevocable Undertaking to take up and pay for, and procure the taking up and payment by Grand Citi, an aggregate of 213,943,353 Rights Shares to be provisionally allotted to them respectively under the Rights Issue. Assuming no Rights Shares are taken up by the Qualifying Shareholders (other than those to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and no Unsubscribed Rights Shares are successfully placed under the Compensatory Arrangements, First Steamship, as the Underwriter, will be required to take up a maximum of 524,298,882 Rights Shares.

In such circumstances and upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, First Steamship and parties acting in concert with it (including Grand Citi) will, in aggregate, be interested in 880,871,137 Shares, representing approximately 71.59% of the issued share capital of the Company. Accordingly, First Steamship would be required to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it (including Grand Citi), unless the Whitewash Waiver is granted.

An application has been made by First Steamship to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive is minded to grant the Whitewash Waiver, subject to approval by the Independent Shareholders (including (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder) in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations on the part of First Steamship to make a general offer which will result from taking up the Unsubscribed Rights Shares. First Steamship, its associates and parties acting in concert with it (including Grand Citi), Mr. Hung and his associates, the Lender and its associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM.

If the Whitewash Waiver is granted by the Executive and approvals by the Independent Shareholders are obtained, upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the maximum potential holding of voting rights of First Steamship and parties acting in concert with it (including Grand Citi) in the Company will exceed 50%, First Steamship may thereafter increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Special Deal

As at the Latest Practicable Date, the Lender and its associates are interested in 24,000,000 Shares (representing approximately 4.88% of the issued share capital of the Company) and the Company is indebted to the Lender the Loan (including principal of US\$25 million (equivalent to approximately HK\$196.21 million) and accrued interest of approximately HK\$14.73 million). The Lender and its associates are not acting in concert with First Steamship and is independent to the current substantial Shareholders and the Placing Agent. Under the Takeovers Code, the use of the proceeds from the Rights Issue to repay the Loan under the Repayment Proposal would constitute a favourable condition not extended to all Shareholders and therefore a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Executive's consent, if granted, will be conditional upon (i) the Independent Financial Adviser to the Independent Board Committee publicly giving an opinion that the terms of the Special Deal are fair and reasonable; and (ii) the approval of the Independent Shareholders of the Special Deal at a shareholders' meeting by way of poll. The Company has made an application for seeking the consent of the Executive to the Special Deal under Note 5 to Rule 25 of the Takeovers Code.

The Rights Issue is conditional on, among other things, the granting of the Whitewash Waiver and the consent to the Special Deal by the Executive and the approval by the Independent Shareholders at the SGM in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver as mentioned above. If the Whitewash Waiver or the consent to the Special Deal is not granted and/or approvals by the Independent Shareholders are not obtained, the Rights Issue will not proceed.

The Company notes that the Executive may not grant the Whitewash Waiver or its consent to the Special Deal if the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver do not comply with other applicable rules and regulations.

SGM

The register of members of the Company will be closed from Tuesday, 16 May 2023 to Monday, 22 May 2023 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM. For the avoidance of doubt, the Non-Qualifying Shareholders are entitled to attend and vote at the SGM.

A notice convening the SGM to be held at Industrial Zone No. 3, No. 16 Qianjin Erlu, Xin Qian Jin Village, Tanzhou Town, Zhongshan, Guangdong Province, the People's Republic of China on Monday, 22 May 2023 at 11:00 a.m. is set out on pages SGM-1 to SGM-5 of this circular.

The SGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver. Only the Independent Shareholders will be entitled to vote on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

A form of proxy for use at the SGM is enclosed with this circular and such form of proxy is also published at the website of the Stock Exchange at www.hkex.com.hk. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy and indicate voting instruction in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time for the holding of the SGM (i.e. by 11:00 a.m. on Saturday, 20 May 2023) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof.

In accordance with the Listing Rules and the Takeovers Code, First Steamship, its associates and any parties acting in concert with it (including Grand Citi), Mr. Hung and his associates, the Lender and its associates and Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and/or the Whitewash Waiver will be required to abstain from voting on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM. Save as disclosed in this circular, no other Shareholder is involved or interested in or has a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver and, hence, is required to abstain from voting on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Wu Chia Ming, Ms. Chen Wei-Hui and Mr. Lu Ming-Shiuan, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder respectively, and the Whitewash Waiver, and as to the voting action therefor.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee should comprise all non-executive and independent non-executive Directors. Since Mr. Kuo, a non-executive Director, is the chairperson and a director of First Steamship, Mr. Kuo is not considered as independent for the purpose of giving advice or recommendations to the Independent Shareholders and will not be part of the Independent Board Committee.

With the approval of the Independent Board Committee, Red Sun has been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards. Please refer to the Letter from Red Sun set out on pages 44 to 83 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the aforesaid regards.

DESPATCH OF PROSPECTUS DOCUMENTS

Subject to, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver having been approved by the Independent Shareholders at the SGM, the Prospectus Documents or the Prospectus, whichever appropriate, will be despatched to the Qualifying Shareholders and, for information only, the Non-Qualifying Shareholders in due course. For the avoidance of doubt, the Non-Qualifying Shareholders are entitled to attend and vote at the SGM.

RECOMMENDATION

The Directors (including the members of the Independent Board Committee whose views in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver are further set out below) consider that the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, the Whitewash Waiver is fair and reasonable, and the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee whose views in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver are further set out below) recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver.

Having taken into account the advice of Red Sun, the Independent Board Committee considers that the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 42 to 43 of this circular which contain its recommendation to the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver. Your attention is also drawn to the letter from Red Sun set out on pages 44 to 83 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the aforesaid regards.

Your attention is also drawn to the additional information contained in the appendices to this circular

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

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-section headed "Termination of the Underwriting Agreement" under the section headed "The Underwriting Agreement" in this circular). Accordingly, the Rights Issue may or may not proceed.

The Shares are expected to be dealt in on an ex-rights basis from Wednesday, 24 May 2023. Dealings in the Rights Shares in nil-paid form are expected to take place from Wednesday, 7 June 2023 to Wednesday, 14 June 2023. Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares and the nil-paid Right Shares.



On behalf of the Board
Sandmartin International Holdings Limited
Chen Wei Chun
Executive Director