



FULLSUN INTERNATIONAL HOLDINGS GROUP CO., LIMITED
福晟國際控股集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 00627)

Executive Directors:

Mr. Pan Haoran (*Chief Executive Office*)
Mr. Li Jinrong

Independent non-executive Directors:

Mr. Kong Tat Yee
Mr. Yau Pak Yue
Mr. Zheng Zhen

*Principal place of business
in Hong Kong:*

Room 1811, 18/F
V Heun Building
138 Queen's Road Central
Central
Hong Kong

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

23 June 2023

To the Shareholders

Dear Sir or Madam

**(1) CAPITAL REORGANISATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
(4) CREDITORS' SCHEME;
(5) APPLICATION FOR WHITEWASH WAIVER; AND
(6) VERY SUBSTANTIAL DISPOSAL IN RELATION TO
TRANSFER OF THE SCHEME SUBSIDIARIES
TO THE SCHEMECO PURSUANT TO CREDITORS' SCHEME**

INTRODUCTION

Reference is made to (i) the September Announcement; (ii) the announcements of the Company dated 3 October 2022, 3 November 2022, 2 December 2022, 5 January 2023, 3 February 2023, 3 March 2023, 3 May 2023 and 5 June 2023 in relation to the delay in despatch of the circular; (iii) the announcement of the Company dated 6 December 2022 in relation to the appointment of the Independent Financial Adviser; (iv) the Reorganisation Announcement; and (v) the announcement of the Company dated 12 June 2023 in relation to the change in investors of the Subscriber.

On 11 July 2022 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the conditional Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 1,307,019,402 Subscription Shares at the Consideration of HK\$168,000,000, which represents a subscription price per Subscription Share of approximately HK\$0.1285. The Subscription is subject to various conditions as set out under the paragraph headed “Letter from the Board – The Subscription – Conditions precedent” in this circular, including, among others, the Capital Reorganisation and the Change in Board Lot Size having become effective and the Scheme having been sanctioned by the High Court.

The purpose of this circular is to provide you with, among other things, details of (i) the Capital Reorganisation; (ii) the Change in Board Lot Size; (iii) the Subscription; (iv) the Specific Mandate; (v) the Whitewash Waiver; (vi) the Scheme; (vii) the Group Reorganisation; (viii) a letter from the Independent Board Committee to the Independent Shareholders; (ix) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (x) a notice convening the SGM.

CAPITAL REORGANISATION

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

(i) The Share Consolidation

Every one hundred (100) issued Existing Shares of par value HK\$0.01 each in the share capital of the Company will be consolidated into one (1) issued Consolidated Share of par value HK\$1.00.

(ii) The Capital Reduction

Immediately upon the Share Consolidation becoming effective, the par value of each issued Consolidated Share will be reduced by (i) cancelling any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation; and (ii) cancelling the paid-up capital to the extent of HK\$0.99 on each of the then issued Consolidated Shares such that the par value of all the then issued Consolidated Shares will be reduced from HK\$1.00 to HK\$0.01.

According to audited consolidated financial statements of the Company for the year ended 31 December 2022, the accumulated loss of the Company was RMB1,952,681,000 (equivalent to approximately HK\$2,185,919,000).

The credit arising from the Capital Reduction in the amount of approximately HK\$112,517,322 will be credited to the contributed surplus account of the Company within the meaning of the Companies Act for use by the Directors in any manner permitted by the laws of Bermuda and the Bye-laws including but not limited to fully applying it to set off part of the consolidated accumulated loss of the Company.

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

Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position (save for the credit arising from the Capital Reduction which will be fully applied to set off part of the consolidated accumulated loss of the Company) of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

Effects of the Capital Reorganisation

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

	As at the Latest Practicable Date	Immediately upon the Capital Reorganisation becoming effective
Par value per Share	HK\$0.01 per Existing Share	HK\$ 0.01 per New Share
Amount of authorised share capital	HK\$500,000,000	HK\$500,000,000
Number of authorised Shares	50,000,000,000 Existing Shares	50,000,000,000 New Shares
Number of issued Shares	11,365,386,067 Existing Shares	113,653,860 New Shares
Paid up share capital	HK\$113,653,860.67	HK\$1,136,538.60

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (i) the passing of a special resolution by the Shareholders to approve the Capital Reorganisation at the SGM;
- (ii) the compliance with the relevant procedures and requirements under the Companies Act to effect the Capital Reorganisation, which includes (i) the publication in relation to a notice of the Capital Reduction in Bermuda in accordance with the Companies Act; and (ii) the Directors being satisfied that on the date on which the Capital Reorganisation is to be effected, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due;
- (iii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the New Shares resulting from the Capital Reorganisation; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

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

CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Shares were traded in board lots of 5,000 Existing Shares. Conditional upon the Capital Reorganisation becoming effective, the Board also proposes to change the board lot size for trading on the Stock Exchange from 5,000 Existing Shares to 20,000 New Shares.

Based on the closing price of HK\$0.02 per Existing Share (equivalent to the theoretical closing price of HK\$2.00 per New Share) as quoted on the Stock Exchange on the Last Trading Day, the value of each existing board lot of 5,000 Existing Shares is HK\$100 and the theoretical value for each new board lot of 20,000 New Shares, assuming the Capital Reorganisation has become effective, would be HK\$40,000.

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

Fractional shares

Fractional Consolidated Shares arising from the Share Consolidation will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company.

Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder. Shareholders concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser and may wish to consider the possibility of buying or selling Shares in a number sufficient to make up an entitlement to receive a whole number of New Shares.

Free Exchange of certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may from Monday, 17 July 2023 to Tuesday, 22 August 2023 submit share certificates of the Existing Shares to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in exchange, at the expense of the Company, for new share certificates of New Shares. Thereafter, share certificates of the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate of the Existing Shares cancelled or each new share certificate issued for the New Shares, whichever number of certificates cancelled/issued is higher. The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Friday, 18 August 2023 (or such other date which may be announced by the Company) and will continue to be good evidence of legal title and may be exchanged for share certificates of the New Shares at any time in accordance with the foregoing.

The new share certificates of the New Shares will be issued in yellow in order to distinguish them from the existing pink colour.

Listing and dealings

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank *pari passu* in all respects with each other. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

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

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares arising from the Capital Reorganisation, the Company has appointed CIS Securities Asset Management Limited as the designated broker to provide matching services, on a best effort basis, to the Shareholders for the sale and purchase of odd lots of New Shares at the relevant market price per New Share. The matching period commences from 9:00 a.m. on Monday, 31 July 2023 to 4:00 p.m. on Friday, 18 August 2023 (both dates inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or top up to a full board lot may, directly or through their brokers, contact Mr. Chu Wai Leung of 21/F., Centre Point, 181-185 Gloucester Road, Wan Chai, Hong Kong at (852) 3743 1088 during office hours within the aforesaid period.

Shareholders with odd lot holdings of New Shares should note that the matching of the sale and purchase of odd lots of the New Shares is on a best effort basis and successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult their professional advisers.

REASONS FOR THE CAPITAL REORGANISATION AND THE CHANGE IN BOARD LOT SIZE

The Directors are of the opinion that the proposed Capital Reorganisation will reduce the accumulated losses of the Company and give greater flexibility to the Company to declare dividends and/or to undertake any corporate exercise which requires the use of distributable reserves in the future, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future. The Capital Reduction will reduce the par value of the issued Consolidated Shares from HK\$1.00 per Consolidated Share to HK\$0.01 per New Share. Under the laws of Bermuda, a company may not issue shares at a discount to the par value of such shares. Accordingly, the Capital Reduction will allow greater flexibility in the pricing for any issue of new Shares in the future.

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

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

THE SUBSCRIPTION

The Subscription Agreement

A summary of the principal terms is set out below:

Date	:	11 July 2022
Parties	:	(i) the Company (as issuer); and (ii) the Subscriber (as subscriber)
Consideration	:	HK\$168,000,000
Price per Subscription Share	:	approximately HK\$0.1285
Number of Shares to be issued under the Subscription	:	1,307,019,402 New Shares
Enlarged issued share capital upon the Capital Reorganisation becoming effective and upon Completion	:	1,420,673,262 New Shares

Subscription Shares

Pursuant to the terms of the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 1,307,019,402 Subscription Shares at the Consideration of HK\$168,000,000, which represents a subscription price per Subscription Share of approximately HK\$0.1285.

After adjusting for the effects of the Capital Reorganisation, the Subscription Shares represent approximately 92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription).

The Subscription is subject to, among other things, the approval of the Independent Shareholders. The Company will allot and issue the Subscription Shares under the Specific Mandate to be granted by the Independent Shareholders at the SGM.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Subscription Shares including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Subscription price

The price per Subscription Share of approximately HK\$0.1285 represents:

- (a) a discount of approximately 91.4% to the closing price of HK\$0.015 per Share (HK\$1.50 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;
- (b) a discount of approximately 87.2% to the closing price of HK\$0.01 per Share (HK\$1.00 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange on 11 May 2022, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the 13 May 2022 Announcement and adjusted for the effect of the Capital Reorganisation;
- (c) a discount of approximately 93.6% to the closing price of HK\$0.02 per Share (HK\$2.00 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (d) a discount of approximately 92.4% to the average closing price of HK\$0.017 per Share (HK\$1.70 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (e) a discount of approximately 92.4% to the average closing price of HK\$0.017 per Share (HK\$1.70 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation; and

- (f) a discount of approximately 94.3% to the audited consolidated net asset value per Share as at 31 December 2022 of approximately HK\$0.0225 per Share (HK\$2.25 per New Share assuming the completion of the Capital Reorganisation) and adjusted for the effect of the Capital Reorganisation.

The net subscription price, after deduction of relevant expenses, of approximately HK\$136,000,000, is estimated to be approximately HK\$0.1041 per Subscription Share.

Basis of determination of the Subscription Price

The following factors have been taken into account in determining the Subscription Price:

- (a) Most of the assets of the Group are real estate projects which are unlikely to be liquidated in a short period of time, with a number of such projects in the PRC still undergoing construction. Most of those projects are financed by loans from third parties and are also subject to encumbrances. Having considered the challenging real estate market and the status of the various projects under construction, it was concluded that the value of the projects should not be a reference point in determining the value of the Company and the Subscription Price.
- (b) At the same time, the Group had approximately HK\$2.22 billion of loans and other claims outstanding and due as of 31 December 2022. The Petition was also filed against the Company. In light of the pressing need to resolve the liquidity issue of the Company, the Company commenced discussions with Profound Success with a view to gaining its support of a creditors scheme of arrangement. The Company was informed by Profound Success that it was willing to support a creditors scheme if it could receive in cash an amount equivalent to approximately 6% of its estimated Claim as at 31 December 2022 (being approximately HK\$108.6 million) via the Scheme (the final amount to be received is subject to the terms of the Scheme). As Profound Success is the largest creditor of the Company, with its unsecured claim representing roughly 69% of the indebtedness of the Company, its support would mean that the creditors scheme is likely to obtain required approval threshold.

- (c) On the other hand, the Subscriber indicated that since the Group was facing considerable difficulties in realising its real estate projects in the PRC (taking into account the current challenging real estate market of the PRC) and would take time in doing so, the Subscriber was of the view that in return for its investment, it would need to hold no less than 70% of the enlarged issued share capital of the Company.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber after considering, among others, the aforesaid factors and the need to gain the support of Profound Success for the creditors scheme to be successful and to confirm the required financing to support the creditors scheme before the hearing of the winding-up petition in Bermuda. The Supreme Court agreed to adjourn the hearing of the Petition to a later date on the basis that there were already funds lined up to finance a creditors scheme and that the creditors scheme has the support of the largest creditors.

In arriving at the Subscription Price, the Company and the Subscriber also made reference to the audited consolidated net asset value per Share as at 31 December 2021 of HK\$0.1021, the effect of the Capital Reorganisation, the share price performance of the Company and the acceptability of the Creditors towards the terms of the Scheme.

Taking into account the above, the Directors and the Independent Board Committee consider that the Subscription Price is fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

According to the Subscription Agreement, Completion will be subject to the fulfilment (and, where applicable, the waiver) of the following conditions precedent:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions reasonably acceptable to both Parties) the listing of, and permission to deal in, the New Shares resulting from the Capital Reorganisation and the Subscription Shares, and such permission not having been subsequently revoked or withdrawn;
- (b) the Whitewash Waiver having been granted by the Executive and the conditions (if any) attached thereto having been satisfied in full, and the Whitewash Waiver not having been subsequently revoked or withdrawn;
- (c) resolutions in relation to the Subscription Agreement and the transactions contemplated thereunder including the issue of the Subscription Shares having been duly passed by the Independent Shareholders in general meeting and all other consents and acts required under the Listing Rules and the Takeovers Code having been obtained and completed;

- (d) resolutions in relation to the Subscription Agreement and the transactions contemplated thereunder including the issue of the Subscription Shares having been duly passed by the Board;
- (e) resolutions in relation to the approval of the Whitewash Waiver having been duly passed by the Independent Shareholders in general meeting;
- (f) the Scheme having been sanctioned by the High Court;
- (g) the Subscriber being reasonably satisfied with the results of its due diligence conducted on the Group;
- (h) the Capital Reorganisation and the Change in Board Lot Size having become effective;
- (i) the consolidated net asset value of the Company remaining at a level not less than HK\$900,000,000;
- (j) the original of a declaration from the directors of each of the operating subsidiaries (the “**Operating Subsidiaries**”) of the Company as set out in the Subscription Agreement certifying that the management accounts made up to 30 June 2022 of the relevant Operating Subsidiary were prepared on the same basis as its latest audited accounts (if any) and reflect the state of affairs of the relevant Operating Subsidiary and of the results of its operations and its cashflows as at such date;
- (k) the representations, warranties and undertakings made by the Company as set out in the Subscription Agreement remaining true, accurate and complete in all material respects and not misleading;
- (l) the Petition having been dismissed;
- (m) the disclosure letter to be signed by the Company in relation to the Subscription Agreement having been delivered by the Company to the Subscriber within ten (10) Business Days from the date of the Subscription Agreement (or such other date as the Parties may agree in writing);

- (n) the Subscriber having entered into one or more placing agreement(s) with placing agent(s) pursuant to which independent third parties will be procured to acquire, simultaneously at Completion, from the Subscriber sufficient number of Subscription Shares for the purpose of ensuring continuous compliance by the Company with the requirement under Rule 8.08(1) of the Listing Rules immediately before and after Completion, such placing agreement(s) not having been terminated and all conditions precedent to completion of such placing agreement(s) as provided therein (save in respect of any condition precedent that requires the Subscription Agreement to have become unconditional) having been satisfied;
- (o) resolution(s) in relation to the approval for the Group Reorganisation having been duly passed by the Independent Shareholders in general meeting; and
- (p) the Group Reorganisation having been completed (save for the transfer of the shares of each of Vivalink, Gold Asset and Wise Think, so long as it is subject to enforcement actions with Receiver appointed).

Save for conditions precedent (g), (i), (j) and (k) which may be waived by the Subscriber at its sole and absolute discretion at any time at or before Completion by serving a written notice to the Company, none of the Parties may waive any of the conditions precedent.

If the conditions precedent are not satisfied (or, where applicable, waived) on or before the Completion Date (or in the case of conditions precedent (b), (g) and (n), on or before the Long Stop Date), the Subscription Agreement will be terminated automatically on the Long Stop Date.

As at the Latest Practicable Date, save for conditions precedent (d) and (m), none of the above conditions had been fulfilled.

Latest status of the Petition

Upon application by the Company for an adjournment of the winding-up hearing in respect of the Petition, after a number of hearings, at a hearing on 14 April 2023, the Supreme Court ordered that the hearing of the Petition be adjourned to 9:30 a.m. on Friday, 14 July 2023 (Bermuda time).

Provided that the Hong Kong Court sanctions the Scheme at the hearing on 26 June 2023 and the relevant resolutions are passed at the SGM on 13 July 2023, the Company will apply to the Supreme Court at the hearing on 14 July 2023 to dismiss the Petition on the Effective Date. After the Effective Date, the Supreme Court will pass a further order confirming for the Supreme Court's record the date on which the Petition had been dismissed pursuant to its order made at the hearing on 14 July 2023. The dismissal of the Petition, being condition precedent (I), will be satisfied on or before the Completion Date.

Completion

Subject to the conditions specified in the Subscription Agreement being fulfilled (or, where applicable, waived), Completion shall take place on the Long Stop Date or three (3) Business Days immediately after the date of fulfilment (or, where applicable, waiver) of all the conditions precedent to the Subscription Agreement, whichever is earlier (or such later date as may be agreed in writing between the Parties).

Loan under the Subscription Agreement

Pursuant to the Subscription Agreement, an interest-free loan (the "**Transaction Loan**") in the aggregate principal amount of HK\$5,000,000 will be made available by the Subscriber to the Company for the sole purpose of payment and settlement of the costs and expenses in connection with or incidental to the transactions contemplated under the Subscription Agreement (including the Restructuring Transactions). Drawdowns of the Transaction Loan by the Company are subject to (i) the Company having delivered to the Subscriber irrevocable letters supporting the Scheme from the Creditors representing at least 75% in monetary value of the Claims; and (ii) the Company having published the September Announcement. Only costs and expenses in connection with or incidental to the transactions contemplated under the Subscription Agreement (including the Restructuring Transactions) incurred after the conditions for drawdown of the Transaction Loan have been satisfied may be applied and settled by the drawdown of the Transaction Loan.

The Transaction Loan shall be repaid in whole or in part by way of set-off of the Consideration payable upon Completion.

As at the Latest Practicable Date, the Transaction Loan provided for under the Subscription Agreement had not been drawn down by the Company.

Payment of the Consideration

The Consideration shall be payable by the Subscriber to the Company at Completion, provided that:

- (i) the aggregate amount of the principal amount of the amount drawn (the “**Drawdown Amount**”) on the Transaction Loan then outstanding shall be applied towards part payment of the Consideration on a dollar-to-dollar basis;
- (ii) the Subscriber shall pay to the Company by transfer of clear and immediately available funds from the Consideration a sum equal to the costs and expenses (whether incurred before or after all conditions for drawdown of the Transaction Loan have been satisfied) in connection with or incidental to the transactions contemplated under the Subscription Agreement (including the Restructuring Transactions) not settled or paid with the Drawdown Amount then outstanding; and
- (iii) subject to (i) to (ii) above, the balance of the Consideration shall be paid by the Subscriber by transfer of clear and immediately available funds to the Scheme as the Cash Consideration.

Application for Listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Information on the Subscriber

The Subscriber is a sub-fund of CIS FUND OFC, an open-ended fund company with variable share capital incorporated in Hong Kong with an investment fund mandate to invest in listed and/or unlisted equity and/or debts or real estates or foreign currencies or commodities or insurance policies or funds, futures, options, derivatives of any assets or digital assets or other interests or assets. As at the Latest Practicable Date, the Subscriber has a total of 5,000 issued shares. The Subscriber does not have a general partner or director. Upon Completion, CIS SAM, being the investment manager of the Subscriber, will be in control of the voting rights attached to the Subscription Shares.

As at the Latest Practicable Date, the investors of the Subscriber were (a) Grateful Heart Inc. (“**Grateful Heart**”), who has invested the sum of HK\$20,000,000, in return for 4,000 shares of the Subscriber, representing 80% of the total number of issued shares of the Subscriber; and (b) CIS Investments Limited (“**CIS Investments**”), who has acquired in aggregate 1,000 shares of the Subscriber, representing 20% of the total number of issued

shares of the Subscriber, from Mr. Hong Kunsen, Mr. Lam Chi Kin Christopher and Mr. Huang Canjian, who were the investors of the Subscriber as at the date of the September Announcement for an aggregate consideration of HK\$5,000,000. As such, Mr. Hong Kunsen, Mr. Lam Chi Kin Christopher and Mr. Huang Canjian no longer have any interest in the Subscriber. All such funds invested in the Subscriber by Grateful Heart and CIS Investments are in readily available funds, funded by the respective investor's own internal resources, and are not subject to any encumbrances.

At the meeting of the Creditors held on 19 May 2023, the resolution to approve the Scheme was duly passed. As such, pursuant to the fund subscription form dated 12 August 2022 given by Mr. Hong Kunsen to the Subscriber, on 25 May 2023, the Subscriber served a notice to make a drawdown on Mr. Hong Kunsen's further investment amount of HK\$200,000,000 in order to satisfy the shortfall between the Consideration of HK\$168,000,000 and the then amount of investment in the Subscriber of HK\$5,000,000. On 29 May 2023, Mr. Hong Kunsen informed the Subscriber that he was unable to provide the further investment amount of HK\$200,000,000 to the Subscriber and that he intended to sell his shares in the Subscriber. The Subscriber, upon learning about Mr. Hong Kunsen's situation, has promptly searched for new investors in order to satisfy the shortfall between the Consideration and the amount of investment in the Subscriber. As a result, Grateful Heart and CIS Investments, which are interested in investing in the Company because of their positive view regarding the Company's business operations and the property development industry in the PRC, have agreed to become the new investors of the Subscriber in the place of Mr. Hong Kunsen, Mr. Lam Chi Kin Christopher and Mr. Huang Canjian.

Pursuant to an irrevocable letter of undertaking given by Grateful Heart, Mr. Kenichi Yanase and Dr. Hiroshi Kaneko in favour of the Subscriber and CIS SAM dated 2 June 2023, Grateful Heart has agreed to invest a further sum of not less than HK\$200,000,000 in the Subscriber in return for additional shares in the Subscriber, thereby increasing Grateful Heart's shareholding interest in the Subscriber after such investment is made, and has provided to the Subscriber a bank statement dated 27 May 2023 showing that financial resources of not less than HK\$200,000,000 in a bank account in Hong Kong in the name of Grateful Heart, which is not subject to any form of encumbrance, for the purpose of satisfying the further investment sum. Grateful Heart has undertaken that such deposit shall only be utilised to satisfy call(s) of contribution issued by the Subscriber, which will be released to the Subscriber conditional on (a) the Specific Mandate having been obtained at the SGM for the allotment and issue of the Subscription Shares; and (b) the notice of call for contribution having been issued by the Subscriber to Grateful Heart for the purpose of settlement of the Consideration. If such conditions have not been satisfied on or before 31 August 2023 or other date as agreed by Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, the Subscriber and CIS SAM in writing, Grateful Heart's obligation of maintaining and releasing the further sum of investment shall be immediately discharged. The Subscriber intends to serve notice of call for contribution to

Grateful Heart upon satisfaction of condition (l) of the Subscription Agreement, being that the Petition having been dismissed. The part of further sum of investment as to HK\$143,000,000 will be used to satisfy the shortfall between the Consideration of HK\$168,000,000 and the current amount of investment in the Subscriber of HK\$25,000,000. Pursuant to the irrevocable letter of undertaking dated 2 June 2023, Mr. Kenichi Yanase and Dr. Hiroshi Kaneko have also undertaken to (i) jointly and severally guarantee the due performance of Grateful Heart of its obligations under such letter of undertaking; and (ii) procure that Grateful Heart will cooperate and support the Subscriber to complete the Subscription.

Grateful Heart is an investment holding company incorporated in the BVI with limited liability and as at the Latest Practicable Date is held as to 70% by Mr. Kenichi Yanase and 30% by Dr. Hiroshi Kaneko. The sole director of Grateful Heart is Dr. Hiroshi Kaneko. Dr. Hiroshi Kaneko was introduced to CIS SAM in March 2023 through an intermediary for CIS SAM's account opening service and investment opportunities. In May 2023, the opportunity to invest in the Company was presented by CIS SAM to Mr. Kenichi Yanase through Dr. Hiroshi Kaneko and they decided to invest in the Company through Grateful Heart. Grateful Heart and CIS SAM and their respective beneficial owners are independent of the Company and its connected persons. As at the Latest Practicable Date, Grateful Heart and its beneficial owners are parties acting in concert with the Subscriber, CIS Investments, CIS SAM and CIS Group Limited.

Mr. Kenichi Yanase (“Mr. Yanase”), aged 57, has extensive experience in the field of banking, real estate and investment. Mr. Yanase is currently the chairman of Kyosei Bank Co., and is responsible for overseeing its daily operation and strategic planning. He has also been serving as its chief executive officer since January 2012.

Prior to joining Kyosei Bank Co., Mr. Yanase founded Toshisouken Invest-Bank Co.* (都市綜研インベストバンク株式会社) and has been serving as its chairman since October 2007, and is primarily responsible for new business development and operations, as well as overseeing the real estate business in general. Mr. Yanase also founded Toshisouken Invest-Fund Co.* (都市綜研インベストファンド株式会社) and has been serving as its chairman since April 2010, and is primarily responsible for the management and operation of the real estate fund. Mr. Yanase has been acting as the non-executive director of Hong Wei (Asia) Holdings Company Limited (stock code: 8191), the shares of which are listed on GEM of the Stock Exchange, since 20 November 2021.

Mr. Yanase graduated from Kobe City Suma High School in March 1984.

Dr. Hiroshi Kaneko (“Dr. Kaneko”), aged 58, has extensive research experience in the field of environment, development and economic science in Japan, China and Northern America. He has been engaged in comprehensive utilisation of environmental friendly materials and international trade. He is currently a vice president and chief financial officer of Kyosei-Bank Co* (共生バンク株式会社) and is mainly responsible for overseeing the financial aspects of new business development.

Dr. Kaneko has received a Master of Engineering from Dalian University of Technology in 1989 and a doctoral degree in Engineering from the Department of the Advanced Interdisciplinary Studies from University of Tokyo in 1997.

Dr. Kaneko has been acting as the executive director of Hong Wei (Asia) Holdings Company Limited (stock code: 8191), the shares of which are listed on GEM of the Stock Exchange, since 20 November 2021.

Save as disclosed above, as at the Latest Practicable Date, Dr. Kaneko had no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

CIS Investments is an investment holding company incorporated in Hong Kong with limited liability and as at the Latest Practicable Date is a wholly owned subsidiary of CIS Group Limited. CIS Group Limited is an investment holding company with a number of Hong Kong incorporated subsidiaries (together with its subsidiaries, collectively referred to as the “**CIS Group**”), the first of which was incorporated in 2007, and which hold SFC, insurance authority and money lending licenses for the provision of funds, securities and insurance services in Hong Kong. The principal business of the CIS Group is the provision of wealth management services for mid to high-end clients and institutional clients in Hong Kong and the Asia-Pacific region and its core businesses are securities and asset management, equity and debt capital market, insurance and wealth management, capital and equity investment, money lending and immigration service. The ultimate controlling shareholder of CIS Investments is Ms. Kan King Yee Karen. The directors of CIS Investments are Mr. Chu Wai Leung and Mr. Chung Ho Wai Alan. CIS Investments and CIS SAM are both wholly owned subsidiaries of CIS Group Limited.

CIS SAM is the investment manager of the Subscriber, who became interested in the subscription of the Shares because of its previous experiences investing in companies with similar business for other funds under its management. CIS SAM will be in control of the voting rights attached to the Subscription Shares upon Completion. Neither Grateful Heart nor CIS Investments have any influence over CIS SAM in the exercise of voting rights attached to the Subscription Shares. The principal businesses of CIS SAM are dealing in securities, futures contracts, advising on securities and provision of fund management services. Other funds managed by CIS SAM include CIS Global Opportunities Fund SPC – Rental Yield Growth Fund SP. CIS SAM is also the investment manager of CIS FUND OFC, the umbrella fund of the Subscriber. CIS SAM is a direct wholly owned subsidiary of CIS Group Limited.

Each of the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) is an Independent Third Party. Immediately prior to the entering into of the Subscription Agreement, none of the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) had any interests in the Shares.

In the event of any further proposed change in an investor of the Subscriber, and the new investor is a connected person of the Company, the Company will comply with the relevant requirements of Chapter 14A of the Listing Rules in relation to the Subscription.

How the Subscriber was introduced to the Company

The Subscriber came to know the Company through a responsible officer (the “CIS RO”) of CIS SAM, its investment manager.

In June 2019, the Company conducted a placing (the “**Note Placing**”) of unconditional, unsubordinated and unsecured notes of an aggregate principal amount of up to HK\$150,000,000 (the “**Notes**”). Run Investment Services Limited acted as the placing agent in relation to the Note Placing and CIS SAM acted as the sub-placing agent for Run Investment Services Limited.

In early May 2022, the primary person involved in handling the Note Placing for CIS SAM (the “**CIS Representative**”), having noticed the announcements of the Company in relation to the Petition (including the announcement of the Company dated 21 March 2022 and the subsequent update announcements of the Company in relation to the Petition) and in view of the maturity of the Notes on 11 July 2022, 15 July 2022 and 18 July 2022 respectively, contacted the primary person involved in handling the Note Placing for the Company (the “**Company Representative**”) to enquire about whether the Company would be able to fully repay the outstanding principals of the Notes and the interests accrued thereon at maturity.

Upon receiving a reply in the negative from the Company Representative, the CIS Representative reached out to the CIS RO to enquire about whether, to his knowledge, there was any potential interest in investing in the Company. The CIS RO became interested upon hearing the CIS Representative’s proposal and subsequently established the Subscriber for this purpose.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Company is an investment holding company and the Group is principally engaged in the development and sale of residential and commercial properties in the PRC including Hong Kong.

As at the Latest Practicable Date, the Company had substantial debts which were due and payable. Despite the Company having recorded a positive net assets value as of 31 December 2021 and 31 December 2022, most of the assets of the Company are real estate projects which are unlikely to be liquidated in a short period of time and hence the Company faces severe liquidity issues in settling the overdue (or matured) debts.

A detailed breakdown of the indebtedness of the Company as at 31 December 2022 is set out below:

	Estimated claims (HK\$'000)	Maturity Date	Aging	Estimated secured Claims (HK'000)	Estimated unsecured Claims (HK'000)	How the estimated unsecured Claims have been reflected in Appendix III to this circular
Profound Success (Note 1)	1,809,225 (Note 2)	1. Tranche 1: due on 28 July 2021 2. Tranche 2: due on 5 September 2020	N/A	-	1,809,225	This amount is included under Proforma Consolidated Statement of Financial Position (Appendix III-7 - Note 2(a)) under "Borrowings due within one year" and "Trade and other payables and accruals" for the principal and interest portion respectively. The impact is therefore reflected in Appendix III-7 - Note 2(e).
Sure Valued (Note 3)	362,341	4 January 2022	N/A	362,341	-	-

	Estimated claims (HK\$'000)	Maturity Date	Aging	Estimated secured Claims (HK'000)	Estimated unsecured Claims (HK'000)	How the estimated unsecured Claims have been reflected in Appendix III to this circular
Harbor Sure (Note 4)	71,484	Due on 25 March 2022	N/A	-	71,484	This amount represents borrowings of a Deconsolidated Subsidiary, Vivalink. As mentioned in Appendix III-13 – Note 2(c) second paragraph, the amount has already been derecognised in the Company's annual report for the year ended 31 December 2022 upon the deconsolidation of Vivalink Limited (Note 35(B) to the consolidated financial statements) on 1 January 2022. Therefore, it has no impact to the gain on the Group Reorganisation.
Corporate bonds	19,851	Principal: 1. HK\$2,000,000 due on 16 July 2022 2. HK\$1,000,000 due on 19 July 2022 3. HK\$5,000,000 due on 12 July 2022 4. HK\$10,000,000 due on 20 November 2024	Interest: 1. 180-365 days: HK\$848,000 2. Over 365 days: HK\$600,000 3. Interest accrual on 31 December 2022: approximately HK\$403,000	-	19,851	This amount forms part of the "Discharge of claims owing by the Retained Group pursuant to the Group Reorganisation" in Appendix III-14 – Note 2(e).

	Estimated claims (HK\$'000)	Maturity Date	Aging	Estimated secured Claims (HK'000)	Estimated unsecured Claims (HK'000)	How the estimated unsecured Claims have been reflected in Appendix III to this circular
Other borrowings	3,755	Repayable on demand	N/A	-	3,755	This amount forms part of the "Discharge of claims owing by the Retained Group pursuant to the Group Reorganisation" in Appendix III-14 - Note 2(e).
Payable – Professional fees	1,720	N/A	<ol style="list-style-type: none"> 1. less than 180 days: approximately HK\$675,000 2. 180-365 days: approximately HK\$445,000 3. over 365 days: approximately HK\$600,000 	-	1,720	This amount forms part of the "Discharge of claims owing by the Retained Group pursuant to the Group Reorganisation" in Appendix III-14 - Note 2(e).
Employees' claims	1,956	N/A	less than 180 days	-	1,956	This amount forms part of the "Discharge of claims owing by the Retained Group pursuant to the Group Reorganisation" in Appendix III-14 - Note 2(e).

	Estimated claims (HK\$'000)	Maturity Date	Aging	Estimated secured Claims (HK'000)	Estimated unsecured Claims (HK'000)	How the estimated unsecured Claims have been reflected in Appendix III to this circular
Amounts due to subsidiaries (Note 5)	516,818	N/A	over 365 days	-	516,818	These are intercompany balances which were eliminated in the Group's consolidated financial statements as at 31 December 2022. Therefore, it has no impact to the gain on the Group Reorganisation.
Estimated Total Claims	2,787,150			362,341	2,424,809	

Notes:

- (1) The loan is for the development of property projects located in the PRC and Hong Kong. The Company acts as guarantor for the Group's borrowings under this loan.
- (2) As at 31 December 2022, the estimated total Claim of Profound Success amounted to approximately HK\$1,809,225,000. This total Claim can be in broad terms categorised into secured portion (or claim) and unsecured portion (or claim). For differentiation purpose, the secured claim represents the portion of the total claim which is covered by various security granted by the Group (comprising share charges and a second mortgage over certain units of a property project of the Group situated at No.6 La Salle Road, Kowloon, Hong Kong (the "La Salle Property Units")), the value of which is subject to valuation. Only the unsecured portion of the total claim (being calculated by subtracting the value of the security granted from the total claim) would be subject to the Scheme. Upon the Scheme becoming effective, the borrower of the loan granted by Profound Success, being a direct debtor, would still be indebted to Profound Success for the secured portion of claims and the security granted will remain as security for such portion. In essence, Profound Success will look to the Scheme for recouping the unsecured claim only.

- (3) The Group received a notice of assignment dated 4 January 2022 from Hang Seng Bank assigning this loan and the security (the “**La Salle Security**”) comprising the La Salle Property Units and the 100% of the issued shares of certain wholly-owned subsidiaries of the Company holding the La Salle Property Units to Sure Valued. The loan is for the financing of the property project situated at No.6 La Salle Road, Kowloon, Hong Kong. The Company acts as guarantor for the Group’s borrowings under this loan.

This debt is secured and the approximate value of the La Salle Security is HK\$371 million, which is sufficient to cover the whole debt. As at the Latest Practicable Date, the La Salle Security had been placed under receivership and to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, most of the La Salle Property Units have been sold by the receiver and it is expected that the proceeds from the sale will be sufficient to settle the debt in full.

- (4) The loan is for the financing of Hong Kong property projects. The Company acts as guarantor for the Group’s borrowings under this loan.
- (5) Under the Scheme, the Company and its subsidiaries will be treated as separate stand-alone entities and hence any subsidiary of the Company with amounts due from the Company will be considered as a Creditor. The amounts due to subsidiaries are a result of accumulated funds inflows and outflows between current accounts of the Company and the subsidiaries concerned. As the amounts due to subsidiaries, which are unsecured Claims, will be fully discharged upon the Scheme becoming effective, the Company will not be required to repay such amounts to its subsidiaries following Completion.
- (6) As at the Latest Practicable Date, the Company was not aware of other known insolvency or other creditor enforcement proceedings pending against the Company. The final amount of the Claims will be subject to adjudication.

Alternative fund raising methods considered by the Company

The Company has considered and attempted various ways of settling the Claims, the details of which are as follows:

(a) Settlement of the Claims using the cash balance of the Group

As at 30 June 2022, the Harbor Sure Borrowing amounted to approximately HK\$71.5 million, which at first glance appears insignificant when compared with the Group’s total assets of RMB9,744 million (equivalent to approximately HK\$11,918 million) and unrestricted cash balance of RMB147.7 million (equivalent to approximately HK\$180.6 million) as at 30 June 2022.

There are, however, two main reasons why the Group is unable to utilise its unrestricted cash balance to settle the debts of the Company.

Firstly, most of the cash balance of the Group has already been earmarked for use to sustain the existing projects of the Group.

Secondly and more importantly, as most of the projects of the Group are located in Changsha City in Hunan Province where real estate development activities at the moment are subject to extremely stringent government supervision in light of the issues concerning the operation of real estate development projects in the PRC, for instance the recent crisis arising in the wake of the lack of funds of numerous real estate developers to complete construction of real estate projects. As a means to prevent improper use of funds by property developers in Changsha, nearly all of the cash of the operating subsidiaries of the Group in Changsha are deposited with accounts supervised by the relevant PRC authorities (i.e. 長沙市住房和城鄉建設局 (Changsha Housing and Urban-Rural Development Bureau)) to ensure that such cash will first be used in connection with the real estate projects of the subsidiaries and would not be used for any other purposes before fully settling the construction cost of the real estate projects. Should one of such operating subsidiaries wish to utilise such cash for any payment, such subsidiary must apply for and obtain the prior written consent of the relevant departments of the district and municipal governments and representatives of the owners' group of the respective real estate project (業主代表) (each real estate project is governed by one of such bodies which comprises sub-district offices and local communities (街道辦事處和當地社區)). Coupled with the present requirement of the relevant governmental departments in Changsha that all real estate development projects must hold sufficient funds to guarantee completion of construction and to pay relevant expenses, it is unlikely that the relevant governmental departments will grant consent to such funds being used for purposes other than in relation to the relevant property development projects, let alone for the purpose settling offshore debts of parent companies. Further, in addition to the required consents as mentioned above, as most of the subsidiaries' real estate projects are financed through project financing obtained from local financiers such as banks and trust companies, the use of cash by the subsidiaries is in general subject to the prior consent of the financiers to ensure repayment of the loans advanced to the subsidiaries and payment of interest accrued. For uses of cash not relating to the property development concerned or repayment of the financing, it is hardly possible that the financiers will grant consent to such uses of the subsidiaries' cash. As demonstrated above, it is simply not possible for the Company to apply the cash balance to settle any part of the Claims. For the same reasons, the cash balance cannot practically be used as a funding source required under the Scheme to settle the Claims.

The Harbor Sure Borrowing only accounts for approximately 2.57% of the total Claims. Even if the Group is able to obtain the required consents to utilise the cash balance to settle the Harbor Sure Borrowing in full, the Group still has an insufficient cash balance to settle all the Claims of the other Creditors (which are all due and payable). For illustration purposes, the cash balance of the Group as at 30 June 2022 would only be able to settle approximately 6.49% of the total Claims (including those of Harbor Sure and Profound Success) if any part of the cash balance could be so applied.

As at the Latest Practicable Date, save for the Petition and the enforcement action carried out by Sure Valued as mentioned above, none of the other Creditors (including Profound Success) had taken action against the Company due to a winding-up petition having already been filed against the Company in the form of the Petition. Furthermore, Profound Success has not taken action against the Company for the additional reason that it has agreed in principle that the Company should pursue a debt restructuring by way of a scheme of arrangement. The Company believes that it is only due to such reasons that the other Creditors (including Profound Success) have not commenced their own winding up petitions against the Company. As such, even if the cash balance of the Group could be hypothetically used to settle the Harbor Sure Borrowing, settling the Harbor Sure Borrowing (although in practice it is impossible to use the cash balance to settle offshore debts before fully settling the construction cost and debts due to local financiers) using the cash balance of the Group does not represent a feasible solution to the Company's financial difficulties as settling the Harbor Sure Borrowing using such method would not resolve the Claims of other Creditors who would otherwise be entitled to take action against the Company in place of Harbor Sure.

(b) Settlement of the Claims by realising assets of the Group

The Company considers liquidating its assets for the purpose of settling its outstanding indebtedness to be unfeasible due to the difficulty in liquidating such assets within a short period of time.

Most of the assets of the Group are real estate projects situated in the PRC, in particular in or around Changsha City in Hunan Province. Due to the outbreak of the COVID-19 pandemic, the current economic conditions in the PRC and existing policies in relation to real estate adopted by local governments in the PRC, the Company expects that it would be extremely difficult (if not impossible) to liquidate the Group's real estate projects in the PRC within a short period of time, even if the real estate projects are attempted to be sold at a deep discount (which in fact is not possible because the selling price must be agreed by the project financiers which would normally not be willing to agree to selling at deep discount).

In Changsha in particular, the property market has become extremely saturated. At present, there are over 100 private real estate developers competing with one another to realise their assets, some at steep discounts. Although prices for real estate are already extremely low, demand for real estate from private real estate developers in Changsha City is virtually non-existent due to a combination of existing policies in relation to real estate adopted by the local government and low consumer confidence in the economy and housing market.

The local government in Changsha City has implemented policies which restrict the purchase of real estate by consumers unless the individual purchaser in question is a local registrant of the official household registration system of the PRC (hukou(户口)), in addition to raising the mortgage requirements for consumers when purchasing property. Consumers have also become concerned about the increasing number of incidents where private real estate developers are unable to complete construction of real estate projects after payment of the purchase price, leading to market sentiment turning against real estate projects developed by private real estate developers. At present, instead of purchasing property from private real estate developers such as the Company, consumers overwhelmingly prefer to purchase real estate developed by state owned developers due to their perceived reliability and financial stability. Such factors have resulted in the supply of real estate from private real estate developers in Changsha City far outstripping demand, leading to extreme difficulties about the prospects of realising the assets of the Group within a short period of time, even if the Group is able to sell such assets at steep discounts (which it in fact cannot).

Even if the Group manages to realise its real estate projects, due to the restrictions placed on the cash balances of the PRC operating subsidiaries by, among others, the relevant governmental departments and financiers as mentioned above, the proceeds from the sale of the real estate projects would still be restricted from being utilised for settling the offshore debts of the Group.

Last but not least, the Petition necessitates the Company to act quickly and decisively to demonstrate to the Supreme Court that it has a concrete rescue proposal. The time between the date of receipt of the Petition in March to the hearing of the Company application for a two-month adjournment of the hearing of the winding-up petition in May 2022 (which the Company was successful in obtaining due to, in part, the Company having entered into a term sheet with a potential investor) was approximately two months. Due to the reasons stated above, it is very unlikely that a real estate project of the Group in the PRC could be sold and delivered within two months (including, among others, the time needed to identify potential purchasers, engage in negotiations and complete such sale (including approving of the relevant mortgage where required and delivery of the relevant property)). There was a strong likelihood that the Company would have already been wound up at the hearing in May 2022 had (i) the Company not been able to demonstrate that it had entered into a term sheet with a potential investor with a concrete plan to settle all the indebtedness of the Company through the Scheme; and (ii) Profound Success not agreed in principle to the Company's restructuring proposal by way of a scheme of arrangement.

As such, given the limited time faced by the Company as a result of the Petition, the extreme difficulty of liquidating the Group's real estate projects in the PRC and the inability to use the cash balances and sale proceeds even if such real estate projects could be sold of the PRC operating subsidiaries, the Company does not consider liquidation of the Group's assets a feasible (not even remotely) solution to the Company's financial difficulties.

(c) *Other means of fund raising*

The PRC real estate industry has, in recent years, experienced various cycles and the PRC government has implemented various measures with an aim to mitigate industry risks and to stabilise the development of the PRC real estate market. However, in implementing these policies, lots of financial institutions have taken cautious measures which, as a result, has led to a tightened capital environment for the Group.

(i) *Equity and debt securities*

A non-underwritten rights issue, open offer or placing will not guarantee sufficient funds to finance the Scheme. A fully-underwritten rights issue, open offer or placing requires a potential underwriter to guarantee that the funds sought by the Company will be raised. It is very unlikely that a potential underwriter negotiating at arm's length would agree to underwrite a rights issue, open offer or placing of the Company while a winding-up petition against the Company remains pending. As such, the Company considers raising funds by way of rights issue, open offer or placing unfeasible.

Similar to the issues faced by fund raising by means of rights issue, open offer or placing, as long as the winding-up petition against the Company remains pending, a reasonable investor will not subscribe for bonds issued by the Company due to the objective risk of default of the Company.

During the first and second quarters of 2022, the Company engaged in discussion with a few intermediaries for possible issuance of offshore notes. Despite the efforts of the Company, such discussions did not proceed past a preliminary stage as all these intermediaries did not consider the issuance of offshore notes to be practicable primarily due to the fact that the Company was subject to a winding-up petition against the Company.

(ii) *Borrowings*

During the first and second quarters of 2022, the Group engaged in discussion with its existing creditors for extension of the repayment of existing debts and for possible new funding. As with the discussions for the issuance of offshore notes, the discussions also did not proceed past a preliminary stage as all these existing creditors would not consider extending repayment of debts or grant new funding to the Group in the knowledge that a winding-up petition against the Company remained pending.

During the first quarter of 2022, the Company approached Mr. Pan, to enquire about whether he would be interested in subscribing for additional Shares or other securities of the Company and/or lending money to the Company. Mr. Pan expressed his willingness to do so. However, after revisiting his finances and considering the deteriorating economic environment, Mr. Pan ultimately informed the Company that he was unable to do so.

The Company has attempted and exhaustively considered various means of fund raising in order to alleviate the financial difficulties of the Company. Despite the efforts of the Company, it is the view of the Company from its experience acquired from its discussions with third parties for possible fund raising that as long as a winding-up petition against the Company remains pending, any attempt at equity financing, debt financing and borrowing by the Company will not be successful as no reasonable investor (save in the form of a rescue proposal by way of a scheme of arrangement) or underwriter would invest in the Company or finance the Company.

Furthermore, in the event an order is made by the Supreme Court for the winding up of the Company, the winding-up will be deemed to have commenced from the time of the presentation of the winding up petition. Any transactions or dispositions of the Company's assets made by a company during the period from the winding-up petition to the winding-up order are void unless validated by the Supreme Court. A validation order has not been obtained by the Company in respect of the Petition and as such no reasonable financier or investor (save in the form of a rescue proposal by way of a scheme of arrangement) would consider financing or investing in the Company.

In view of the impossibility of the Company in obtaining new funding and the Petition having been filed against the Company, the Company considered and still considers that a holistic restructuring is essential to turn around the business of the Company.

Hence, given (i) the time limit faced by the Company as a result of the Petition; (ii) the difficulty of settling the Claims using the cash balance of the Group and by realising assets of the Group; and (iii) the impracticability of other means of fund raising, the Company engaged in negotiations with other potential investors in pursuit of a concrete rescue proposal.

In April 2022, the Company received an indicative offer letter from a potential investor in which the potential investor indicated their interest in acting as the “white-knight” investor to facilitate the restructuring of the Company by way of subscription of new Shares and implementation of a creditors’ scheme to settle all debts of the Company. However, the potential investor ultimately decided to withdraw from the restructuring due to the uncertainties caused by the Petition.

The Company continued its efforts to negotiate with various investors in pursuit of holistic restructuring terms, which eventually resulted in a non-legally binding term sheet being entered into on 11 May 2022 between Jet Power Investments Limited (an indirect wholly-owned subsidiary of CIS Group Limited, which is in turn the holding company of CIS SAM) and the Company, and the Subscription Agreement being entered into on 11 July 2022.

Taking into account the above, together with the uncertain economic environment and the fact that the Company would most likely have been wound up in May 2022 as a result of the Petition if the Company was unable to secure an investor, the Company considers that the Subscription Agreement is the only feasible and realistic fund raising option to resolve the financial difficulties of the Company in the limited time given to the Company.

Basis upon which the Directors considered that the proposed terms of the Subscription are fair and reasonable and in the best interest of the Company and the Shareholders as a whole

The Group has faced severe liquidity challenges and has been actively seeking to restructure its business and improve its financial position. The Directors are of the view that despite the various economic and COVID-19 related headwinds, investment of new money under the Subscription (i) will provide the Group with the necessary funding to repay its outstanding debts; and (ii) presents an opportunity to restore the Company’s business.

The gross proceeds from the Subscription will be HK\$168,000,000, being a sum equal to the Consideration. The net proceeds are estimated to be approximately HK\$136,000,000 (after deducting the costs and expenses in connection with or incidental to the transactions contemplated under the Subscription Agreement (including the Restructuring Transactions)) and will, as nominated by the Company, be paid to the Scheme as the Cash Consideration to settle the debts and liabilities to the Creditors under the Scheme.

As disclosed above, the Subscription was the only feasible and realistic option to raise sufficient funds to satisfy the Cash Consideration, the net proceeds from which will be transferred to the Scheme to settle the debts and liabilities due to the Creditors. The Scheme depends on the successful implementation of the Subscription. In this sense, the Subscription is being conducted for the benefit of (i) the Company, which would otherwise be wound up if it is unable to settle the debts and liabilities due to the Creditors; and (ii) the Creditors as a whole (as opposed to for the benefit of any particular Creditor(s)), who would receive a significantly lower recovery rate if the Company was wound up than if paid out under the Scheme.

Based on (i) the reasons set out in the paragraph headed “Letter from the Board – The Subscription – Basis of determination of the Subscription Price” in this circular; and (ii) the reasons set out in the paragraph headed “Letter from the Board – Reasons for the Subscription and use of proceeds – Alternative fund raising methods considered by the Company” in this circular, and having considered that (i) all the unsecured Claims (which are estimated to be in the amount of approximately HK\$2.4 billion) would be fully discharged against the Scheme Assets; and (ii) the Company would likely be wound up if the Proposed Restructuring fails and the winding up would significantly jeopardise the interest of the Company and the Shareholders as a whole, the Directors and the Independent Board Committee consider that the Subscription Agreement was entered into upon normal commercial terms following arm’s length negotiations between the Company and the Subscriber and that the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

FUTURE INTENTION OF THE SUBSCRIBER AND CIS SAM REGARDING THE GROUP

The Subscriber and CIS SAM intend to continue the existing principal business of the Group immediately following Completion. The Subscriber and CIS SAM also intend to focus on the existing principal business of the Group in the future and explore potential avenues and strategies to achieve growth and expansion in the business operations of the Group. The Subscriber and CIS SAM have no intention to introduce any major changes to the existing business and operation of the Group (including any redeployment of the fixed assets of the Group) nor terminate the continued employment of the employees of the Group, other than in the ordinary and usual course of business. Save as disclosed below in the paragraph headed "Letter from the Board - Proposed Change to the Board Composition of the Company" in this circular, as at the Latest Practicable Date, the Subscriber and CIS SAM have no intention to change the senior management of the Group following Completion in order to avoid causing any material disruption to the business operations of the Group.

PROPOSED CHANGE TO THE BOARD COMPOSITION OF THE COMPANY

As at the Latest Practicable Date, the Board comprises two executive Directors, namely Mr. Pan Haoran and Mr. Li Jinrong and three independent non-executive Directors, namely Mr. Kong Tat Yee, Mr. Yau Pak Yue and Mr. Zheng Zhen.

All existing Directors are expected to resign from their positions as Directors on a date no earlier than such date as permitted under the Takeovers Code. As at the Latest Practicable Date, the Subscriber and CIS SAM intend to nominate five new Directors, i.e. (a) Dr. Hiroshi Kaneko as new executive Director; (b) Mr. Chung Ho Wai, Alan ("**Mr. Chung**") as new non-executive Director, and (c) Mr. Huang Zhongquang ("**Mr. Huang**"), Ms. Tang Ying Sum ("**Ms. Tang**") and Ms. Ha Sze Wan ("**Ms. Ha**") as new independent non-executive Directors who are expected to be appointed to the Board with effect from a date which is no earlier than such date as permitted under the Takeovers Code. It is also the intention of the Subscriber and CIS SAM that Dr. Hiroshi Kaneko will be appointed as the chief executive officer of the Company upon his appointment as Director.

The biographical information of Dr. Hiroshi Kaneko is set out in the paragraph headed "Letter from the Board – The Subscription – Information on the Subscriber" in this circular. The biographical information of the other candidates intended to be nominated by the Subscriber and CIS SAM as Directors is set out below:-

Mr. Chung Ho Wai Alan, aged 45, is currently the executive director of CIS SAM since January 2021 and has been its responsible officer for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities since December 2018.

Mr. Chung has over 15 years' experience in the area of financial and securities advisory. From April 2012 to February 2015, Mr. Chung was the vice president of HPI Financial Group Limited. From July 2009 to April 2012, he was a wealth management manager at Hongkong and Shanghai Banking Corporation Limited. Mr. Chung was a financial consultant at AXA Wealth Management (Hong Kong) Limited from April 2006 to February 2009.

Mr. Chung obtained a bachelor of arts in economics and statistics from the University of Western Ontario, Canada in April 2000.

Save as disclosed above, as at the Latest Practicable Date, Mr. Chung had no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Huang Zhongquan, aged 67, is currently the chairman of Asian Bridge Capital Limited. He was the director of global capital markets at China Everbright Securities International Limited from February 2011 to July 2015. From June 2004 to February 2011, he was the vice president of the equity department at Mizuho Securities Asia Limited. Mr. Huang was the director of China investment banking at Nomura International (HK) Limited from June 1995 to June 2004 and the vice president at Nomura Securities Shanghai Representative Office from February 1991 to June 1995. From April 1984 to February 1991, he was the general manager of foreign exchange trading room at Shanghai International Trust and Investment Corporation (China) and the business manager at Shanghai Instrument Industry Bureau Technology Introduction Office from July 1977 to April 1984.

Mr. Huang obtained a bachelor in political economy from Fudan University in February 1977. Mr. Huang is a member of the Hong Kong Independent Non-Executive Director Association since May 2018.

Save as disclosed above, as at the Latest Practicable Date, Mr. Huang had no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Ms. Tang Ying Sum, aged 29, is currently the assistant vice president at Kingkey Privilege Wealth Management Limited since October 2022, where she is responsible for providing brokerage, investment and insurance financial planning advice to clients. She was its chief wealth management advisor from February 2022 to September 2022 and its management trainee from August 2021 to January 2022.

Prior to that, Ms. Tang was the project manager at Isobar Hong Kong Limited from July 2020 to December 2020. Ms. Tang was the assistant account director, digital strategist team at Webs s'up Production Company Limited from March 2020 to July 2020 and its senior digital strategist from April 2019 to February 2020. From August 2018 to March 2019, Ms. Tang was engaged in a virtual reality-based entertainment project in Tianjin, the PRC, as a project and marketing planner. From January 2017 to July 2018, Ms. Tang was a public relations assistant at Benefit Cosmetics Hong Kong Limited.

Ms. Tang obtained her bachelor of arts with a major in marketing from the University of the West of England, the United Kingdom Bristol in June 2015.

Save as disclosed above, as at the Latest Practicable Date, Ms. Tang had no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Ms. Ha Sze Wan, aged 40, is the founder of Account & Secretarial Workshop Limited, which provides accounting, company secretarial and tax advisory services since November 2021. Prior to that, Ms. Ha was a financial controller at Luckcharm Inc. Limited from May 2020 to October 2021 and a financial analyst at Pop Free Technology (Holdings) Limited from April 2018 to July 2019. She was an accountant from March 2017 to October 2018 at two sizable accounting firms. From September 2013 to November 2015, Ms. Ha was a senior accountant at Tang Palace (China) Holdings Limited (stock code: 1181), the shares of which are listed on the main board of the Stock Exchange. Ms. Ha was an account executive at Orient Securities Limited (currently known as Orient Securities International Holdings Limited (stock code: 8001), the shares of which are listed on GEM of the Stock Exchange since 15 January 2014) from August 2010 to September 2012. From January 2009 to June 2010, she was an assistant manager of investment department at Sure Success Invest Holdings Limited.

Ms. Ha obtained her bachelor of arts with a major in accounting and finance from the University of Greenwich, the United Kingdom in November 2013 and is a member of the Hong Kong Institute of Certified Public Accountants.

Save as disclosed above, as at the Latest Practicable Date, Ms. Ha had no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

The above proposed appointments and resignations will be made subject to the necessary procedure and approval of the Board and the review of the nomination committee of the Company and as and when appropriate in accordance with the Takeovers Code and the Listing Rules. Further announcement(s) will be made upon any changes to the composition of the Board in compliance with the Takeovers Code and the Listing Rules as and when appropriate.

PROPOSED CHANGE OF COMPANY NAME

Following Completion, the Subscriber and CIS SAM intend to change the English name of the Company from “Fullsun International Holdings Group Co., Limited” to “Japan Kyosei Group Company Limited” and the Company will no longer adopt a Chinese name (the “**Proposed Change of Company Name**”). A special general meeting will be convened and held for the purpose of considering and, if though fit, approving the special resolution in respect of the Proposed Change of Company Name. A separate circular will be issued by the Company in this regard pursuant to the Listing Rules.

As the Subscriber will become the controlling Shareholder following Completion, the Subscriber and CIS SAM consider that the Proposed Change of Company Name can provide the Company with a new corporate image and identity which will benefit the Company's future business development.

The Proposed Change of Company Name will not affect any of the rights of the Shareholders. Once the Proposed Change of Company Name becomes effective, any issue of share certificates of the Company thereafter will be in the new name of the Company and the Shares will be traded on the Stock Exchange under the new name of the Company. All existing share certificates of the Company in issue bearing the present name of the Company shall, after the Proposed Change of Company Name having become effective, continue to be evidence of title of such Shares and will continue to be valid for trading, settlement, registration and delivery purposes. Accordingly, there will not be any arrangement for free exchange of the existing share certificates for new certificates bearing the new name of the Company.

FINANCIAL INFORMATION OF THE GROUP

Set out below is the summary of key consolidated financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022:

	For the year ended		
	31 December		
	2020	2021	2022
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	1,390,525	370,195	679,441
Loss after taxation	1,393,076	487,363	732,838
Net asset value	1,453,146	948,346	227,334

The auditor's report issued by PKF Hong Kong Limited in respect of the Group's audited consolidated financial statements for the financial year ended 31 December 2022 contained a disclaimer of opinion relating to multiple uncertainties relating to going concern. As stated in the 2022 Annual Report, such disclaimer of opinion or conclusion comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

For detailed information on the basis of the disclaimer of opinion for the year ended 31 December 2022, please refer to the paragraph headed "Financial information of the Group" in Appendix I of this circular.

The Independent Financial Adviser has reviewed the principal terms of the Subscription and the Directors have confirmed that the Subscription is not conditional on the auditor's opinion on the Group's financial statements. However, the Directors and the Independent Financial Adviser considers that the disclaimer of opinion may affect the ability of the Group in raising capital from means other than the Subscription. The Independent Financial Adviser is of the view that the disclaimer of opinion does not have implication on the Subscription and the Subscription being able to provide capital to the Company under the disclaimer of opinion is in the interests of the Company and Independent Shareholders as a whole.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The table below illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Capital Reorganisation becoming effective; (iii) immediately after Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription); and (iv) immediately after the Placing Down (assuming 305,675,857 New Shares are placed down):

Shareholders	As at the Latest Practicable Date		Immediately upon the Capital Reorganisation becoming effective		Immediately after Completion (Note 4)		Immediately after the Placing Down (assuming 305,675,857 New Shares are placed down)	
	Number of		Number of		Number of		Number of	
	Existing Shares	Approximate %	New Shares	Approximate %	New Shares	Approximate %	New Shares	Approximate %
Tongda Enterprises Limited (Note 1)	6,416,140,000	56.45%	64,161,400	56.45%	64,161,400	4.52%	64,161,400	4.52%
The Subscriber and parties acting in concert with the Subscriber:								
(i) The Subscriber	-	-	-	-	1,307,019,402	92.00% (Note 2)	1,001,343,545	70.48%
(ii) Parties acting in concert with the Subscriber	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	1,307,019,402	92.00%	1,001,343,545	70.48%
Public Shareholders	4,949,246,067	43.55%	49,492,460	43.55%	49,492,460	3.48%	355,168,317	25.00%
Total	11,365,386,067	100.00%	113,653,860	100.00%	1,420,673,262	100.00%	1,420,673,262	100.00%

Notes:

1. Tongda Enterprises Limited is a company incorporated in the BVI and is wholly owned by Mr. Pan, an executive Director.
2. The Subscriber has indicated to the Company its intention to take appropriate steps to restore sufficient public float of the Company. Please refer to the paragraph headed "Letter from the Board – Minimum Public Float" in this circular for further details.
3. Certain percentage figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
4. For illustrative purpose only, as completion of the Placing Down will take place simultaneously with Completion.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company had not conducted any fund raising activities in the 12 months prior to the Latest Practicable Date.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at least 25% of the Company's total issued share capital must at all times be held by the public.

Immediately after the Capital Reorganisation becoming effective and upon Completion, the Subscriber will be interested in 1,307,019,402 New Shares, representing approximately 92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription).

The condition precedent to the Subscription Agreement as set out in sub-paragraph (n) in the paragraph headed "Letter from the Board – The Subscription – Conditions precedent" in this circular) is a mechanism built into the Subscription Agreement to ensure continuous compliance by the Company with the 25% minimum public float requirement under Rule 8.08(1) of the Listing Rules immediately before and after Completion.

Before the Company and the Subscriber may proceed to Completion, the Subscriber will have to enter into placing agreement(s) to place down not less than 305,675,857 New Shares, representing not less than approximately 21.52% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription), to placees who are Independent Third Parties and at the same time independent of, and not acting in concert with, the Subscriber and its beneficial owners. Completion of such placing agreement(s) will take place simultaneously with Completion, when the Company will, at the direction of the Subscriber, allot and issue such number of New Shares to the placees directly to facilitate the Placing Down. As such, the relevant number of Shares subject to the Placing Down will form part of the public float of the Company. Through the Placing Down to be conducted by the Subscriber of not less than 305,675,857 New Shares, at least 25% of the issued New Shares will be held by the public for the purpose of ensuring continuous compliance by the Company with the public float requirement under Rule 8.08(1) of the Listing Rules immediately before and after Completion.

Immediately after Completion and completion of the Placing Down, on the basis that not less than 305,675,857 New Shares are successfully placed down, the Subscriber will be interested in not more than 1,001,343,545 New Shares, representing approximately 70.48% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription).

THE SCHEME

Pursuant to the Scheme, the distribution to the Creditors with Admitted Claims will be made out of (i) first of all, the Cash Consideration, being a payment of cash in the amount equivalent to the net proceeds (after deducting the costs and expenses in connection with or incidental to the transactions contemplated under the Subscription Agreement (including the Restructuring Transactions)) from the Subscription, being not less than HK\$136,000,000; and (ii) in addition, the shares in and assets of the Scheme Subsidiaries (to the extent recoverable by and available to the Scheme Administrators), which will be transferred to the SchemeCo by way of the Group Reorganisation. Such distribution (including the distribution of any Residual Value that the SchemeCo may receive) will be made in accordance with the terms of the Scheme.

Only unsecured Claims (or unsecured portion of Claims, such as the unsecured portions of the claims of Profound Success and Sure Valued) would be subject to the Scheme.

Please refer to the paragraph headed “Letter from the Board – Transfer of the Scheme Subsidiaries to the SchemeCo pursuant to the Scheme” in this circular for further details on the Group Reorganisation.

Distribution of Scheme Assets

The Scheme Assets transferred to the SchemeCo will be, after realisation if so required, paid into an interest bearing trust account controlled by the Scheme Administrators for the purposes of and for the benefit of those entitled under the Scheme and maintained by the Scheme Administrators and will be distributed to the Creditors with Admitted Claims on a pro-rata basis for their respective Admitted Claims in accordance with the terms of the Scheme, subject to the prior payment of Preferential Claims and Scheme Costs.

Upon the Scheme having become effective, all Creditors (including those abstaining from voting and those voting against the Scheme) will be taken as accepting the terms of the Scheme and all Creditors and their respective claims against the Company and the Co-Obligors together with all guarantees given by the Company (to the extent of those given by the Company which are unsecured only) and the Co-Obligors and all security over any asset of any Co-Obligor as of the Effective Date will be discharged and released in full as against the Company and the Co-Obligors on the Effective Date and the Creditors with Admitted Claims shall discharge and waive all their claims against the Company and the Co-Obligors, notwithstanding the fact that the Claims will not be settled in full monetary amount, and the SchemeCo, as established for the purpose of the Scheme, shall accept and assume an equivalent liability in place of the Company in respect of the Admitted Claims. Nevertheless, the Scheme will not affect, modify or vary any of the rights of any persons (including the Creditors with Admitted Claims) arising out of any guarantee and security given by, or over the assets of, any Scheme Subsidiary and any other person outside the Retained Group in their favour.

Upon the Scheme becoming effective, all persons or entities having given guarantee or security in respect of the Harbor Sure Borrowing, the Profound Success Borrowing and/or the Sure Valued Borrowing (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries remaining in the Retained Group) will execute deeds of waiver in favour of each and every member of the Retained Group which has given guarantee or security under the aforesaid borrowings. Following the execution of the aforesaid deeds of waiver and upon the Scheme becoming effective, none of the members of the Retained Group will owe any liability in respect of any of the aforesaid borrowings to such persons (or entities) outside the Retained Group for their contribution as co-obligor if any creditors of the aforesaid borrowings claim against such persons (or entities).

None of the Creditors has been a Shareholder during the Relevant Period.

As at the Latest Practicable Date, based on the available books and records of the Company, the estimated total amount of Claims against the Company was approximately HK\$2.78 billion. This figure is indicative only and will be subject to final determination made by the Scheme Administrators and adjudication under the Scheme, if applicable.

Save for fees considered as costs and expenses in connection with or incidental to the transactions contemplated under the Subscription Agreement, the Company has no other liabilities that are not covered under the Scheme (except certain PRC subsidiaries of the Company still have outstanding borrowings of RMB1,674.5 million as at the Latest Practicable Date). Pursuant to the Subscription Agreement, such costs and expenses will be settled using the Consideration to be received from the Subscription and in the manner described under the paragraph headed “Letter from the Board – The Subscription – Payment of the Consideration” in this circular.

The resolution to approve the Scheme was duly passed at a meeting of the Creditors held on 19 May 2023 for the purpose of considering and, if thought fit, approving the Scheme.

The Court hearing for sanctioning the Scheme is scheduled to be heard at 10:00 a.m. on 26 June 2023.

The conditions precedent to the Scheme are as follows:

- (i) the High Court having sanctioned the Scheme and a copy of the order of the High Court sanctioning of the Scheme is delivered to the Registrar of Companies in Hong Kong for registration;
- (ii) all conditions precedent to the completion of the Subscription Agreement having been fulfilled or, where applicable, waived; and
- (iii) all consents and approvals required for the transfer of the Scheme Subsidiaries to the SchemeCo having been obtained.

The Scheme will come into effect and be legally binding on the Company and the Creditors after the occurrence of the following:

- (i) the Hong Kong Court having sanctioned the Scheme;
- (ii) an office copy of an order of High Court sanctioning the Scheme is delivered to the Registrar of Companies in Hong Kong for registration upon all conditions precedent to the Scheme are fulfilled or waived; and

- (iii) the Cash Consideration is received by the SchemeCo and the transfer of shares of the Scheme Subsidiaries (other than those subject to enforcement actions with Receivers appointed) is completed for the purpose of and for the benefit of those entitled under the Scheme within 30 days after the date of registration of the order of High Court sanctioning the Scheme with the Registrar of Companies in Hong Kong or such extended date as may be agreed by the Company with the Scheme Administrators.

The Scheme will only be proceeded with upon fulfilment or, where applicable, waiver of all conditions precedent to completion of the Subscription (other than the condition that the Group Reorganisation has been completed) and will take effect upon occurrence of the above (including completion of the Group Reorganisation).

TRANSFER OF THE SCHEME SUBSIDIARIES TO THE SCHEMECO PURSUANT TO THE SCHEME

Group Reorganisation

The Board proposes to effect the Group Reorganisation to the effect that the shares and assets of the Scheme Subsidiaries (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries subject to enforcement actions with Receivers appointed) will be transferred to the SchemeCo at nil consideration for the benefit of the Creditors.

None of the Creditors has been a Shareholder during the Relevant Period.

The completion of the Group Reorganisation is not subject to any conditions precedent as agreed between the Parties under the Subscription Agreement. However, the completion of the Group Reorganisation will only take place when all of the following have been fulfilled:

- (a) the High Court has sanctioned the Scheme and a copy of the order of the High Court sanctioning the Scheme has been delivered to the Registrar of Companies in Hong Kong for registration;

- (b) all conditions precedent to completion of the Subscription (other than the condition that the Group Reorganisation has been completed) have been fulfilled or, where applicable, waived; and
- (c) all consents and approvals required for the transfer of the Scheme Subsidiaries to the SchemeCo have been obtained.

As at the Latest Practicable Date, none of the above had taken place.

Since (1) completion of the Subscription is conditional upon, among others, the completion of the Group Reorganisation and (2) the Group Reorganisation will only be proceeded with upon fulfilment or, where applicable, waiver of all conditions precedent to completion of the Subscription (other than the condition that the Group Reorganisation has been completed), the Subscription and the Group Reorganisation are inter-conditional in this sense.

Upon completion of the Group Reorganisation, the SchemeCo will (directly or indirectly) hold the Scheme Subsidiaries, and the Scheme Subsidiaries will cease to be subsidiaries of the Company and their respective assets and liabilities and profits and losses will no longer be consolidated into the financial statements of the Company.

As one of the conditions precedent to Completion, completion of the Group Reorganisation is expected to take place on or before the Long Stop Date.

Subject to the Scheme becoming effective, the Scheme Subsidiaries (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries subject to enforcement actions with Receivers appointed) (whether tangible or intangible) will be effectively under the control of the Scheme Administrators.

As soon as practicable after the Effective Date, the Scheme Administrators will take steps to put the Scheme Subsidiaries (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries subject to enforcement actions with Receivers appointed) into liquidation and/or to sell the equity interests of the Scheme Subsidiaries (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries subject to enforcement actions with Receivers appointed) and/or any of the assets of such Scheme Subsidiaries. Any Residual Value that the SchemeCo may receive shall be utilised for distribution in accordance with the terms of the Scheme. Any Residual Value in Vivalink, Gold Asset and Wise Think which may be returned to the Group by the Receivers or otherwise retained by the Group subsequent to the enforcement action taken by the Receivers will be assigned and/or transferred to the SchemeCo for the benefit of the Creditors.

Implementation of the Group Reorganisation and parties involved

Pursuant to the Scheme, the Target Shares (save for shares in Vivalink, so long as it is subject to enforcement action with Receivers appointed) will be transferred from Sunny Pavilion, a direct wholly-owned subsidiary of the Company, to the SchemeCo within 30 days after the date of registration with the Registrar of Companies in Hong Kong of a copy of the order of the High Court sanctioning the Scheme (or such extended date as may be agreed by the Company with the Scheme Administrators).

The SchemeCo had not been incorporated as at the Latest Practicable Date, and it is intended that the SchemeCo will be entirely held and controlled by the Scheme Administrators. The Scheme Administrators proposed to be appointed are Independent Third Parties and on such basis, each of the SchemeCo and its ultimate beneficial owners, being the Scheme Administrators, will be an Independent Third Party.

Assets to be transferred to the SchemeCo

The assets to be transferred to the SchemeCo pursuant to the Group Reorganisation comprise the Target Shares.

Upon completion of the Group Reorganisation but subject to the Scheme becoming effective, the Scheme Subsidiaries will cease to be subsidiaries of the Company and their respective assets and liabilities and profits and losses will no longer be consolidated into the financial statements of the Company.

Consideration

The Scheme Subsidiaries will be transferred to the SchemeCo at nil consideration.

As the Group Reorganisation forms part of the Scheme, the Directors consider that the transfer of the Target Shares at nil consideration under the Group Reorganisation is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on the Scheme Subsidiaries

The Scheme Subsidiaries comprises (i) each of Intelligent Lead, Vivalink and Giant Astute and their respective subsidiaries; and (ii) the 49% equity interest in Shanghai Fusheng held indirectly by Vivalink. The Scheme Subsidiaries are principally engaged in the development and sale of residential and commercial properties in the PRC and Hong Kong.

On 4 January 2022, Vivalink received a demand letter from Sure Valued following Vivalink's failure to comply with its payment obligation on the Sure Valued Borrowing, the outstanding amount of which amounted in total to approximately HK\$371.25 million as at 4 January 2022. The Sure Valued Borrowing was secured by, among others, properties in Hong Kong held by Gold Asset and Wise Think and shares of Vivalink, Gold Asset and Wise Think pledged to Sure Valued (the "Pledged Assets").

On 20 January 2022, the Group was notified that the Receivers had been appointed by Sure Valued over the Pledged Assets. On 19 January 2022, the Receivers appointed directors to the board of directors of Gold Asset and Wise Think. In light of the appointment of directors to the board of directors of Gold Asset and Wise Think and the subsequent actions taken by the Receivers, the Directors considered that such actions provided indicative evidence of conditions of the Group ceasing to exercise control over Gold Asset and Wise Think as a consequence of the Group's default on the Sure Valued Borrowing. Accordingly, the Directors determined that the cessation of control and the resulting deconsolidation of Gold Asset and Wise Think began from 30 November 2021, being the date of default. The Directors having considered the actions taken by the Receivers on Vivalink including, among others, the appointment of a director to the board of directors of Vivalink, deemed the Group to be no longer in control of Vivalink and accordingly deconsolidated Vivalink effective from 1 January 2022.

The principal assets of the Scheme Subsidiaries consist of the Properties, the details of which are set out in the paragraph headed “Letter from the Board – Transfer of the Scheme Subsidiaries to the SchemeCo pursuant to the Scheme – Information on the properties held by the Scheme Subsidiaries” in this circular. The Properties are the same properties which are the subjects of the valuation report set out in Appendix V to this circular. Please refer to Appendix V to this circular for further details on the valuation report.

Corporate structure of the Group as at the Latest Practicable Date and upon completion of the Group Reorganisation

A simplified shareholding structure of the Group as at the Latest Practicable Date is set out in Appendix IX to this circular and a simplified shareholding structure of the Retained Group upon completion of the Group Reorganisation is set out in Appendix X to this circular.

Financial information of the Scheme Subsidiaries

Set out below is the summary of certain key financial information of the Scheme Subsidiaries for each of the three years ended 31 December 2020, 2021 and 2022:

(a) Total consolidated financial information of the Unrestricted Scheme Subsidiaries, on a combined basis

	For the year ended 31 December/ As at 31 December		
	2020	2021	2022
	(unaudited)	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	223,458	236,881	303,312
Loss after taxation	222,798	242,883	303,073
Net liabilities value	436,800	496,614	610,373

(b) *Total consolidated financial information of the Deconsolidated Subsidiaries, on a combined basis*

	For the year ended 31 December/ As at 31 December		
	2020	2021	2022
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
Loss before taxation	202,784	195,657	133,693
Loss after taxation	202,784	195,657	133,693
Net liabilities	42,222	238,948	371,102

(c) *Net liabilities of the Scheme Subsidiaries, on a combined basis*

	As at 31 December		
	2020	2021	2022
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
Net liabilities	479,022	735,562	981,475

Note: The net liabilities of the Scheme Subsidiaries as set out in (c) above are merely arithmetic additions of the net liabilities of the Unrestricted Scheme Subsidiaries (as set out in (a) above) and the Deconsolidated Subsidiaries (as set out in (b) above) for each of the three years ended 31 December 2020, 2021 and 2022.

The above unaudited loss figures relating to the Scheme Subsidiaries are required to be reported on under Rule 10 of the Takeovers Code. Such unaudited financial information has been reviewed and reported on by the Independent Financial Adviser and PKF Hong Kong Limited, for the purpose of Rule 10 of the Takeovers Code. For details, please refer to "Letter from the Reporting Accountant on the loss figures relating to the Scheme Subsidiaries and on the gain expected to accrue to the Company as a result of the Group Reorganisation" issued by PKF Hong Kong Limited and "Letter from the Independent Financial Adviser on the loss figures relating to the Scheme Subsidiaries and on the gain expected to accrue to the Company as a result of the Group Reorganisation" issued by the Independent Financial Adviser as set out on pages VII-1 to VII-3 and pages VIII-1 to VIII-2 of this circular, respectively.

Information on the properties held by the Scheme Subsidiaries

Fullsun Emerald Bay

Fullsun Emerald Bay is located at Huanhu Road West, Meixi Lake, Yuelu Qu* (岳麓區梅溪湖環湖路西), Changsha City, Hunan Province, the PRC. It was developed as a residential and commercial complex. The gross floor area of the property is approximately 166,387 sq. m..

Fullsun • Qianlong Bay

Fullsun • Qianlong Bay is a completed property project located beside Zhongshan Port, Zhongshan Torch Development Zone* (中山市火炬開發區), Zhongshan City, Guangdong Province, the PRC. The project is developed for residential and commercial purpose. The gross floor area of the property is approximately 16,666.68 sq. m..

La Salle Residence

La Salle Residence is situated on the south side of Prince Edward Road West at its junction with La Salle Road, one of the prestigious addresses in Ho Man Tin District, Kowloon. The property was developed into a 17-storey residential block over one basement floor with a saleable area of approximately 32,817 square feet in total. It comprises 78 residential units offering a range of one and two-bedroom apartments and 1 duplex unit, club house facilities and car parking space. The saleable area of the property is approximately 3,949 square feet.

The above information on the Properties is also set out in the valuation report in Appendix V to this circular. Please refer to Appendix V to this circular for further details on the Properties.

Information on the remaining assets and operations of the Retained Group after the Group Reorganisation

The projects (the “**PRC Properties Projects**”) that will be held for development/sales by the Retained Group after the Group Reorganisation are as follows:

			Approximate total gross floor area as at 31 December 2022 attributable to the Retained Group (<i>sq.m.</i>) (<i>Note</i>)	Status as at the Latest Practicable Date
	Project	Location		
1.	Qianlong Premier Mansion	Tianxin District, Changsha City	103	Completed and available for sale and delivery
2.	Qianlong Royal Family	Kaifu District, Changsha City	40,465	Completed and available for sale and delivery
3.	Qianglong International	Kaifu District, Changsha City	36,666	Completed and available for sale and delivery
4.	Xingru Jincheng	Tianxin District, Changsha City	100,663	Available for development
5.	Fullsun International Financial Centre	Yuelu District, Changsha City	98,727	Completed and available for sale and rental
6a.	Kela Meli Shanzhuang – Phase 1 and 2	Tianxin District, Changsha City	46,915	Completed and available for sale and delivery
6b.	Kela Meli Shanzhuang – Phase 3	Tianxin District, Changsha City	90,965	Completed and available for sale and delivery

			Approximate total gross floor area as at 31 December 2022 attributable to the Retained Group (sq.m.) (Note)	Status as at the Latest Practicable Date
	Project	Location		
7.	Yatai Muyun Road Project	Tianxin District, Changsha City	26,792	Completed and available for sale and delivery
8.	Ningde Fullsun Country Garden • Tianjiao	Jiaocheng District, Ningde City	196	Completed and available for sale and delivery
9.	Qiantan • Fusheng Qianlong Square	Pudong New District, Shanghai City	12,168	Completed and available for sale and delivery
10a.	Fuli Plaza – Phase 1	Jiaxing Port District, Jiaxing City	40,527	Completed and available for sale and delivery
10b.	Fuli Plaza – Phase 2	Jiaxing Port District, Jiaxing City	56,590	Available for development
		Total	550,777	

Note: Total gross floor area represents the sum of (i) gross floor area available for sale and total leasable gross floor area for completed properties, (ii) gross floor area for properties under development, (iii) gross floor area for properties held for future development and (iv) gross floor area of carparks, ancillary and others.

The Retained Group will own the following investment properties after the Group Reorganisation:

			Approximate total gross floor area as at 31 December 2022 attributable to the Retained Group (sq.m.)	Status as at the Latest Practicable Date
Project	Location			
1.	Fullsun International Financial Centre	Yuelu District, Changsha City	45,705	71.43 sq.m. leased out
2.	Qianlong Gongguan	Minhou County, Fuzhou City	241	All leased out
	Total		<u>45,946</u>	

The total assets of the Retained Group will amount to RMB8,468,551,000, assuming the Group Reorganisation had completed on 31 December 2022. Such figure was derived from the published annual report of the Company for the year ended 31 December 2022 and adjusted to take into account the effects of the Group Reorganisation on the assumption that it had completed on 31 December 2022. Based on the above, the Directors are of the view that Retained Group has sufficient level of assets and operations of sufficient value under Rule 13.24(1) of the Listing Rules after the Group Reorganisation.

Information on the SchemeCo

As at the Latest Practicable Date, the SchemeCo had not been incorporated. The SchemeCo will be a special purpose vehicle to be incorporated in Hong Kong and will be entirely held and controlled by the Scheme Administrators to hold and dispose of the Cash Consideration and the Scheme Subsidiaries (directly or indirectly) pursuant to the terms of the Scheme.

Information on the Group

The Company is an investment holding company and the Group is principally engaged in the development and sale of residential and commercial properties in the PRC including Hong Kong.

Information on Sunny Pavilion

Sunny Pavilion, a company incorporated in the BVI with limited liability, is a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding.

Financial effect of the Group Reorganisation

It is expected that the Group will record a disposal gain of approximately RMB1,198,667,000 (equivalent to approximately HK\$1,341,887,000) from the Group Reorganisation assuming the Group Reorganisation had completed on 31 December 2022.

The disposal gain of RMB1,198,667,000 was calculated as follows:

	<i>RMB'000</i>
(a) Recognition of amounts due to the Retained Group from Scheme Subsidiaries	1,186,098
(b) Claims of Creditors (other than (a) Claims by Creditors against the Company for its guarantee obligations under borrowings by the Scheme Subsidiaries; and (b) Claims by the Company's subsidiaries)	24,801
(c) Total sum of the net liabilities of the Unrestricted Scheme Subsidiaries	39,067
less	
(d) Residual value in the Deconsolidated Subsidiaries entitled by the Retained Group	(22,714)
(e) Transaction costs	<u>(28,585)</u>
	<u><u>1,198,667</u></u>

The Claims against the Company as at 31 December 2022 of approximately RMB2.2 billion (equivalent to approximately HK\$2.49 billion) under the Scheme have been taken into account in the calculations of the disposal gain.

The above details of the gain expected to accrue to the Company as a result of the Group Reorganisation are required to be reported on under Rule 10 of the Takeovers Code. The gain expected to accrue to the Company as a result of the Group Reorganisation has been reviewed and reported on by the Independent Financial Adviser and PKF Hong Kong Limited, for the purpose of Rule 10 of the Takeovers Code. For details, please refer to “Letter from the Reporting Accountant on the loss figures relating to the Scheme Subsidiaries and on gain expected to accrue to the Company as a result of the Group Reorganisation” issued by PKF Hong Kong Limited and “Letter from the Independent Financial Adviser on the loss figures relating to the Scheme Subsidiaries and on the gain expected to accrue to the Company as a result of the Group Reorganisation” issued by the Independent Financial Adviser as set out on pages VII-1 to VII-3 and pages VIII-1 to VIII-2 of this circular, respectively.

As the Target Shares will be transferred to the SchemeCo pursuant to the Group Reorganisation at nil consideration, no proceeds will be derived by the Group from the Group Reorganisation.

Reasons for and benefits of the Group Reorganisation

Through the Group Reorganisation, the Residual Value will be made available for distribution to the Creditors in addition to the Cash Consideration, which the Directors believe would facilitate the implementation of the Scheme by increasing the support from the Creditors for the Scheme.

As soon as practicable after the date on which the Scheme becomes effective, the Scheme Administrators will take steps to put the Scheme Subsidiaries (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries subject to enforcement actions with Receivers appointed) into liquidation and/or to sell the equity interests of the Scheme Subsidiaries (other than Vivalink, Gold Asset and Wise Think, being the Scheme Subsidiaries subject to enforcement actions with Receivers appointed) and/or any of the assets of such Scheme Subsidiaries. Any Residual Value that the SchemeCo may receive shall be utilised for distribution in accordance with the terms of the Scheme.

As the support of the Creditors prior to the introduction of the Residual Value as part of the Scheme was relatively low, the Company and the Subscriber were aware that in order to securely obtain the Creditors' support for the Scheme, an improved outcome for the Creditors under the Scheme would be needed. The Group Reorganisation and the distribution of the Residual Value to the Creditors were, thus, included as part of the Scheme after negotiations between the Company and the Subscriber in order to improve the outcome for the Creditors to obtain their support for the Scheme.

The Company considers that it is unlikely that any Residual Value will ultimately be distributed to the Creditors given (i) the net liabilities position and the insolvent position of the group comprising the Scheme Subsidiaries as a whole, which, to further elaborate, means that the Scheme Subsidiaries are unable to legally distribute any dividends or other distribution ultimately to the SchemeCo as Residual Value for distributing to the Creditors pursuant to the Scheme; (ii) the difficulties in the settlement of the Claims using the cash balance of the Group and by realising assets of the Group, which equally apply to the Scheme Subsidiaries, as disclosed in the sections headed "Letter from the Board – Reasons for the Subscription and use of proceeds – Alternative fund raising methods considered by the Company – (a) Settlement of the Claims using the cash balance of the Group" and "Letter from the Board – Reasons for the Subscription and use of proceeds – Alternative fund raising methods considered by the Company – (b) Settlement of the Claims by realising assets of the Group" respectively in this circular; and (iii) the aggregate book value of the properties held by the Scheme Subsidiaries (which amounted to RMB2,820,028,000 as at 31 December 2022) exceeding the aggregate market value of such properties (which were valued at RMB1,672,130,000 as at 30 April 2023), which means that even if these properties are able to be sold at market value, the net liabilities position of the Scheme Subsidiaries would remain unaffected.

In view of the above, the Directors believe that considering the Group Reorganisation is to be conducted as part of the Scheme and in view of the fact that the Group Reorganisation would allow the Company to obtain additional support from the Creditors for the Scheme, the Group Reorganisation is fair and reasonable and is in the interests of the Shareholders as a whole.

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

The Subscriber and CIS SAM have confirmed that as at the Latest Practicable Date, none of the Subscriber, CIS SAM nor any person acting in concert with any one of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited):

- (a) owns or has control or direction over any voting right in or rights over any Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (b) has received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolutions approving the Restructuring Transactions and the Whitewash Waiver;
- (c) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or of the Subscriber which might be material to the Restructuring Transactions and the Whitewash Waiver;
- (d) save for the Subscription Agreement, has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Restructuring Transactions and the Whitewash Waiver; and
- (e) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

The Subscriber and CIS SAM have confirmed that save for the Subscription Agreement, none of the Subscriber, CIS SAM nor any person acting in concert with any one of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of, voting rights in the Company during the Relevant Period.

The Subscriber and CIS SAM have indicated to the Company that save for the Subscription Agreement and any arrangement to facilitate the Placing Down, none of the Subscriber, CIS SAM nor any person acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) has or will make any acquisitions or disposals of voting rights in the Company in the period between 13 May 2022, being the date of the 13 May 2022 Announcement, and Completion.

In addition, the Company, the Subscriber and CIS SAM confirm that as at the Latest Practicable Date, (i) apart from the Consideration, there was no other consideration, compensation or benefit in whatever form that has been or will be paid by the Subscriber, CIS SAM or parties in acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) to the Company in connection with the Restructuring Transactions and the Whitewash Waiver; (ii) apart from the Subscription Agreement and the Finder's Fee Agreement, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Subscriber, CIS SAM or any party acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) on the one hand, and the Company on the other hand; and (iii) there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (1) any Shareholder; and (2)(a) the Subscriber, CIS SAM or parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited); or (b) the Company, its subsidiaries or associated companies.

IMPLICATIONS UNDER THE LISTING RULES

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be obtained upon approval by the Independent Shareholders at the SGM.

Pursuant to Rule 7.27B of the Listing Rules, a listed issuer may not undertake a rights issue, open offer or specific mandate placing that would result in a theoretical dilution effect of 25% or more (on its own or when aggregated within a 12-month period), unless the Stock Exchange is satisfied that there are exceptional circumstances. The Subscription will result in a theoretical dilution effect of approximately 86.09%, which is over the 25% threshold as specified under Rule 7.27B of the Listing Rules.

Taking into account, in particular, (i) the considerable financial difficulties faced by the Company; (ii) the time constraint and pressure imposed upon the Company as a result of the Petition and the prospect of the Company being wound up if a concrete rescue proposal could not be demonstrated to the Supreme Court; (iii) the lack of feasible and realistic alternative fund raising methods available to the Company due to (a) the Company being unable to settle the Claims using the cash balance of the Group; (b) the difficulties faced by the Group in realising its assets due to unfavourable economic conditions and policy considerations in the PRC; and (c) the Company being unable to borrow or conduct equity and debt fund raising due to the existence of a winding-up petition against the Company; and (iv) the Subscription forming a crucial part of the rescue proposal of the Company from being wound up as a result of the Petition, the Directors are of the view that the Subscription falls squarely within the meaning of exceptional circumstances under Rule 7.27B of the Listing Rules, justifying the dilution to the Shareholders arising from the Subscription.

Pursuant to Note 2 to Rule 7.27B of the Listing Rules, the Company has consulted the Stock Exchange regarding the Subscription and the Stock Exchange agrees that the Company has demonstrated that there are exceptional circumstances for the purpose of Rule 7.27B of the Listing Rules and the Company can proceed with the Subscription.

According to Chapter 14 of the Listing Rules, the Group Reorganisation will constitute a disposal by the Company. As one or more of the percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Group Reorganisation (on an aggregated basis) exceeds 75%, the Group Reorganisation, when implemented, will on an aggregated basis constitute a very substantial disposal for the Company and is therefore subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) were not interested in any Shares. Immediately after the Capital Reorganisation becoming effective and immediately after Completion, the Subscriber will be interested in 1,307,019,402 New Shares, representing approximately 92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription) and CIS SAM will be in control of the voting rights attached to the Subscription Shares. As such, the Subscriber and CIS SAM would be required to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

An application has been made by the Subscriber and CIS SAM to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. Under the Takeovers Code, the resolution(s) in relation to the Whitewash Waiver shall be approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the SGM by way of poll and the Restructuring Transactions would be subject to the approval by more than 50% of the Independent Shareholders at the SGM by way of poll. The Executive has indicated that it would, subject to approval by Independent Shareholders at the SGM by way of poll, grant the Whitewash Waiver. As it is a condition precedent to Completion in the Subscription Agreement that the Whitewash Waiver is granted by the Executive, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders at the SGM.

If the Whitewash Waiver is approved by the Independent Shareholders, the maximum potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with it resulting from the Subscription will exceed 50% of the voting rights of the Company. The Subscriber may further increase its holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company did not believe that the Restructuring Transactions gave rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Restructuring Transactions do not comply with other applicable rules and regulations.

FORMATION OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Kong Tat Yee, Mr. Yau Pak Yue and Mr. Zheng Zhen, in compliance with Rule 2.8 of the Takeovers Code, has been formed to advise the Independent Shareholders as to whether the terms of the Specific Mandate and the Whitewash Waiver are fair and reasonable and in the interests of the Independent Shareholders only and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

Ample Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in accordance with the requirements under the Takeovers Code in respect of the Specific Mandate and the Whitewash Waiver and whether the terms thereof are fair and reasonable and as to voting. The Independent Board Committee has approved the appointment of the Independent Financial Adviser.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve, among others, the Restructuring Transactions and the Whitewash Waiver. The following persons shall abstain from voting on the resolutions to approve the Restructuring Transactions and the Whitewash Waiver: (i) the Subscriber, CIS SAM and each of their associates; (ii) any parties acting in concert with the Subscriber and/or CIS SAM (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited); and (iii) the Shareholders who are involved in or interested in the Restructuring Transactions and/or the Whitewash Waiver (including Tongda Enterprises Limited and its ultimate beneficial owner, Mr. Pan). Tongda Enterprises Limited and Mr. Pan will abstain from voting at the SGM.

As at the Latest Practicable Date, the only party who is required to abstain from voting on the resolutions approving the Restructuring Transactions and the Whitewash Waiver and who is also interested in the Shares is Tongda Enterprises Limited, holding 56.45% of the issued Shares.

Any Shareholder with a material interest in the Restructuring Transactions and the Whitewash Waiver is required to abstain from voting on the resolutions to be proposed at the SGM. Save as disclosed above, none of the other Shareholders and their respective associates have to abstain from voting on any resolution(s) to be proposed at the SGM. As at the Latest Practicable Date, none of the Creditors is a Shareholder. In the event any Creditor becomes a Shareholder, the Company will comply with the requirements of the Takeovers Code and the Listing Rules.

A notice convening the SGM to be held at Portion 2, 12/F, The Center, 99 Queen's Road Central, Central, Hong Kong at 11:00 a.m. on Thursday, 13 July 2023 is set out on pages SGM-1 to SGM-6 of this circular. A form of proxy for use at the SGM is enclosed. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.fullsun.com.hk. Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the company secretary of the Company, at Room 1811, 18/F, V Heun Building, 138 Queen's Road Central, Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or at any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

In accordance with the requirements of the Listing Rules, the resolutions to be put forward at the SGM will be voted on by the Shareholders by way of poll.

ENTITLEMENT TO ATTEND AND VOTE AT THE SGM

The register of members of the Company will be closed from Monday, 10 July 2023 to Thursday, 13 July 2023 (both dates inclusive) during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the Company at 4:30 p.m. on Friday, 7 July 2023 shall be entitled to attend and vote at the SGM. In order to be entitled to attend and vote at the SGM, all completed share 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 Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, 7 July 2023.

RECOMMENDATION

The Directors and the Independent Board Committee consider that the terms of the Restructuring Transactions, the Specific Mandate and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM as set out in the notice of SGM attached to this circular.

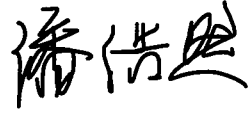
Completion of the Restructuring Transactions is subject to the fulfilment or waiver (as the case may be) of various conditions. Accordingly, the Restructuring Transactions may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares. If they are in any doubt, they should consult their professional advisers.

FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out in this circular on pages 77 to 78, which contains its recommendations to the Independent Shareholders as to voting at the SGM. The letter from the Independent Financial Adviser is set out on pages 79 to 116 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Specific Mandate and the Whitewash Waiver.

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

Yours faithfully
On behalf of the Board
Fullsun International Holdings Group Co., Limited



Pan Haoran
Executive Director and Chief Executive Officer