

LETTER FROM THE BOARD



HUAZHANG TECHNOLOGY HOLDING LIMITED

華章科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1673)

Executive Directors:

Mr. Fang Hui
Mr. Chen Hongwei

Non-executive Director:

Mr. Shi Chenghu

Independent Non-executive Directors:

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

Registered office:

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P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

*Principal place of business
in Hong Kong:*

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5 Canton Road
Tsim Sha Tsui
Hong Kong

12 January 2024

To the Shareholders

Dear Sir/Madam,

- (1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OPEN OFFER SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE;
 - (2) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT;
 - (3) APPLICATION FOR WHITEWASH WAIVER;
- AND
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

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The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, to advise the Independent Shareholders in respect of the Open Offer (including the transactions contemplated under the Underwriting Agreement) and the Whitewash Waiver and as to the voting actions therefor.

The purpose of this Circular is to provide you with, among other things, (i) information regarding the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver; (ii) the recommendation from the Independent Board Committee; (iii) the advice from the Independent Financial Adviser; (iv) other information required under the Listing Rules and the Takeovers Code; and (v) the notice of the EGM.

PROPOSED OPEN OFFER

The Board proposes to offer by way of the Open Offer to the Shareholders a total of 532,044,689 Open Offer Shares at a price of HK\$0.20 per Open Offer Share. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK\$104.5 million. The Underwriter, a substantial Shareholder legally and beneficially holding 153,846,153 Shares, representing approximately 14.46% of the number of Shares in issue as at the Latest Practicable Date, has agreed to underwrite the Untaken Offer Shares on the terms and conditions set out in the Underwriting Agreement.

Issue statistics

Basis of the Open Offer	:	One (1) Open Offer Share for every two (2) existing Shares held by the Shareholders on the Record Date
Open Offer Price	:	HK\$0.20 per Open Offer Share
Number of Shares in issue as at the Latest Practicable Date	:	1,064,089,378 Shares
Number of Open Offer Shares	:	532,044,689 Open Offer Shares (assuming no change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date)
Underwriter	:	Dao He Investment Limited

As at the Latest Practicable Date, the Company had 33,080,000 outstanding Share Options granted under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 33,080,000 new Shares.

On 1 December 2023, each of Mr. Chen Hongwei, Mr. Shi Chenghu, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang had given his/her irrevocable undertaking to the Company to the effect that he/she would not exercise any of his/her Share Options after 1 December 2023 until the Open Offer Completion or the earlier termination thereof.

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Save for the above, the Company had no other outstanding warrants, options or convertible securities in issue or other similar rights which confer any right to convert into or subscribe for Shares as at the Latest Practicable Date.

Accordingly, it is not expected that there will be any change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date. On this basis, the aggregate number of the Open Offer Shares that will be allotted and issued represents (i) not more than 50% of the number of Shares in issue as at the Latest Practicable Date; and (ii) approximately 33.33% of the number of Shares in issue as enlarged by the allotment and issue of the Open Offer Shares.

Open Offer Price

The offer price of HK\$0.20 per Open Offer Share, payable in full by a Qualifying Shareholder upon application for the assured allotment of Open Offer Shares under the Open Offer, represents:

- (i) a discount of approximately 54.02% over the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 49.37% over the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 49.49% over the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.396;
- (iv) a discount of approximately 49.43% over the average of the closing prices per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.3955;
- (v) a discount of approximately 16.46% to the theoretical ex-entitlement price of approximately HK\$0.33 per Share based on the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Open Offer Shares;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 16.50% represented by the theoretical diluted price of approximately HK\$0.33 to the benchmarked price of approximately HK\$0.396 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the date of the Underwriting Agreement and the Placing Agreement of HK\$0.395 per Share and the average closing price of the Shares in the five trading days immediately prior to the date of the Announcement of HK\$0.396 per Share); and

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- (vii) a discount of approximately 44.44% to the audited consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023 of approximately HK\$0.36 per Share calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately RMB351.60 million (equivalent to approximately HK\$383.03 million based on the exchange rate of RMB1.00 to HK\$1.0894) as at 30 June 2023 as extracted from the annual report of the Company for the year ended 30 June 2023 and 1,064,089,378 Shares then in issue.

The Open Offer Price, were determined by the Board with reference to (i) the prevailing market condition; (ii) the prevailing market prices of the Shares; and (iii) the capital required for the Group's business development as detailed headed "Reasons for the Open Offer and the use of proceeds" below.

In determining the terms of the Open Offer, the Company strives to set a reasonable offer price that could reflect a balance between the inherent value and the market price of the Shares and conducts the Open Offer on terms which are favourable to the Company and its Shareholders as a whole. Notwithstanding that the Open Offer Price represents a discount of approximately 33.99% to the audited consolidated net tangible assets of HK\$0.303 per Share as at 30 June 2023 and a discount of approximately 49.00% to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day and the 10 consecutive trading days up to and including the Last Trading Day, (i) after the completion of the Open Offer, the consolidated net tangible assets per Share would be approximately HK\$0.263, as reflected in the unaudited pro forma financial information of the Group set out in Appendix II to this Circular, and the Open Offer Price would represent a discount of approximately 23.95% to it; and (ii) with the theoretical ex-entitlement price of approximately HK\$0.33 per Share based on the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of issued Shares as enlarged by the Open Offer Shares. The Open Offer Price would represent a discount of approximately 16.46% to it. The Board is of the view that based on the above figures, the Open Offer Price does not represent a substantial discount to the consolidated net tangible assets as well as the theoretical ex-entitlement price per Share.

Taking into account that (i) each Qualifying Shareholder is entitled to subscribe for the Open Offer Shares at the same Open Offer Price in proportion to his/her/its shareholding interest held on the Record Date; (ii) the Open Offer Price has been set at a discount to the recent closing prices of the Share as quoted on the Stock Exchange with an objective to lower the investment costs of the Qualifying Shareholders to encourage them to take up their entitlements under the Open Offer and to participate in the potential growth of the Company, particularly seeing that the trading liquidity of the Shares is thin since the Company's resumption of trading on 10 August 2023; and (iii) the proceeds from the Open Offer can finance the potential investment of the Group and help improve the financial position of the Group, the Board considers that the terms of the Open Offer (including the Open Offer Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Considering that each Qualifying Shareholder will be given an equal opportunity to participate in the Company's future development by subscribing for his/her/its assured entitlements under the Open Offer on the same offer terms, the Directors (including members of the Independent Board Committee who have considered the advice of the Independent Financial Adviser) are of the view that the Open Offer Price and the discount of the Open Offer Price to the consolidated net asset value per Share are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Conditions of the Open Offer

The Open Offer is conditional upon (i) the Company having obtained the Independent Shareholders' approval for the Open Offer and the Whitewash Waiver at the EGM; (ii) the Whitewash Waiver having been granted to the Underwriter by the Executive (and such waiver not having been revoked or withdrawn); and (iii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms. For details of the conditions of the Underwriting Agreement, please refer to the section headed "Underwriting arrangement for the Open Offer — Conditions of the Underwriting Agreement" below.

If any of the conditions of the Underwriting Agreement is not fulfilled or waived (as the case may be), the Underwriting Agreement will be terminated and the Open Offer will not proceed.

Basis of assured allotment

Under the Open Offer, the basis of the assured allotment will be one (1) Open Offer Share for every two (2) existing Shares held by the Shareholders as at the close of business on the Record Date.

Fractional assured allotment of the Open Offer Shares

Open Offer Shares in assured allotment will be rounded down to the nearest whole number. No fractional Open Offer Shares will be issued under the Open Offer. All fractions of Open Offer Shares will be aggregated and first placed by the Placing Agent under the Unsubscribed Arrangements to Independent Third Parties (see details set out in the section headed "Procedures in respect of the Unsubscribed Shares and the Unsubscribed Arrangements" below).

Status of the Open Offer Shares

The Open Offer Shares, when issued and fully paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and will rank pari passu in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of allotment of the Open Offer Shares.

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Qualifying Shareholders and Non-Qualifying Shareholders

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company on the Record Date and a Qualifying Shareholder.

In order for the transferees to be registered as members of the Company on the Record Date, all transfers of Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4: 30 p.m. on Wednesday, 7 February 2024.

The Company expects to send the Prospectus Documents to Qualifying Shareholders on or before Monday, 19 February 2024. The Company will, to the extent permitted under the relevant laws and regulations and reasonably practicable, send the Prospectus only, to Non-Qualifying Shareholders for information purposes. The Non-Qualifying Shareholders will not be entitled to any assured allotment under the Open Offer.

Application for all or any part of a Qualifying Shareholder's assured allotment of Open Offer Shares should be made by completing the Application Form and lodging the same with a remittance for the Open Offer Shares being applied for with the Registrar at or before the Latest Time for Application (i.e., 4: 00 p.m. on Monday, 4 March 2024).

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

As at the Latest Practicable Date, the Company had no Overseas Shareholders.

The Board will make enquiries regarding the feasibility of extending the Open Offer to Overseas Shareholders. If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Open Offer Shares to Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Open Offer Shares will not be available to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus.

Overseas Shareholders should note that they may or may not be entitled to participate in the Open Offer, subject to the results of enquiries made by the Company. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their own professional advisers.

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Procedures in respect of the Unsubscribed Shares and the Unsubscribed Arrangements

Pursuant to Rule 7.26A(2) of the Listing Rules, as the Underwriter, being a substantial Shareholder, will act as the underwriter of the Open Offer, the Company must make the arrangements described in Rule 7.26A(1)(b) of the Listing Rules and disposed of the Unsubscribed Shares by offering such Unsubscribed Shares to independent placees for the benefit of the relevant No Action Shareholders.

Any Unsubscribed Shares (which comprise (i) the fractional Open Offer Shares aggregated as mentioned above; (ii) the Open Offer Shares that are not subscribed by the Qualifying Shareholders; and/or (iii) the Open Offer Shares which would otherwise have been in the assured allotments of the Non-Qualifying Shareholders) will be first placed by the Placing Agent under the Unsubscribed Arrangements to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties, and if not successfully placed, will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

In order to comply with the Listing Rules, the Company has entered into the Placing Agreement with the Placing Agent to place the Unsubscribed Shares at the Placing Price. Any unplaced Unsubscribed Shares will then be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Principal terms of the Placing Agreement are summarised below:

Placing Agent : Yuen Meta (International) Securities Limited

Placing commission : 1.00% of the gross proceeds from the subscription of the Unsubscribed Shares successfully placed by the Placing Agent as at the date of Open Offer Completion, or HK\$110,000 arrangement fee, whichever is higher

Placing Price : Not less than HK\$0.20 per Unsubscribed Share

Placing Period : The Placing Period will commence on the second Business Day after the day on which the latest time for acceptance for the Open Offer Shares falls (i.e., 6 March 2024 under the current timetable), and end on the Placing End Date (i.e. 13 March 2024 under the current timetable) or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Unsubscribed Arrangements

Placees : The Unsubscribed Shares are expected to be placed to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties

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The Placing Agent will, on a best efforts basis during the Placing Period, seek to procure subscribers who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties for all (or as many as possible) of the Unsubscribed Shares.

If any Net Gain can be obtained, such Net Gain will be paid (without interest) to No Action Shareholders and the Company as set out below on pro rata basis (but rounded down to the nearest cent and subject as mentioned below):

- (i) where an assured allotment is not applied for in full, the relevant Shareholder by reference to the extent that Shares in his/her/its assured allotment are not applied for (unless that person is covered by (ii) below);
- (ii) the relevant Non-Qualifying Shareholders with reference to their shareholdings on the Record Date; and
- (iii) the Company where there are aggregated fractional Open Offer Shares placed, with reference to the number of the aggregated fractional Open Offer Shares as a percentage of the total Unsubscribed Shares placed.

If and to the extent in respect of any Net Gain, any No Action Shareholder becomes entitled on the basis described above to an amount of HK\$200 or more, such amount will be paid to that No Action Shareholders in Hong Kong Dollars. The Company will retain any amounts of less than HK\$200 that may otherwise be payable to a No Action Shareholder for its own benefit.

The Placing Agent confirms that it is an Independent Third Party, and that there is no other arrangement, agreement, understanding or undertaking with the Underwriter in relation to the Shares. The terms of the Placing Agreement, including the placing commission, were determined after arm's length negotiation between the Placing Agent and the Company with reference to the prevailing market rate and the Company considers the terms to be normal commercial terms.

The Company considers that the Unsubscribed Arrangements will provide a compensatory mechanism for the No Action Shareholders, protect the interest of the Company's Independent Shareholders, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has put in place the above Unsubscribed Arrangements as required by Rule 7.26A(1)(b) of the Listing Rules, there will be no excess application arrangements in relation to the Open Offer as stipulated under Rule 7.26A(1)(a) of the Listing Rules.

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Share certificates for the Open Offer Shares

Subject to fulfilment of the conditions of the Open Offer and to its proceeding, share certificates for the fully-paid Open Offer Shares are expected to be posted by Monday, 18 March 2024 to those entitled thereto by ordinary post at their own risks. If the Open Offer is terminated, refund cheques are expected to be despatched on or before Monday, 18 March 2024 by ordinary post at the respective Shareholders' own risk.

Application for listing of the Open Offer Shares

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Open Offer Shares on the Stock Exchange.

Subject to the granting of the listing of, and permission to deal in, the Open Offer Shares on the Stock Exchange, the Open Offer 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 Open Offer Shares on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stock brokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Open Offer Shares will be subject to the payment of stamp duty and other applicable fees and charges in Hong Kong.

IRREVOCABLE UNDERTAKINGS

Underwriter's undertaking

Pursuant to the Irrevocable Undertakings, the Underwriter and Mr. Fang have irrevocably undertaken to the Company (i) to take up and pay for all the Open Offer Shares which will constitute the assured allotment of Open Offer Shares in respect of the 153,846,153 Shares and 7,440,000 Shares beneficially owned by it and him respectively; (ii) that it/he will remain to be the beneficial owner of the 153,846,153 Shares and 7,440,000 Shares respectively at the close of business on the Record Date; and (iii) to procure that the application for the Open Offer Shares will be lodged with the Registrar or the Company, in accordance with the terms of the Prospectus Documents, provided that the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not having been revoked or withdrawn.

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Optionholders' Undertakings

As at the Latest Practicable Date, the Company had 33,080,000 outstanding Share Options granted under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 33,080,000 new Shares. Details of the Share Options outstanding and the Optionholders are set out below:

Name	Date of grant	Exercise period	Exercise price <i>HK\$</i>	Number of Share Options held as at the Latest Practicable Date
Mr. Chen Hongwei, executive Director	31 May 2022	31 May 2022 to 30 May 2032	0.51	500,000
Mr. Shi Chenghu, non-executive Director	31 May 2022	31 May 2022 to 30 May 2032	0.51	1,000,000
Mr. Heng, Keith Kai Neng, independent non-executive Director	31 May 2022	31 May 2022 to 30 May 2032	0.51	300,000
Mr. Yao Yang Yang, independent non-executive Director	31 May 2022	31 May 2022 to 30 May 2032	0.51	300,000
Ms. Zhang Dong Fang, independent non-executive Director	31 May 2022	31 May 2022 to 30 May 2032	0.51	300,000
Other Share Options holders	31 May 2022	31 May 2022 to 30 May 2032	0.51	30,680,000

On 1 December 2023, each of Mr. Chen Hongwei, Mr. Shi Chenghu, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang had given an irrevocable undertaking to the Company that he/she would not exercise any of his/her Share Options after 1 December 2023 until the Open Offer Completion or the earlier termination thereof.

As at the Latest Practicable Date, save for Mr. Chen Hongwei who held 182,000 Shares and Mr. Shi Chenghu who held 89,452,000 Shares, all independent non-executive Directors did not hold any Share.

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UNDERWRITING ARRANGEMENT FOR THE OPEN OFFER

Principal terms of the Underwriting Agreement

Date	:	1 December 2023
Parties	:	(i) The Company; and (ii) The Underwriter, being the underwriter to the Open Offer
Number of Open Offer Shares underwritten	:	All such Unsubscribed Shares that have not been placed by the Placing Agent or they have been placed but the placees have not paid therefor at 4: 00 p.m. on the Placing End Date
Commission	:	Nil

The Underwriter's obligation to make a general offer under the Takeovers Code may be triggered as a result of the Underwriter taking up the Untaken Offer Shares. The Underwriter will apply to the Executive for the Whitewash Waiver. As disclosed in the section headed "Proposed Open Offer — Conditions of the Open Offer" above, it is a condition of the Open Offer to have the Executive having granted the Whitewash Waiver to the Underwriter (and such grant not having been withdrawn or revoked).

The Board (including members of the Independent Board Committee whose opinion is set forth in the "Letter from the Independent Board Committee" in this Circular after having been advised by the Independent Financial Adviser) considers that the Underwriting Agreement as part of the arrangement under the Open Offer is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon the fulfilment or waiver, where permitted, of the following conditions:

- (i) the passing at the EGM of necessary resolution(s) by the Independent Shareholders to approve the Open Offer and the Whitewash Waiver at which the voting will be taken on a poll and in accordance with the Listing Rules and the Takeovers Code;
- (ii) the granting of the Whitewash Waiver to the Underwriter by the Executive and the fulfilment of all conditions (if any) attached to it, and such Whitewash Waiver not having been revoked or withdrawn;
- (iii) the filing and registration of the Prospectus Documents (with all documents required to be attached thereto according to Section 38D of the Companies (WUMP) Ordinance) (all having been duly authorized for registration by the Stock Exchange

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and signed by or on behalf of all Directors) by the Registrar of Companies in Hong Kong in compliance with the Companies (WUMP) Ordinance no later than the Posting Date;

- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus for information only to the Non-Qualifying Shareholders on or before the Posting Date;
- (v) the compliance with and performance of all undertakings and obligations of the Underwriter pursuant to the terms and conditions of the Underwriting Agreement;
- (vi) the compliance with and performance of all undertakings and obligations of the Company pursuant to the terms and conditions of the Underwriting Agreement;
- (vii) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Open Offer Shares by no later than the first day of their dealings as stated in the Prospectus;
- (viii) the Shares remain listed on the Stock Exchange and no indication being received before the Latest Time for Termination from the Stock Exchange that such listing may be withdrawn or objected to;
- (ix) the delivery by the Company to the Underwriter of the Irrevocable Undertakings duly executed by the Underwriter and Mr. Fang on the date of the Underwriting Agreement and fulfilment of their respective obligations under the Irrevocable Undertakings by the Latest Time for Termination;
- (x) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms hereof by the Latest Time for Termination; and
- (xi) the warranties of the Company remaining true, accurate and not misleading in all material respects.

None of the conditions precedent above is capable of being waived by any party to the Underwriting Agreement. If the conditions precedent above are not satisfied by the Latest Time for Termination (or such later date or dates as the Underwriter and the Company may agree in writing), the Underwriting Agreement will terminate and all liabilities of the parties to the Underwriting Agreement will cease and neither party will have any claim against the other.

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Termination of the Underwriting Agreement

The terms relating to the termination of the Underwriting Agreement are summarised in the section headed “Termination of the Underwriting Agreement” in this “Letter from the Board” above.

Information of the Underwriter

The Underwriter is an investment holding company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Fang, who is also the sole director of the Underwriter and an executive director of the Company. The Underwriter is a substantial shareholder of the Company which beneficially held 153,846,153 Shares, representing approximately 14.46% of the entire issued share capital of the Company as at the Latest Practicable Date. As such, the Underwriter complied with Rule 7.19(1)(b) of the Listing Rules and satisfied the requirements for acting as an underwriter under Rule 7.24 of the Listing Rules. The Underwriter is not engaged in the business of underwriting securities.

WARNING OF THE RISKS OF DEALING IN THE SHARES

THE OPEN OFFER IS SUBJECT TO CERTAIN CONDITIONS INCLUDING WITHOUT LIMITATION THE APPROVAL OF THE OPEN OFFER AND THE WHITEWASH WAIVER BY THE INDEPENDENT SHAREHOLDERS AT THE EGM. IF THE APPROVAL OF THE OPEN OFFER AND THE WHITEWASH WAIVER BY THE INDEPENDENT SHAREHOLDERS AT THE EGM IS NOT OBTAINED, THE OPEN OFFER WILL NOT PROCEED.

ANY SHAREHOLDER OR OTHER PERSON CONTEMPLATING TRANSFERRING, SELLING OR PURCHASING SHARES IS ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES. ANY PERSON WHO IS IN ANY DOUBT ABOUT HIS/HER/ITS POSITION OR ANY ACTION TO BE TAKEN IS RECOMMENDED TO CONSULT HIS/HER/ITS OWN PROFESSIONAL ADVISER(S). ANY SHAREHOLDER OR OTHER PERSON DEALING IN THE SHARES UP TO THE DATE ON WHICH ALL THE CONDITIONS TO WHICH THE OPEN OFFER IS SUBJECT ARE FULFILLED WILL ACCORDINGLY BEAR THE RISK THAT THE OPEN OFFER MAY NOT PROCEED.

FUND RAISING EXERCISE IN THE PRECEDING TWELVE-MONTH PERIOD

The Company had not conducted any fund raising activity in the past twelve months immediately prior to the date of the Announcement and up to and including the Latest Practicable Date.

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POSSIBLE ADJUSTMENTS TO THE SHARE OPTIONS

As at the Latest Practicable Date, the Company had 33,080,000 outstanding Share Options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 33,080,000 new Shares at the exercise price of HK\$0.51 per Share. The 33,080,000 outstanding Share Options are exercisable during the period from 31 May 2022 to 30 May 2032. For further information on the Share Options, please refer to the paragraph headed “Proposed Open Offer — Issue statistics” in this “Letter from the Board”. As a result of the Open Offer, there may be adjustments to the exercise price and/or the number of Shares to be issued upon exercise of the outstanding Share Options pursuant to the terms and conditions of the Share Option Scheme. The Company will appoint its auditors to certify in writing the adjustments to the Share Options and that such adjustments are in accordance with the terms and conditions of the Share Option Scheme. Further announcement will be made by the Company in relation thereto as and when appropriate.

Pursuant to the Share Option Scheme, in the event of any capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of the share capital of the Company whilst any Share Options remains exercisable, the auditors of the Company shall certify in writing that any corresponding adjustment required to be made to the subscription price or the number of Shares to be issued on exercise of the Share Options or the method of exercise of the Share Options is in their opinion fair and reasonable and provided that any such adjustments give the participant of the Share Option Scheme the same proportion of the equity capital of the Company as to which that person was previously entitled. No such adjustment may be made to the extent that a Share will be issued at less than its nominal value.

As a result of the Open Offer, there may be adjustments to the exercise price and the number of Shares to be issued upon exercise of the outstanding Share Options pursuant to the terms and conditions of the Share Option Scheme. The estimated adjustments are set out below:

Date of grant of the outstanding Share Options	Immediately before the Open Offer		Immediately after the Open Offer	
	Exercise price per Share (HK\$)	Number of Shares to be issued upon full exercise of the outstanding Share Options	Adjusted exercise price per Share (HK\$)	Adjusted number of Shares to be issued upon full exercise of the outstanding Share Options
31 May 2022	0.51	33,080,000	0.34	49,620,000

The Company will appoint its auditor to certify in writing the adjustments to the Share Options and that such adjustments are in accordance with the terms and conditions of the Share Option Scheme.

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EFFECT OF THE OPEN OFFER ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

	As at the Latest Practicable Date		Immediately upon the Open Offer Completion, and assuming full acceptance by all Qualifying Shareholders		Immediately upon the Open Offer Completion, and assuming (a) no acceptance by any Qualifying Shareholder (other than the Underwriter and Mr. Fang); and (b) all the Unsubscribed Shares are placed under the Unsubscribed Arrangements		Immediately upon the Open Offer Completion, and assuming (a) no acceptance by any Qualifying Shareholder (other than the Underwriter and Mr. Fang); and (b) no Unsubscribed Shares are placed and all Unsubscribed Shares are taken up by the Underwriter	
	<i>Number of issued Shares</i>	<i>%</i>	<i>Number of issued Shares</i>	<i>%</i>	<i>Number of issued Shares</i>	<i>%</i>	<i>Number of issued Shares</i>	<i>%</i>
Underwriter ⁽¹⁾	153,846,153	14.46	230,769,229	14.46	230,769,229	14.46	682,170,842	42.74
Mr. Fang	<u>7,440,000</u>	<u>0.70</u>	<u>11,160,000</u>	<u>0.70</u>	<u>11,160,000</u>	<u>0.70</u>	<u>11,160,000</u>	<u>0.70</u>
Sub-total	<u>161,286,153</u>	<u>15.16</u>	<u>241,929,229</u>	<u>15.16</u>	<u>241,929,229</u>	<u>15.16</u>	<u>693,330,842</u>	<u>43.44</u>
Mr. Chen Hongwei ⁽²⁾	182,000	0.02	273,000	0.02	182,000	0.01	182,000	0.01
Mr. Shi Chenghu ⁽³⁾	<u>89,452,000</u>	<u>8.41</u>	<u>134,178,000</u>	<u>8.41</u>	<u>89,452,000</u>	<u>5.60</u>	<u>89,452,000</u>	<u>5.60</u>
Sub-total ⁽⁴⁾	<u>250,920,153</u>	<u>23.59</u>	<u>376,380,229</u>	<u>23.59</u>	<u>331,563,229</u>	<u>20.77</u>	<u>782,964,842</u>	<u>49.05</u>
Independent places	—	—	—	—	451,401,613	28.28	—	—
Other Shareholders	<u>813,169,225</u>	<u>76.41</u>	<u>1,219,753,838</u>	<u>76.41</u>	<u>813,169,225</u>	<u>50.95</u>	<u>813,169,225</u>	<u>50.95</u>
Total	<u>1,064,089,378</u>	<u>100.00</u>	<u>1,596,134,067</u>	<u>100.00</u>	<u>1,596,134,067</u>	<u>100.00</u>	<u>1,596,134,067</u>	<u>100.00</u>

Notes:

1. The Underwriter is an investment holding company beneficially and wholly owned by Mr. Fang. Under the Takeovers Code, Mr. Fang is a party acting in concert with the Underwriter by virtue of his shareholding in the Underwriter. As at the Latest Practicable Date, the Underwriter held 153,846,153 Shares and Mr. Fang held 7,440,000 Shares. Under the SFO, Mr. Fang was deemed to be interested in all the Shares registered in the name of the Underwriter.
2. Mr. Chen Hongwei is an executive Director. Under the Takeovers Code, as Mr. Chen Hongwei is a director of the Company which is subject to an offer that involves a whitewash application, he is presumed to be acting in concert with Mr. Fang under class (6) of the definition of “acting in concert”.
3. Mr. Shi Chenghu is a non-executive Director. Under the Takeovers Code, as Mr. Shi Chenghu is a director of the Company which is subject to an offer that involves a whitewash application, he is presumed to be acting in concert with Mr. Fang under class (6) of the definition of “acting in concert”.
4. This is a sub-total of issued Shares held/to be held by the Underwriter and the party acting in concert with it (namely, Mr. Fang) and the other Directors who held Shares as at the Latest Practicable Date. Save as disclosed in this table, no other Director held any Share as at the Latest Practicable Date.

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As illustrated above, if no Qualifying Shareholder takes up any Open Offer Share and no Unsubscribed Share can be placed to independent placees, upon the Open Offer Completion, (i) the shareholding of the existing Shareholders would be reduced from approximately 76.41% as at the Latest Practicable Date to approximately 50.95% of the enlarged issued share capital of the Company, and (ii) the aggregate shareholding of the Underwriter and Mr. Fang would be increased from approximately 15.16% as at the Latest Practicable Date to approximately 43.44%.

The Underwriter has undertaken to the Company under the Underwriting Agreement that if the subscription for the Untaken Offer Shares by the Underwriter pursuant to the Underwriting Agreement will result in insufficient public float of the Company within the meaning of the Listing Rules, the Underwriter will, subject to compliance with the Takeovers Code, take all appropriate steps including but not limited to the engagement of a placing agent to procure subscribers (who are Independent Third Parties) to subscribe for the Shares which would otherwise be required to be taken up by the Underwriter under the Underwriting Agreement in order to restore the minimum public float requirement of the Company in compliance with Rule 8.08(1)(a) of the Listing Rules.

Intention of the Underwriter

As at the Latest Practicable Date, the Underwriter intended to continue to carry on the existing businesses of the Group and to continue the employment of the employees of the Group. The Underwriter has no intention to introduce any major changes to the businesses of the Group including redeployment of the fixed assets of the Group.

If a Qualifying Shareholder does not subscribe for his/her/its assured allotment in full under the Open Offer, his/her/its proportionate shareholding in the Company will be diluted.

REASONS FOR THE OPEN OFFER AND THE USE OF PROCEEDS

Information of the Group

The Group is principally engaged in the research and development, manufacture and sale of industrial products and environmental products, the provision of project contracting services and the provision of supporting services in the PRC.

For management purposes, the Group is organised into business units based on their products and services and has four operating segments: (i) industrial products refers to the manufacturing and sale of industrial automation systems or headboxes; (ii) environmental products refers the manufacturing and sale of sludge treatment products, wastewater treatment products and refuse derived fuel products; (iii) project contracting services refers to the provision of design, procurement, installation and project management services of production line in paper production factories; and (iv) supporting services refers to the after-sale services, machine running services, warehouse and logistic services, supply chain services and renovation services.

LETTER FROM THE BOARD

Use of proceeds

The gross proceeds from the Open Offer are expected to be approximately HK\$106.0 million. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK\$104.5 million. The net price per Open Offer Share is expected to be approximately HK\$0.196. The Company intends to apply the net proceeds from the Open Offer as follows:

- (i) approximately HK\$68.62 million for the repayment of bank loans;
- (ii) approximately HK\$31.38 million for the expansion of the Company's industrial automation and other related businesses and the supporting services; and
- (iii) approximately HK\$4.50 million as general working capital of the Company.

As at the Latest Practicable Date, the bank borrowings of the Group were approximately RMB62.99 million (equivalent to approximately HK\$68.62 million based on the exchange rate of RMB1.00 to HK\$1.0894), which were repayable within one year. The Company does not have any shareholder's loan. As at 31 October 2023, the Group's cash and cash equivalents were approximately RMB67.9 million, which will be used for the Company's daily operation. The Company intends to repay the following five bank loans from Rural Commercial Bank (農村商業銀行), Agricultural Bank of China (中國農業銀行) and Bank of China (中國銀行), all are Independent Third Parties:

Date of loan	Repayment due date	Amount of loan (RMB)
21 April 2023	20 April 2024	9,990,000
23 May 2023	22 May 2024	10,000,000
23 May 2023	23 May 2024	24,000,000
22 September 2023	21 September 2024	9,000,000
7 October 2023	6 October 2024	<u>10,000,000</u>
		<u><u>62,990,000</u></u>

The interest rates on the above bank borrowings ranged between 3.25% to 4.90% per annum. For the four months ended 31 October 2023, the Group incurred finance costs of approximately RMB0.85 million. As at 30 June 2023, the Group's trade and other payables were approximately RMB390.3 million, all of which were payable within one year, whilst the Group's trade and other receivables were approximately RMB175.3 million. For the year ended 30 June 2022 and 2023, the net cash outflow from operating activities were approximately RMB52.0 million and approximately RMB125.0 million, respectively.

LETTER FROM THE BOARD

The Group has been committed to providing its industrial automation products and services for the paper making industry and other industries since the listing of the Company in 2013. The sale of industrial products had contributed over 50.00% of the total revenue generated by the Group for the year ended 30 June 2023. The Company intends to continue to focus on this line of business. The paper making industry, however, has experienced much changes and challenges in the recent years, during which, its growth rate slowed down as a result of the decreasing market demand and various kinds of development difficulties such as increasing costs of raw materials and energy, and escalating market competition. As a result, the capital investments were reduced.

Leveraging on the experience, know-how, technology achievement as well as business network established by the Group, the Company has successfully diversified the industry risk and reduced the reliance on the paper making industry by exploring demands for its industrial automation products and services in other industries, such as, non-woven fabric industry. The technologies and solutions for the paper making industry can be applied to the non-woven fabric industry as well as other industries which require automation systems. The Group has leveraged its technology and experience in the paper making industry to explore new areas, and secured general contracting projects with the use of the Group's industrial automation products for manufacturing non-woven fabrics since 2020 and tobacco production equipment since 2019. In order to further enhance the Group's competitiveness, the Board has considered to allocate approximately 30.00% of the net proceeds to the marketing and execution of the Group's expansion plan in investing in or acquiring potential business relating to industrial automation products with a focus on industries other than the paper making industry in the PRC. As at the Latest Practicable Date, the Company had yet to identify any potential business.

Alternative fund raising methods

The Company has considered alternative fund raising methods which included debt financing, placing of new Shares and rights issue. The Board is of the view that debt financing would result in additional finance costs and increase the Group's liabilities burden. The Board also considers that debt financing is not an appropriate option to obtain additional funds. The Board is also of the view that placing of new shares (i) would only be available to certain places who may not necessarily be existing Shareholders and would dilute the shareholding of existing Shareholders; and (ii) may only raise funds in a relatively smaller size.

As for a rights issue, considering it involves the trading of nil-paid rights, the Board is of the view that the Company will have to incur extra administrative work and cost for the trading arrangements of the nil-paid rights in rights issue.

In view of the above, the Directors do not consider that debt financing or equity fund raising methods by way of placing of new shares or rights issue would be in the overall interests of the Company and its Shareholders. The Directors consider the Open Offer to be an appropriate method to raise the necessary funding which will provide all Qualifying Shareholders the right to participate in the new share issue by the Company in proportion to

LETTER FROM THE BOARD

their shareholding in the Company should they wish to do so. It is prudent to finance the Group's long-term business development by long-term financing, in the form of Open Offer which will not increase the Group's finance costs.

The Board believes that it would be in the interest of the Company to raise equity funding via the Open Offer to facilitate long-term development of the Group and to save financial costs to be incurred for the Company's funding needs. In addition, the Open Offer would allow the Company to strengthen its capital base and provide an opportunity to all Shareholders (other than the Non-Qualifying Shareholders) to participate in the growth of the Company in proportion to their shareholdings.

Having considered the above, the Directors (including members of the Independent Board Committee who have considered the advice of the Independent Financial Adviser) consider that the terms of the Open Offer are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter and Mr. Fang were the beneficial owners of a total of 153,846,153 Shares and 7,440,000 Shares, representing approximately 14.46% and 0.70% of the entire issued share capital of the Company respectively. Assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of completion of the Open Offer; (ii) none of the Qualifying Shareholders other than the Underwriter and Mr. Fang has taken up his/her/its entitlement under the Open Offer; and (iii) none of the Unsubscribed Shares has been taken up under the Unsubscribed Arrangement, the aggregate interests in the Company to be held by the Underwriter and Mr. Fang upon completion of the Open Offer will increase from approximately 15.16% to approximately 43.44% of the enlarged issued share capital of the Company. In the circumstances, the Underwriter and Mr. Fang will, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code.

An application has been made by the Underwriter and Mr. Fang to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, is conditional upon, amongst others, the Company having obtained (i) the approval of at least 75% of the Independent Shareholders for the Whitewash Waiver voting in person or by proxy at the EGM, and (ii) the approval of more than 50% of the Independent Shareholders for the Open Offer voting in person or by proxy at the EGM, by way of poll whereby the Underwriter and Mr. Fang and the parties acting in concert with any one of them including those by virtue of the class (6) presumption under the definition of "acting in concert" under the Takeovers Code (namely, Mr. Chen Hongwei and Mr. Shi Chenghu) and those who are involved in and/or interested in the Open Offer and the Whitewash Waiver will abstain from voting in favour of the resolution relating to the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Open Offer will not proceed.

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The Company believes that the Open Offer would not give rise to any concern about compliance with applicable rules or regulations (including the Listing Rules). The Company and the Underwriter note that the Executive may not grant the Whitewash Waiver if the Open Offer does not comply with other applicable rules and regulations.

The Executive has indicated that it is minded to grant the Whitewash Waiver which will be conditional upon, among others, (i) the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy at the EGM by way of poll; and (ii) the approval of more than 50% of the Independent Shareholders for the Open Offer voting in person or by proxy at the EGM by way of poll. Save for the Underwriter, Mr. Fang, Mr. Chen Hongwei and Mr. Shi Chenghu, no Shareholder is required to abstain from voting in favour of the resolution approving the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive, the Underwriting Agreement will not become unconditional and the Open Offer will not proceed.

LISTING RULES IMPLICATIONS

Open Offer

As the Open Offer Shares will not be issued under the general mandate of the Company, in accordance with Rule 7.24A(1) of the Listing Rules, among other things, the Open Offer must be made conditional on approval by the Independent Shareholders at the EGM and, pursuant to Rule 7.27A(1) of the Listing Rules, any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (other than the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Open Offer. As such, Mr. Fang, Mr. Chen Hongwei and Mr. Shi Chenghu and their associates will abstain from voting in favour of the resolutions to approve the Open Offer at the EGM.

Connected transactions in relation to the Underwriting Agreement

As at the Latest Practicable Date, the Underwriter (which is wholly owned by Mr. Fang) owned 153,846,153 Shares, representing approximately 14.46% of the number of Shares in issue. The Underwriter is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Underwriter and its associates will abstain from voting in favour of the resolution(s) in relation to the Underwriting Agreement and the transactions contemplated thereunder at the EGM.

Save for Mr. Fang, who is the ultimate beneficial owner of the Underwriter and an executive Director, none of the Directors has material interest in the Underwriting Agreement and was required to abstain from voting on the resolution passed by the Board to approve the Underwriting Agreement and the transactions contemplated thereunder. Mr. Fang had abstained from voting on the resolution passed by the Board to approve the Underwriting Agreement and the transactions thereunder by virtue of his material interest in the Underwriting Agreement.

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EXTRAORDINARY GENERAL MEETING AND INDEPENDENT SHAREHOLDERS' APPROVAL

Set out on pages EGM-1 to EGM-4 of this Circular is a notice convening the EGM to be held at Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong at 11 a.m. on Friday, 2 February 2024.

At the EGM, resolutions for approving the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver will be proposed for the Independent Shareholders' approval. The resolutions will be voted by way of poll at the EGM.

As at the Latest Practicable Date, the Underwriter (which is wholly owned by Mr. Fang) owned 153,846,153 Shares, representing approximately 14.46% of the existing number of Shares in issue.

The Underwriter, Mr. Fang and any party acting in concert with any of them (including those by virtue of the class (6) presumption under the definition of "acting in concert" under the Takeovers Code (i.e. Mr. Chen Hongwei and Mr. Shi Chenghu) and those who are involved in and/or interested in the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver) in aggregate hold 250,920,153 Shares (representing approximately 23.59% of the issued Shares), will abstain from voting at the EGM in respect of the resolutions for the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver. In accordance with the Listing Rules and the Takeovers Code, the resolution(s) (i) in relation to the Whitewash Waiver will be approved by at least 75% of the independent votes that are either in person or by proxy by the Independent Shareholders at the EGM; and (ii) in relation of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder will be approved by more than 50% of the independent votes that are either in person or by proxy by the Independent Shareholders at the EGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 29 January 2024 to Friday, 2 February 2024 (both days inclusive) to determine the qualification for attendance and voting at the EGM. No transfer of Shares will be registered during this period.

The register of members of the Company will be closed from Thursday, 8 February 2024 to Friday, 16 February 2024 (both dates inclusive) to determine entitlements to the Open Offer. No transfer of Shares will be registered during this period.

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

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, to advise the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver, and as to the voting action therefor.

LETTER FROM THE BOARD

Pursuant to Rule 2.8 of the Takeovers Code, members of the independent committee should comprise all non-executive Directors who have no direct or indirect interest in the Whitewash Waiver other than as a Shareholder. Since Mr. Shi Chenghu, a non-executive Director, is presumed to be acting in concert with the Underwriter under class (6) presumption under the definition of “acting in concert” under the Takeovers Code, he is not considered as independent for the purpose of giving advice or recommendations to the Independent Shareholders and will not be part of the Independent Board Committee. Save for the Share Options granted to him/her and the Optionholders’ Undertakings given by him/her, each of Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang has no involvement and no direct or indirect interests in the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver, and is therefore eligible to be a member of the Independent Board Committee.

Lego Corporate Finance Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

DESPATCH OF THE PROSPECTUS DOCUMENTS

The Prospectus Documents will be despatched to the Qualifying Shareholders as soon as practicable after obtaining of the approval of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver by the Independent Shareholders at the EGM. The Prospectus only will be despatched to the Non-Qualifying Shareholders for their information only. The Non-Qualifying Shareholders will not be entitled to any assured allotment under the Open Offer.

RECOMMENDATION

The Independent Board Committee, having taken in account the principal factors and reasons considered by, and the advice of the Independent Financial Adviser, considers that (i) the Open Offer (including the transactions contemplated under the Underwriting Agreement) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) the Whitewash Waiver is to facilitate the implementation of the Open Offer, that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of (i) the ordinary resolutions to be proposed at the EGM to approve the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder; and (ii) the special resolution to be proposed at the EGM to approve the Whitewash Waiver.

Further, the Directors (excluding members of the Independent Board Committee whose opinion is set forth in the “Letter from the Independent Board Committee” in this Circular) consider that the terms of the Open Offer (including the transactions contemplated under the Underwriting Agreement) and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding members of the Independent Board Committee whose opinion is set forth in the “Letter from the Independent Board

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Committee” in this Circular) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 32 to 33 of this Circular which contains its recommendation to the Independent Shareholders in relation to the Open Offer (including the transactions contemplated under the Underwriting Agreement) and the Whitewash Waiver; and (ii) the letter from the Independent Financial Adviser set out on pages 34 to 57 of this Circular which contains its advice to the Independent Board Committee and the Independent Shareholders in this regard.

WARNING OF THE RISKS OF DEALING IN THE SHARES

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT THE OPEN OFFER IS CONDITIONAL UPON, AMONG OTHERS, CONDITIONS PRECEDENT AS SET OUT IN PARAGRAPH HEADED “CONDITIONS OF THE OPEN OFFER” IN THIS “LETTER FROM THE BOARD” ABOVE. ACCORDINGLY, THE OPEN OFFER MAY OR MAY NOT PROCEED.

ANY DEALINGS IN THE SHARES FROM THE DATE OF THIS CIRCULAR UP TO THE DATE ON WHICH ALL THE CONDITIONS OF THE OPEN OFFER ARE FULFILLED WILL BEAR THE RISK THAT THE OPEN OFFER MAY NOT BECOME UNCONDITIONAL OR MAY NOT PROCEED.

SHAREHOLDERS, OPTIONHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE IN CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY, AND IF THEY ARE IN ANY DOUBT ABOUT THEIR POSITION, THEY SHOULD CONSULT THEIR OWN PROFESSIONAL ADVISERS.

ADDITIONAL INFORMATION

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

RESPONSIBILITY STATEMENT

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

Yours faithfully,
For and on behalf of the Board
HUAZHANG TECHNOLOGY HOLDING LIMITED


Fang Hui
Executive Director