

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this Circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Huazhang Technology Holding Limited, you should at once hand this Circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Circular appears for information purposes only and does not constitute an invitation or offer to the Shareholders or any other persons to acquire, purchase, or subscribe for the shares of the Company.

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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)

- (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**

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



Placing Agent



This Circular together with a form of proxy will remain on the website of the Company at <http://www.hzeg.com>.

Capitalised terms used on this cover shall have the same meanings as those defined in this Circular, unless the context requires otherwise. A letter from the Board is set out on pages 9 to 31 of this Circular. A letter from the Independent Board Committee is set out on pages 32 to 33 of this Circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 34 to 57 of this Circular.

The Shares will be dealt in on an ex-entitlements basis from Tuesday, 6 February 2024. Any Shareholder or other person dealing in the Shares from the Latest Practicable Date up to the date on which all conditions of the Open Offer become unconditional (which is expected to be 4:00 p.m. on Thursday, 14 March 2024), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating dealings in the securities of the Company are recommended to consult its/his/her own professional advisers.

The Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events, including force majeure. Please refer to the section headed "Termination of the Underwriting Agreement" on pages 7 to 8 of this Circular. If the Underwriting Agreement is terminated or does not become unconditional, the Open Offer will not proceed.

A notice convening the EGM to be held at Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong on Friday, 2 February 2024 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this Circular. Whether or not you are able to attend the EGM in person, you are requested to complete the form of proxy, in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 11:00 a.m. on Wednesday, 31 January 2024) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

12 January 2024

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EXPECTED TIMETABLE

Set out below is the expected timetable for the Open Offer which is indicative only and is subject to change. Further announcement(s) will be made by the Company should there be any changes to the expected timetable.

All times in this Circular refer to Hong Kong time.

Event	Date (Hong Kong time)
Despatch date of the Circular, proxy form and notice of the EGM	Friday, 12 January 2024
Latest time for registration of Shares to qualify for attendance and voting at the EGM	4:30 p.m. on Friday, 26 January 2024
Closure of register of members of the Company to determine the qualification for attendance and voting at the EGM	From Monday, 29 January 2024 to Friday, 2 February 2024 (both dates inclusive)
Latest time for lodging proxy forms for the EGM	11:00 a.m. on Wednesday, 31 January 2024
Record date for attendance and voting at the EGM	Friday, 2 February 2024
Time and date of the EGM	11:00 a.m. on Friday, 2 February 2024
Announcement of the poll results of the EGM	Friday, 2 February 2024
Re-opening of the register of members of the Company	Monday, 5 February 2024
Last day of dealings in the Shares on a cum-entitlements basis	Monday, 5 February 2024
First day of dealings in the Shares on an ex-entitlements basis	Tuesday, 6 February 2024
Latest time for lodging transfers of the Shares in order for the transferees to qualify for the Open Offer	4:30 p.m. on Wednesday, 7 February 2024
Closure of register of members to determine the entitlements to the Open Offer	From Thursday, 8 February 2024 to Friday, 16 February 2024 (both dates inclusive)
Record Date for the Open Offer	Friday, 16 February 2024
Re-opening of the register of members of the Company	Monday, 19 February 2024

EXPECTED TIMETABLE

Event	Date (Hong Kong time)
Despatch of Prospectus Documents (in the case of the Non-Qualifying Shareholders, the Prospectus only).....	Monday, 19 February 2024
Latest Time for Application and payment for the Open Offer Shares	4:00 p.m. on Monday, 4 March 2024
Announcement of the number of the Unsubscribed Shares subject to the Unsubscribed Arrangements	Monday, 11 March 2024
Placing of the Unsubscribed Shares by the Placing Agent, on best effort basis	Tuesday, 12 March 2024
Placing End Date for placing the Unsubscribed Shares.....	4:00 p.m. on Wednesday, 13 March 2024
Latest Time for Termination by the Underwriter	4:00 p.m. on Wednesday, 13 March 2024
Open Offer Settlement Date and the Open Offer becomes unconditional.....	4:00 p.m. on Thursday, 14 March 2024
Announcement of the results of the Open Offer (including the results of placing of the Unsubscribed Shares and Net Gain under the Unsubscribed Arrangements).....	Friday, 15 March 2024
Despatch of certificates for the fully-paid Open Offer Shares	Monday, 18 March 2024
Despatch of refund cheques if the Open Offer is terminated	Monday, 18 March 2024
First day of dealings in the fully-paid Open Offer Shares.....	9:00 a.m. on Tuesday, 19 March 2024
Payment of Net Gain to relevant No Action Shareholders (if any).....	Monday, 25 March 2024

DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 1 December 2023 in relation to, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver
“Application Form”	the application form to be used in connection with the Open Offer in such form as the Company may approve
“associate(s)”	has the meaning ascribed to it under the Listing Rules or the Takeovers Code (as the case may be)
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday, a public holiday or days on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which banks are generally open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	this circular
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company”	Huazhang Technology Holding Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1673)
“connected person(s)”	the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened at 11:00 a.m. at Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong on Friday, 2 February 2024 to consider and, if thought fit, to approve the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administration Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang, established to advise the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver
“Independent Financial Adviser”	Lego Corporate Finance Limited (力高企業融資有限公司), a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer (including the transactions contemplated under the Underwriting Agreement) and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than (i) the Underwriter, its ultimate beneficial owners and parties acting in concert with any of them; and (ii) those who are involved or have interests in the Open Offer, the Underwriting Agreement and the Whitewash Waiver and required under the Listing Rules and/or Takeovers Code (as the case may be) to abstain from voting at the EGM
“Independent Third Parties”	third parties independent of and not connected with the Company and its connected persons
“Irrevocable Undertakings”	the irrevocable undertakings given by the Underwriter and Mr. Fang to take up and pay for such number of Open Offer Shares which constitutes the entire assured allotment of Open Offer Shares in respect of the Shares legally and beneficially owned by the Underwriter and Mr. Fang

DEFINITIONS

“Last Trading Day”	30 November 2023, being the last trading day of the Shares on the Stock Exchange immediately before the publication of the Announcement
“Latest Practicable Date”	9 January 2024, being the latest practicable date for ascertaining certain information for inclusion in this Circular
“Latest Time for Application”	4:00 p.m. on Monday, 4 March 2024 or such other time or date as may be agreed between the Company and the Underwriter in writing, being the last time for application of and payment for the Open Offer Shares
“Latest Time for Termination”	4:00 p.m. on Wednesday, 13 March 2024, being the seventh Business Day after (but excluding) the Latest Time for Application, or such other time or date as may be agreed between the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Fang”	Mr. Fang Hui, an executive Director and the sole shareholder and director of the Underwriter
“Net Gain”	the total amount of premium of all Unsubscribed Shares placed under the Placing Agreement, if any, over the aggregate amount of (i) the Open Offer Price for the Unsubscribed Shares; and (ii) the expenses of the Placing Agent (including any related commissions and other related expenses/fees)
“No Action Shareholder(s)”	Qualifying Shareholder(s) who do not apply for the Open Offer Shares (whether partially or fully) in their assured allotments or Non-Qualifying Shareholder(s) (as the case may be)
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange, consider it necessary or expedient to exclude from the Open Offer

DEFINITIONS

“Open Offer”	the proposed offer for subscription of the Open Offer Shares at the Open Offer Price on the basis of one (1) Open Offer Share for every two (2) existing Shares held by the Shareholders on the Record Date and subject to the conditions precedent set out in the section headed “Conditions of the Open Offer” in the “Letter from the Board” in this Circular and to be set out in the Prospectus
“Open Offer Completion”	completion of the Open Offer
“Open Offer Price”	the offer price of HK\$0.20 per Open Offer Share
“Open Offer Settlement Date”	Thursday, 14 March 2024 (or such other date as the Underwriter and the Company may agree in writing)
“Open Offer Share(s)”	the new Share(s) to be allotted and issued under the Open Offer, being 532,044,689 Shares (assuming no other change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date)
“Optionholder(s)”	holder(s) of the Share Option(s)
“Optionholders’ Undertakings”	the irrevocable undertakings given by the five Optionholders as mentioned in the section headed “Irrevocable Undertakings — Optionholders’ Undertakings” in the “Letter from the Board” in this Circular
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
“Placing Agent”	Yuen Meta (International) Securities Limited (元宇宙(國際)證券有限公司), a corporation licensed under the SFO to carry out type 1 (dealing in securities) regulated activity, which will place the Unsubscribed Shares to investors who are Independent Third Parties under the Unsubscribed Arrangements
“Placing Agreement”	the agreement dated 1 December 2023 entered into between the Company and the Placing Agent in respect of the Unsubscribed Arrangements
“Placing End Date”	4:00 p.m. on Wednesday, 13 March 2024, being the seventh Business Day following and excluding the day on which the Latest Time for Application falls

DEFINITIONS

“Placing Period”	the period from Wednesday, 6 March 2024 up to 4:00 p.m. on Wednesday, 13 March 2024, or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Unsubscribed Arrangements
“Placing Price”	not less than HK\$0.20 per Unsubscribed Share
“Posting Date”	Monday, 19 February 2024, or such other date as the Company may determine and announce for the despatch of the Prospectus Documents
“PRC”	People’s Republic of China
“Prospectus”	the offering circular to be issued by the Company in relation to the Open Offer which will be registered as a prospectus
“Prospectus Documents”	the Prospectus and the Application Form
“Qualifying Shareholder(s)”	Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholders
“Record Date”	the date by reference to which assured allotments under the Open Offer are expected to be determined, which is Friday, 16 February 2024 or such later date as may be determined and announced by the Company
“Registrar”	Tricor Investor Services Limited, the Company’s Hong Kong branch share registrar and transfer office
“Relevant Period”	the period commencing six months before the date of the Announcement and ending on the Latest Practicable Date
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share Option(s)”	the share option(s) of the Company granted pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 10 February 2022
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Dao He Investment Limited, a company incorporated in the British Virgin Islands with limited liability, beneficially and wholly owned by Mr. Fang and a substantial shareholder of the Company
“Underwriting Agreement”	the underwriting agreement dated 1 December 2023 and entered into between the Company and the Underwriter in relation to the Open Offer (as amended by a supplemental agreement dated 22 December 2023 made between the Company and the Underwriter)
“Unsubscribed Arrangements”	arrangements to place the Unsubscribed Shares by the Placing Agent on a best effort basis to investors who (or as the case maybe, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties pursuant to Rule 7.26A(1)(b) of the Listing Rules
“Unsubscribed Shares”	Open Offer Shares that are not subscribed by the Qualifying Shareholders, aggregated fractional Open Offer Shares, and Open Offer Shares which would otherwise have been allotted to the Non-Qualifying Shareholders (as the case may be)
“Untaken Offer Shares”	all such Unsubscribed Shares that have not been placed by the Placing Agent or they have been placed but the placees have not paid therefore at 4:00 p.m. on the Placing End Date
“Whitewash Waiver”	the waiver of the obligation on the part of the Underwriter to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and any party acting in concert with it as a result of underwriting the Open Offer pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
“%”	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

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

- (i) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (ii) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or material restriction of trading in securities) occurs which in the sole and reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (iii) there is any change in the circumstances of the Company or any member of the Group which in the sole and reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iv) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (v) the Circular, Prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the sole and reasonable opinion of the Underwriter are material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the relevant Open Offer Shares offered to it.

The Underwriter will be entitled by a notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination, there is any material breach of any of the representations, warranties or undertakings as set out in the Underwriting Agreement comes to the knowledge of the Underwriter. Any such notice will be served prior to the Latest Time for Termination.

If prior to the Latest Time for Termination, any such notice as is referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement (save and except for certain clauses which will remain in full force and effect as set out in the Underwriting Agreement) will terminate forthwith and no party will have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

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:

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

*Principal place of business
in Hong Kong:*

Suite 901, 9/F
Ocean Centre
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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

(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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

For the avoidance of doubt, no placee will become a substantial shareholder

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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 to 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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	7,440,000	0.70	11,160,000	0.70	11,160,000	0.70	11,160,000	0.70
Sub-total	161,286,153	15.16	241,929,229	15.16	241,929,229	15.16	693,330,842	43.44
Mr. Chen Hongwei ⁽²⁾	182,000	0.02	273,000	0.02	182,000	0.01	182,000	0.01
Mr. Shi Chenghu ⁽³⁾	89,452,000	8.41	134,178,000	8.41	89,452,000	5.60	89,452,000	5.60
Sub-total⁽⁴⁾	250,920,153	23.59	376,380,229	23.59	331,563,229	20.77	782,964,842	49.05
Independent placees	—	—	—	—	451,401,613	28.28	—	—
Other Shareholders	813,169,225	76.41	1,219,753,838	76.41	813,169,225	50.95	813,169,225	50.95
Total	1,064,089,378	100.00	1,596,134,067	100.00	1,596,134,067	100.00	1,596,134,067	100.00

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this Circular.



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)

12 January 2024

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 12 January 2024 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether (i) the Open Offer; (ii) the Underwriting Agreement and the transactions contemplated thereunder; and (iii) the Whitewash Waiver are on normal commercial terms, fair and reasonable, so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders how to vote at the EGM. Lego Corporate Finance Limited has been appointed by us as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of its advice together with the principal factors and reasons it has taken into consideration on giving its advice, are contained in its letter set out on pages 34 to 57 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by, and the advice of the Independent Financial Adviser, we considered that (i) the Open Offer (including the transaction 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, and therefore the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend 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.

Yours faithfully

The Independent Board Committee

Mr. Heng, Keith Kai Neng

Mr. Yao Yang Yang

Ms. Zhang Dong Fang

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated therein, and the Whitewash Waiver, which has been prepared for the purpose of inclusion in this circular.



12 January 2024

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated therein, and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 12 January 2024 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 1 December 2023 (the “**Announcement**”). As set out in the Announcement, the Board proposed 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 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. The Open Offer is not available to the Non-Qualifying Shareholder. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

LISTING RULES IMPLICATIONS

Open Offer

As the Open Offer Shares will not be issued pursuant to 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 shall abstain from voting in favour of the resolutions to approve the Open Offer at the EGM.

Connected transaction 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.

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 entitlements 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An application has been made by the Underwriter and Mr. Fang to the Executive for the Whitewash Waiver. The Executive has indicated that it is minded to grant the Whitewash Waiver which will be conditional upon, among others, (i) the approval of at least 75% of the Independent Shareholders for the Whitewash Waiver voting in person or by proxy; and (ii) the approval of more than 50% of the Independent Shareholders for the Open Offer voting in person or by proxy, 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.

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 therein, and the Whitewash Waiver, and as to the voting action therefor. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, the Underwriter, Mr. Fang or any other parties that could reasonably be regarded as relevant to our independence. We are not associated or connected with the Company, the Underwriter, Mr. Fang or any party acting, or presumed to be acting, in concert with any of them. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we are independent from the Company in accordance with Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code to act as the Independent Financial Adviser and are eligible to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of (i) the Open Offer; (ii) the Underwriting Agreement; and (iii) the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the “**Management**”); (iv) our review of the relevant public information; and (v) the management accounts of the Group for the five months ended 30 November 2023. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular and should there be any material change after the despatch of this Circular and up to the date of the EGM, the Shareholders would be notified as soon as possible.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group and the Underwriter, or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of (i) the Open Offer; (ii) the Underwriting Agreement; and (iii) the Whitewash Waiver, we have taken into consideration the following principal factors and reasons.

1 Background information of the Group

The Group is principally engaged in the research and development, manufacture and sale of industrial automation systems, sludge treatment products and related services in the PRC, Malaysia, Vietnam and Indonesia. In addition, the Group is also engaged in the provision of after-sales and other services to the Group's existing customers. The Group has over 20 years of experience in the provision of automation manufacturing equipment and systems (such as headbox and transmission control system) and related services to the paper industry.

Set out below is a summary of the financial results of the Group for the years ended 30 June 2022 and 2023 (the "FY2022" and "FY2023", respectively) as extracted from the Company's annual report for FY2023 (the "2023 Annual Report")

	For the year ended 30 June	
	2022	2023
	RMB	RMB
	(audited)	(audited)
Revenue	323,868,801	528,921,014
Gross profit	33,154,639	83,163,610
Loss before income tax	(351,195,049)	(51,552,165)
Loss for the year	(366,738,839)	(52,831,060)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June	
	2022	2023
	<i>RMB</i>	<i>RMB</i>
	(audited)	(audited)
Non-current assets	329,758,940	267,014,266
Current assets	<u>712,047,236</u>	<u>705,232,389</u>
Total assets	<u>1,041,806,176</u>	<u>972,306,655</u>
Current liabilities	30,030,727	28,153,648
Non-current liabilities	<u>615,712,183</u>	<u>592,552,761</u>
Total liabilities	<u>645,742,910</u>	<u>620,706,409</u>
Net assets	<u>396,063,266</u>	<u>351,600,246</u>

The Group's revenue increased by approximately 63.3% from approximately RMB323.9 million for FY2022 to approximately RMB528.9 million for FY2023. As stated in the 2023 Annual Report, such increase was mainly attributable to (i) the increase in revenue generated from the sales of industrial products of approximately RMB124.6 million, which was mainly due to the exploration of a new market in non-woven fabrics, and the post pandemic market environment which the supplies to the Group has become stable and allowed more projects to be run on schedule as compared to FY2022; and (ii) the increase in revenue generated from the project contracting services segment of the Group of approximately RMB94.6 million, which was mainly due to three sizeable contracting services projects were performed by the Group in FY2023, which contributed approximately 31.4% of the total revenue of the Group, while several contracting projects were delayed by the customers in FY2022. The net loss of the Group decreased by approximately 85.6% from approximately RMB366.7 million for FY2022 to approximately RMB52.8 million for FY2023, which was mainly attributable to (i) the increase in gross profit as a result of the increase in revenue due to the abovementioned reasons; (ii) the Group has made sufficient impairments in certain financial and contracts assets in FY2022, as a result, the impairment losses during FY2023 decreased as compared to FY2022; and (iii) the decrease in financial costs as the convertible bonds were fully repaid in the third quarter of 2022.

As at 30 June 2023, total assets of the Group amounted to approximately RMB972.3 million, which mainly comprised (i) trade and other receivables of approximately RMB175.3 million; (ii) inventories of approximately RMB153.6 million; (iii) contract assets of approximately RMB102.2 million; (iv) prepayments for procurements of approximately RMB94.8 million; and (v) investment properties of approximately RMB83.5 million. The total assets of the Group decreased by approximately 6.7% from approximately RMB1,041.8 million as at 30 June 2022 to approximately RMB972.3 million as at 30 June 2023. Such decrease was mainly attributed to the mixed effects of (i) the decrease in the Group's cash and cash equivalents of approximately RMB97.1 million; (ii) the decrease in the Group's non-current portion of trade and other receivable of approximately RMB38.5 million; and (iii) the increase in the Group's contract assets of approximately RMB72.7 million.

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As at 30 June 2023, total liabilities of the Group amounted to approximately RMB620.7 million, which mainly comprised the Group's (i) trade and other payables of approximately RMB390.3 million; and (ii) contract liabilities of approximately RMB123.1 million. The total liabilities of the Group decreased by approximately 3.9% from approximately RMB645.7 million as at 30 June 2022 to approximately RMB620.7 million as at 30 June 2023. Such decrease was mainly due to the mixed effects of (i) the decrease in the Group's trade and other payables of approximately RMB40.9 million; (ii) the decrease in the Group's contract liabilities of approximately RMB16.1 million; and (iii) the draw down of additional interest-bearing loans close to the financial year end of FY2023.

Pursuant to Note 3 to Rule 2 of the Takeovers Code, we would like to draw the attention of the Independent Shareholders and the Independent Board Committee to the disclaimer of opinion and qualified opinion issued by the Company's auditors for FY2022 and FY2023, respectively (please refer to the section headed "1. Consolidated Financial Information of the Group" in the Appendix I to the Circular for details). The Independent Shareholders are advised to take into account the foregoing and consider carefully the terms of the Open Offer. The Board is of the view, and we concur that the disclaimer of opinion and qualified opinion will have no material implication on the Group's operation in view of the fact that (i) the Company has already made full provision for the Subject Transactions; (ii) the relevant personnel had left the Company and ceased to participate in the Group's daily operation; and (iii) Jiafu Paper had already been disposed of by the Company, and accordingly all those factors which led to the disclaimer of opinion and qualified opinion are no longer present.

2 Background of the Open Offer

2.1 Reasons for and benefits of the Open Offer

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 to (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.

According to the Letter from the Board, the Group planned to repay five bank borrowings of approximately RMB62.99 million in aggregate as at 1 December 2023 (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 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). As advised by the Management, due to the Group's involvement in various litigations in recent years and the on-going claim against the Group in relation to the contractual dispute with a supplier, and the continuous loss-making position of the Group, the financial institutions are reluctant to renew or extend the loans to the Group. Please refer to the section headed "10. Claims and Litigation" in Appendix IV to the Circular for details of the material on-going claim of the Group. Moreover, we were given to

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understand from the Management that, the Group would have to bear significantly higher finance cost for any new loans or banking facilities from other financial institutions. According to the unaudited management accounts of the Group, as at 30 November 2023, the Group had cash at bank and on hand of approximately RMB73.0 million. Based on our review of the Group's financial condition and as advised by the Management, having considered the working capital requirement for operating activities of the Group of approximately RMB118.2 million for the year ended 30 June 2023 (which comprised selling and distribution expense, administrative expenses, and research and development expenses of approximately RMB9.7 million, RMB80.0 million and RMB28.5 million, respectively), the cash at bank and on hand available to the Group as at 30 November 2023 is insufficient for the Group to repay the aforementioned bank borrowings while funding the daily operations of the Group. Therefore, the Group intends to apply approximately HK\$68.62 million of the net proceeds from the Open Offer for the repayment of bank loans. The Directors are of the view and we concur that, the Open Offer enables the Group to replenish its working capital and prevent disruption to the Group's operations so as to ensure the Group has sufficient liquidity in repaying its loans.

The Group is principally engaged in the research and development, manufacture and sales of industrial products, project contracting services, environmental products and the provision of supporting services in the PRC. The Group has been committed to providing its industrial automation products and services for paper making related business and other industries since the listing of the Company in 2013. As stated in the 2023 Annual Report, the sale of industrial products, project contracting services, environmental products and supporting services had contributed approximately 54.8%, 33.7%, 1.9% and 9.6% of the total revenue generated by the Group for the year ended 30 June 2023, respectively. The provision of the industrial products and project contracting services in the paper making industry has experienced much changes and challenges in the recent years, during which, its growth rate slowed down as a result of decreasing market demand and various kinds of development difficulties such as increasing costs of raw material and energy, and escalating market competition. As a result, the capital investments were reduced. The Company intends to continue to explore new industry(ies) for applications of the Group's industrial automation products and services, such as the electricity, mining, chemicals, petrochemicals and/or metallurgy related applications in the PRC but has yet to identify any potential business as at the Latest Practicable Date. 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 the 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 had 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 fact, we noted that the Group recorded significant increase in revenue for the year ended 30 June 2023 partly due to the increase in revenue generated from the sales of industrial products of approximately RMB124.6 million, which was mainly due to the exploration of a new market in non-woven fabrics and the

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stabilised supply chain also allowed more projects to be run on schedule. In order to further enhance the Group's competitiveness, the Board has considered to allocate approximately 30% 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 applications other than the paper making industry such as the electricity, mining, chemicals, petrochemicals and/or metallurgy related applications in the PRC. As at the Latest Practicable Date, the Company has yet to identify any potential acquisition or investment target.

According to the article published on the website of State Council of the PRC on 4 September 2023, over the past ten years, high-tech manufacturing industry of China has reported fast expansion, with investment into the sector registering an annual growth of 7.4%. The sector's value-added industrial output accounted for 15.5% of those at the country's major industrial firms last year, up from 9.4% in 2012. We further noted from the 14th Five-year Plan (2021–2025) National Economic and Social Development and Vision 2035 of the PRC, in order to accelerate the construction of a strong manufacturing and quality country, the government intends to promote the optimisation and upgrading of the manufacturing industry. The government intends to implement intelligent manufacturing and green manufacturing projects, develop new service-oriented manufacturing models, and promote high-end, intelligent and green manufacturing by improving the technology of intelligent manufacturing and robotics, such as focusing on the development of industrial control equipment, distributed control systems, programmable logic controllers, data acquisition and video surveillance systems, etc. The Directors are of the view, and we concur that, the automation technology is the industrial trend worldwide, and the growing trend worldwide and the prospect of the automation industry is promising and supported by favourable government policies in the PRC as aforementioned. Having considered the paper making industry has experienced a complete change in cycle, we concur with the Directors' view that the Open Offer could provide the initial capital for the Group to further expand the Group's expertise and technology achievement in the automation industry into other applications, such as the electricity, mining, chemicals, petrochemicals and/or metallurgy related applications in the PRC, so as to improve the performance of the Group, which is in the interest of the Company and the Shareholders as a whole.

2.2 Fund raising alternatives

As stated in the Letter from the Board, the Company had explored and evaluated alternatives means of fund raising other than the Open Offer available to the Group, such as debt financing, placing of new Shares and rights issue. As advised by the Management, due to the on-going claim against the Group in relation to the contractual dispute with a supplier as disclosed in the section headed "10. Claims and Litigation" in Appendix IV to the Circular, certain funds of the Group in an amount of approximately RMB38.5 million have been frozen by the courts in the PRC, hence having considered the Group's involvement in various litigations in recent years and the continuous loss-making position of the Group, the financial institutions are reluctant to renew or extend the loans to the Group. Moreover, we were given to understand from the Management that, the Group would have to bear significant finance cost for any new loans or banking facilities from

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other financial institutions, due to the facts that (i) the aforementioned litigations and claim involved by the Group; (ii) the Group has been operating in a loss-making position in recent years; and (iii) the Group has limited available assets to be pledged for any new banking facilities. Based on the communication between the Management and other financial institution, we noted that the interest rate proposed to be charged by the financial institution for offering a new loan to the Group is up to 18.0% per annum which is substantially higher than the interest rates charged on existing loans of the Group ranging from 3.25% to 4.90% per annum, and would significantly increase the interest burden of the Group.

Regarding placing of new Shares, the Directors are of view and we concur that, placing of new Shares may only raise funds in a relatively small amount and dilute the shareholding of the existing Shareholders which the existing Shareholders do not have the right to participate in the development of the Group, therefore is considered unfair to the existing Shareholders due to limited accessibility to the placing by the existing Shareholders.

Both open offer and rights issue allow the shareholders the opportunity to maintain their pro-rata shareholdings. Although a rights issue in contrast to an open offer, would provide an option to the shareholders who do not wish to take up their entitlements to sell their nil-paid rights, a rights issue would therefore involve extra administrative work and cost in preparation, printing, posting and processing the trading of nil-paid rights. As discussed with the Management, we understand that additional cost for the Company, primarily being additional fee for other professional parties and service providers such as, financial printer, share registrar and legal advisers, estimated to be approximately HK\$250,000, would be incurred in trading of the nil-paid rights during the subscription period should the Company choose to raise fund by a rights issue when compared to the Open Offer. Despite such additional cost only accounts for approximately 0.23% of the gross proceeds from the Open Offer, it represents approximately 16.7% of the estimated expenses for the Open Offer of approximately HK\$1.5 million, which the Management considered to be material. In addition, we understand from the Management that, having considered the prevailing market sentiment in the Hong Kong market and thin trading volume of the Shares, the Directors are of the view that there may be no active market in nil-paid rights. We consider that the Unsubscribed Arrangements will provide a compensatory mechanism for the No Action Shareholders to protect the interest of the Independent Shareholders. Hence, in view of (i) the continuous loss-making position of the Company for the two years ended 30 June 2023; (ii) the thin trading volume of the Shares; and (iii) the implementation of the Unsubscribed Arrangements, we concur with the Directors' view that the Open Offer is considered a more cost-effective and efficient fund raising method in light of the Company's circumstances, and is in the interest to the Company and the Shareholders as a whole.

Having considered the feasibility of various fund raising alternatives as discussed above, we concur with the Directors' view that the Open Offer is a preferred fund raising method available to the Group under the current circumstances of the Group.

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In light of the above, having considered (i) the reasons for and benefits of the Open Offer, in particular, the funds being raised through the Open Offer are intended to facilitate the long-term development of the Group and to save financial costs to be incurred for the Company's funding needs; (ii) the Open Offer being a preferred fund raising method to the Company; and (iii) 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, we are of the view that the Open Offer is in the interests of the Company and the Shareholders as a whole.

3 Principal terms of the Open Offer

Set out below is a summary of the principal terms of the proposed Open Offer:

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 has 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. 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. 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. 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 date of this announcement; and (ii) approximately 33.33% of the number of Shares in issue as enlarged by the allotment and issue of the Open Offer Shares. Please refer to the section headed "The Irrevocable Undertakings — Optionholders' Undertakings" in the Letter for the Board for details of the Optionholders' Undertakings.

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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 date of the Underwriting Agreement and the Placing Agreement;
- (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 this announcement of HK\$0.396 per Share); and
- (vii) a discount of approximately 44.44% to the 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.

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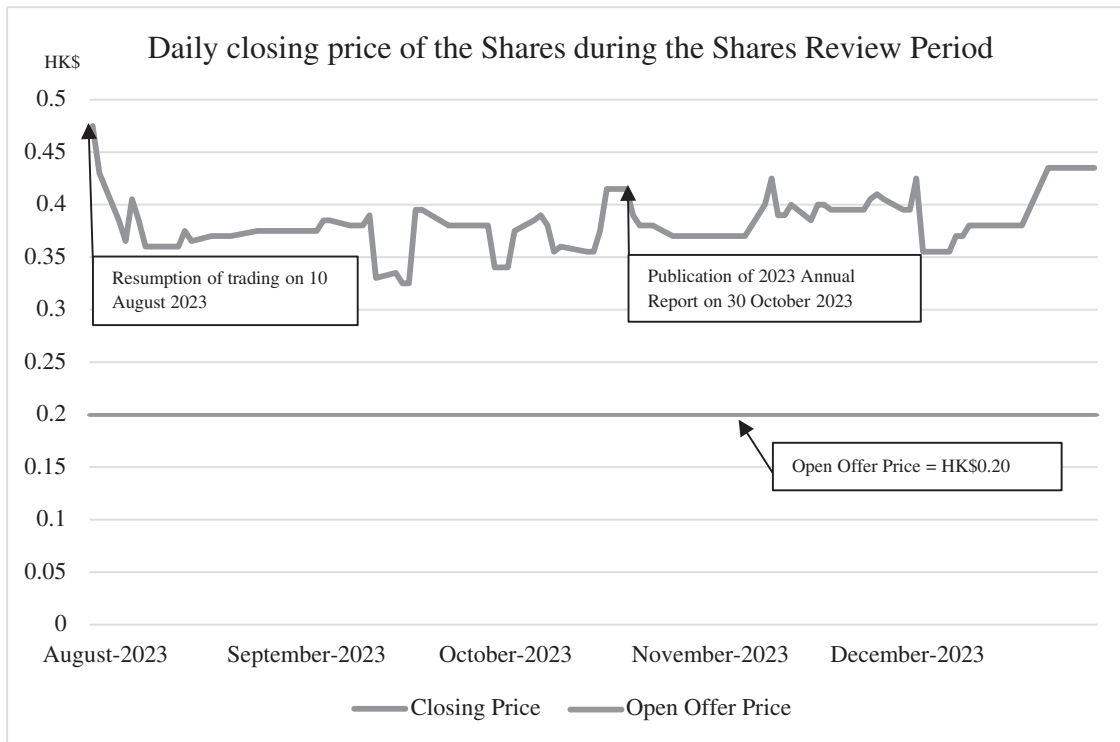
As stated in the Letter from the Board, the terms of the Open Offer were determined by the Board with reference to (i) the prevailing market condition; (ii) the prevailing market prices of the Shares; and (iii) the capital required for the Group's business development. The Open Offer Shares will be offered to all Shareholders and each Qualifying Shareholder will be entitled to apply for the Open Offer Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date.

4 Analysis of the Open Offer Price

In assessing the fairness and reasonableness of the Open Offer Price, we have reviewed the daily closing prices and trading volume of the Shares. According to the public information on the Stock Exchange, trading in the Shares had been suspended from 3 October 2022 and resumed on 10 August 2023. As such the review period of Shares covers from 10 August 2023 up to the Latest Practicable Date (the “**Shares Review Period**”), and we consider such review period is adequate, fair and representative to reflect the prevailing market condition and general trend of movement of the Shares, which reflects the correlation between the recent business performance of the Group as well as the latest market reaction in the Share price.

Historical Share performance

Set forth below is a graph that illustrates the movement of the closing prices of the Shares and the comparison against the Open Offer Price during the Shares Review Period:



Source: Website of the Stock Exchange (www.hkex.com.hk)

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As shown in the graph above, the closing prices of the Shares fluctuated within a range from HK\$0.325 per Share to HK\$0.475 per Share during the Shares Review Period, with an average closing price of approximately HK\$0.382 per Share. The Open Offer Price of HK\$0.20 per Share is below the lowest and highest closing prices of the Shares and represents a discount of approximately 38.5% and 57.9% to the lowest and highest closing price of the Shares during the Shares Review Period, respectively. The Open Offer Price is also lower than the average closing price of the Shares by approximately 47.6% during the Shares Review Period. In addition, we have enquired the Directors regarding the movements in the Share price during the Shares Review Period, in particular the fluctuation during the period, and we were advised by the Directors that they are not aware of any specific reason or event which might be related to the aforesaid movements. Notwithstanding that the Open Offer Price represents a discount to the Share price over the Shares Review Period, having considered (i) the funding needs of the Group; (ii) the negative impact caused by the litigations and claim involved by the Group as aforementioned; and (iii) the recent sluggish investor sentiment in the Hong Kong market as discussed in this section below, we are of the view that it is justifiable for the Company to offer a higher discount of the Open Offer Price to the prevailing Share price so as to increase the attractiveness of the Open Offer in order to satisfy the funding needs of the Group.

Historical trading volume of the Shares

The following table sets forth the average daily trading volume per month of the Shares during the Shares Review Period:

	Average daily trading volume of Shares during the month <i>(Note 1)</i> <i>(Shares)</i>	Percentage of average daily trading volume of Shares to the total number of issued shares <i>(Note 2)</i> <i>(%)</i>	Percentage of average daily trading volume of Shares to the Shares held by public Shareholders <i>(Note 3)</i> <i>(%)</i>
2023			
August (starting from 10 August 2023) <i>(Note 4)</i>	489,000	0.046%	0.106%
September	188,421	0.018%	0.041%
October	1,391,200	0.131%	0.302%
November	33,364	0.003%	0.007%
December	318,316	0.030%	0.069%
2024			
January (up to the Latest Practicable Date)	333	n/m <i>(Note 5)</i>	n/m <i>(Note 5)</i>
Minimum	333	n/m	n/m
Maximum	1,391,200	0.131%	0.302%
Average	403,439	0.038%	0.088%

Source: Website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. Computed by dividing the total daily trading volume of the Shares by the number of trading days of the corresponding month/period.
2. Computed by dividing the average daily trading volume of the Shares by the total number of issued Shares of 1,064,089,378 Shares as at the Last Trading Day.
3. Computed by dividing the average daily trading volume of the Shares by the number of Shares held by other public Shareholders of 460,878,825 Shares as at the Last Trading Day. The number of Shares held by other public Shareholders is computed by the total number of issued Shares minus the Shares held by the Underwriter and parties acting in concert with it, the Directors and the substantial Shareholders.
4. The trading of the Shares was suspended from 3 October 2022 and resumed on 10 August 2023.
5. Respective percentages are less than 0.001%.

We note from the above table that the trading volume of the Shares ranged from approximately 333 Shares to 1,391,000 Shares during the Shares Review Period, representing (i) less than 0.001% to approximately 0.131% of a total of 1,064,089,378 Shares in issue as at the Latest Practicable Date; and (ii) less than 0.001% to approximately 0.302% of the Shares held by public Shareholders as at the Last Trading Day, which we considered that the trading volume of the Shares was thin during the Shares Review Period, where the percentage of the average daily trading volume of the Shares to (i) the total number of Shares in issue as at the Latest Practicable Date; and (ii) the Shares held by public Shareholders as at the Latest Practicable Date were generally below 0.05% and 0.10%, respectively. Hence, the Directors are of the view and we concur that, due to generally low liquidity of the Shares, it would be difficult for the Group to obtain favourable terms and/or sufficient funds through other ways of equity financing such as placement of new Shares.

Comparison with open offers

To further assess the fairness and reasonableness of the Open Offer Price, we have identified and reviewed an exhaustive list of seven comparable open offers (the “**Comparable Open Offers**”) announced by listed issuers on the Stock Exchange (except for those being terminated or lapsed) for three years period immediately prior to the Last Trading Day and up to the Latest Practicable Date (the “**Comparable Review Period**”). Given that there is only one comparable open offer being identified for the one-year period immediately prior to the Latest Practicable Date, we therefore expanded the review period to three years and identified an exhaustive list of seven Comparable Open Offers. Notwithstanding the market conditions in Hong Kong market varies throughout the Comparable Review Period, we consider the Comparable Review Period of approximately three years to be sufficient and appropriate for our analyses as the Comparable Open Offers can provide a general reference as to the market practice of similar open offer transactions conducted by listed issuers in Hong Kong.

Shareholders should note that the listed issuers of the Comparable Open Offers may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to that of the Company. Despite the business and operation of the listed issuers of the Comparable Open Offers are not the same as the Group, the research result of Comparable Open Offers can demonstrate the market practice of similar transactions in relation to open offers conducted by companies during the Comparable Review Period.

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Details of the Comparable Open Offers are summarised as below:

Date of announcement	Company	Principal business	Stock code	Basis of entitlement	Offer price (HK\$)	Discount of the offer price to the average closing prices per share for the last five consecutive trading days up to and including the last trading day	Discount of the offer price to the average closing prices per share for the last ten consecutive trading days up to and including the last trading day	NAV per share (%)	Placing commission (%)	Underwriting commission (%)	Theoretical dilution effect (%)	
						(%)	(%)					
28 December 2023	Many Idea Cloud Holdings Limited	Provision of content marketing, digital marketing, public relations event planning services, media advertising services and Software as a Service interactive marketing services in the PRC	6696.HK	1 for 2	0.15	30.9	31.2	32.4	80.3	2.5	N/A	11.4
3 August 2023	First Shanghai Investments Limited	Securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management	0227.HK	2 for 5	0.11	12.0	9.8	10.6	92.6	1.0	2.0	3.2
19 November 2021	First Shanghai Investments Limited	Securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management	0227.HK	1 for 11	0.21	17.6	16.7	16.3	88.4	1.0	N/A	1.4
1 September 2021	Da Sen Holdings Group Limited	Sale and manufacture of plywood and property activities	1580.HK	3 for 5	0.04	65.5	65.2	65.2	75.8	N/A	N/A	24.6
23 July 2021	First Shanghai Investments Limited	Securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management	0227.HK	1 for 5	0.27	19.4	17.9	17.2	85.3	1.0	N/A	3.0
24 June 2021	National United Resources Holdings Limited	Car rental service business	0254.HK	1 for 1	0.11	92.3	92.8	92.9	Net liabilities	1.5	2.0	72.0
26 March 2021	North Asia Strategic Holdings Limited	Hi-tech distribution and services, leasing and property and investment holding	8080.HK	1 for 5	0.71	14.5	19.0	20.9	83.6	2.5 (Note 1)	N/A	3.2
				Comparable range	Average	36.0	36.1	36.5	84.3	1.6	2.0	17.0
					Median	19.4	19.0	20.9	84.5	1.3	2.0	3.2
					Minimum	12.0	9.8	10.6	75.8	1.0	2.0	1.4
					Maximum	92.3	92.8	92.9	92.6	2.5	2.0	72.0
				Comparable range (excluding outliers)	Average	18.9	18.9	19.5	86.1	1.6	2.0	4.4
					Median	17.6	17.9	17.2	85.3	1.0	2.0	3.2
					Minimum	12.0	9.8	10.6	80.3	1.0	2.0	1.4
					Maximum	30.9	31.2	32.4	92.6	2.5	2.0	11.4
				(Notes 2 and 3)								
	The Company			1 for 2	0.20	49.37	49.49	49.43	44.44	1.0	Nil	16.5

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Notes:

1. Except for North Asia Strategic Holdings Limited (8080.HK) shall pay the placing agent the sum of (i) a fixed fee of HK\$250,000 and (ii) 2.50% of the gross proceeds from the subscription of the unsubscribed shares issued at the completion of the placing, the placing commission charged for the rest of the Comparable Open Offers were charged based on a fixed percentage of the gross proceeds from the subscription of the unsubscribed shares issued at the completion of respective placing, where applicable.
2. Da Sen Holdings Group Limited (1580.HK) is excluded from the Comparable Open Offers as outlier, as it represents exceptional discount on the offer price due to respective open offer was being part of a debt restructuring exercise.
3. National United Resources Holdings Limited (0254.HK) is excluded from the Comparable Open Offers as outlier, as it represents exceptional discount on the offer price due to respective open offer was being part of a reorganisation exercise.

As illustrated in the table above, it is noted that the offer price of the Comparable Open Offers (excluding outliers) (i) ranged from a discount of approximately 12.0% to approximately 30.9% to the closing prices of the shares on the last trading day (the “**Comparable Discount Range of LTD**”), with an average discount of approximately 18.9%; (ii) ranged from a discount of approximately 9.8% to approximately 31.2% to the average closing prices of the shares for the last five consecutive trading days immediately prior to or up to and including the last trading day (the “**Comparable Discount Range of 5-Day**”), with an average discount of approximately 18.9%; and (iii) ranged from a discount of approximately 10.6% to approximately 32.4% to the average closing prices of the shares for the last ten consecutive trading days immediately prior to or up to and including the last trading day (the “**Comparable Discount Range of 10-Day**”), with an average discount of approximately 19.5%.

It is noted that the Open Offer Price represents (i) a discount of approximately 49.37% to the closing price of the Shares on the date of the Underwriting Agreement and the Placing Agreement, which is higher than the high end of the Comparable Discount Range of LTD and the relevant average discount of the Comparable Open Offers; (ii) a discount of approximately 49.49% to the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day, which is higher than the high end of the Comparable Discount Range of 5-Day and the relevant average discount of the Comparable Open Offers; (iii) a discount of approximately 49.43% to average closing price of the Shares for the last ten consecutive trading days up to and including the Last Trading Day, which is higher than the high end of the Comparable Discount Range of 10-Day and the relevant average discount of the Comparable Open Offers.

Despite the Open Offer Price is in general at a higher discount as compared to the high end of the discount ranges and the average discount of the Comparable Discount Range of LTD, Comparable Discount Range of 5-Day and Comparable Discount Range of 10-Day of the Comparable Open Offers, we are of the view that:

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- all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer, whereas a higher discount of the Open Offer Price will be enjoyed by all Qualifying Shareholders without benefiting to any particular Shareholders;
- the thin trading liquidity of the Share as discussed above would result in difficulties for the Qualifying Shareholders in disposing of a substantial amount of the Shares in the open market after completion of the Open Offer. The higher discount of the Open Offer Price provide greater opportunity for the Qualifying Shareholders to recoup their investment costs and therefore increase the attractiveness of the Open Offer; and
- having considered the volatility and sluggish investor sentiment of the recent Hong Kong market, in particular, the Heng Seng Index swung by over 3,000 index points between the lowest trading day being closed at 16,201 and highest trading day being closed at 19,248 during the Shares Review Period and the total market capitalisation of all equity securities on the Stock Exchange dropped from approximately HK\$35,666.8 billion as at the end of 2022 to approximately HK\$32,120.8 billion as at 30 November 2023, and the negative impact caused by the litigations and claim involved by the Group as aforementioned, the Directors are of the view, and we concur that, a higher discount of the Open Offer Price as compared to those of the Comparable Open Offers (excluding outliers) could further increase the attractiveness for the Qualifying Shareholders in raising sufficient funds to satisfy the funding needs of the Group.

With respect to the discount of the Open Offer Price of approximately 44.44% to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023, it is lower than corresponding range of discount of the Comparable Open Offers (excluding outliers) from approximately 80.3% to 92.6% and lower than average and median discount of the Comparable Open Offers of approximately 86.1% and 85.3%, respectively, and therefore no less favourable as compared to that of the Comparable Open Offers.

In addition, notwithstanding the theoretical dilution effect of the Open Offer represents a discount of approximately 16.50% on the theoretical dilution price of approximately HK\$0.33 per Share as compared to the benchmarked price of approximately HK\$0.396 per Share, which falls outside the range of the Comparable Open Offers (excluding outliers) from approximately 1.4% to 11.4%, the Open Offer does not result in a theoretical dilution effect of 25% or more and complied with the Listing Rules, hence we consider such dilution effect not excessive. For further discussion on the theoretical dilution effect, please refer to the section headed “5.4 Potential dilution effect on the interests of the Independent Shareholders” below.

Having considered that (i) the discount of the Open Offer Price is equally offered to all Qualifying Shareholders and only the Unsubscribed Shares will be underwritten at a price equivalent to the Open Offer Price by the Underwriter; (ii) the prevailing market condition and the thin liquidity of the Shares; and (iii) negative impact caused by the litigations and claim involved by the Group as aforementioned, we are of the view that it is justifiable for the Company to offer a higher discount of the Open Offer Price so as to

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increase the attractiveness of the Open Offer in order to satisfy the funding needs of the Group. In light of all of the above, we are of the opinion that the Open Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

5 The Placing Agreement and the Underwriting Agreement

5.1 Procedures in respect of the Unsubscribed Shares and the Unsubscribed Arrangements

As stated in the Letter from the Board, 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 dispose of the Unsubscribed Shares by offering such Unsubscribed Shares to independent placees for the benefit of the relevant No Action Shareholders. 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.

As further mentioned in the Letter from the Board, 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) 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.

5.2 Principal terms of the Placing Agreement

Set forth below are the principal terms of the Placing Agreement as extracted from the Letter from the Board:

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, and HK\$110,000 arrangement fee, whichever is higher
Placing Price:	Not less than HK\$0.20 per Unsubscribed Share

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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. 12 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

For the avoidance of doubt, no placee will become a substantial shareholder

As stated in the Letter from the Board, 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. 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. As the Company has put in place the 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. With respect to the placing commission, as illustrated in the table of the Comparable Open Offers above, we noted that the placing commission of 1.0% of the gross proceeds from the subscription of the Unsubscribed Shares under the Placing Agreement falls within the range of 1.0% to 2.5% and comparable to the average placing commission of 1.4% of the Comparable Open Offers, and hence we consider it is fair and reasonable so far as the Independent Shareholders are concerned. In this regard, the Directors are of the view, and we concur that, the Unsubscribed Arrangements will provide a compensatory mechanism for the No Action Shareholders, protect the interest of the Independent Shareholders, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

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5.3 Principal terms of the Underwriting Agreement

Set out below are the principal terms of the Underwriting Agreements as extracted from the Letter from the Board:

Date:	1 December 2023 (as amended by a supplemental agreement dated 22 December 2023 made between the Company and the Underwriter)
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

As illustrated in the table as sets out in the section headed “4. Analysis of the Open Offer Price — Comparison with open offers” above, we note that the average commission received by underwriters of the Comparable Open Offers was at 2.0%. Pursuant to the Underwriting Agreement, the Underwriter will not charge any underwriting commission for the Open Offer and is therefore not less favorable than those of the Comparable Open Offers. In addition, we were given to understand from the Management that, prior to approaching the Underwriter, the Company has approached two independent brokers to act as the underwriter for the Open Offer but none of them is willing to undertake the equity fund raising activity of such a scale given the thin trading volume of the Shares and the prevailing condition of the Hong Kong market. The Management believes that even if the Company continues to approach more independent brokers and eventually identify a broker who is willing to act as underwriter for the Open Offer, a relatively high underwriting commission may be incurred. No commission will be charged by the Underwriter for the Open Offer is considered beneficial to the Company by avoiding any additional transaction cost to be incurred should the Company appoints a willing independent broker to act as the underwriter for the Open Offer. In view of the above, we concur with the Directors’ view that the Underwriting Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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5.4 Potential dilution effect on the interests of the Independent Shareholders

The table below illustrates the possible shareholding structure of the Company as at the Latest Practicable Date and the possible changes upon completion of the Open Offer (assuming there is no other change in the shareholding structure of the Company between the Latest Practicable Date and completion date of the Open Offer):

	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	
	Number of issued Shares	%	Number of issued Shares	%	Number of issued Shares	%	Number of issued Shares	%
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 Other public Shareholders	—	—	—	—	451,401,613	28.28	—	—
	<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:

- 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.
- 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”.

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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.

As illustrated above, if no Qualifying Shareholders takes up any Open Offer Share and no Unsubscribed Shares can be placed to independent placees, upon the Open Offer Completion, (i) the shareholding of the existing public 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.

Taking into account: (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer in that the Qualifying Shareholders have their choice of whether to accept the Open Offer or not; (ii) the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Open Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company at the Open Offer Price; (iii) those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer; (iv) the inherent dilutive nature of open offers in general if the existing shareholders do not subscribe in full for their assured entitlements; (v) the Open Offer would enable the Group to improve its financial position and to fulfill the development plan of the Group; and (vi) the Unsubscribed Arrangements will provide a compensatory mechanism at the cost of the Company that would protect the interest of the Company's minority Shareholders in the Open Offer to address the concern that the Underwriter has the potential to increase its interests in the Company at a lower cost because the Open Offer Price is at a discount to the recent prevailing market price, we are of the view that the theoretical dilution effect of the Open Offer of a discount of approximately 16.5% is justifiable.

We are of the view that the implementation of the Open Offer is beneficial to the Company and the Shareholders as a whole despite the potential dilution impact to the shareholding interests of the existing public Shareholders, who do not participate fully or partly in the Open Offer, having regard to the potential mitigating measure such as the Unsubscribed Arrangements.

6 Financial effects of the Open Offer

6.1 Net assets

Assuming no other issue of Shares on or before the Record Date, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would increase by approximately RMB\$96.9 million (equivalents to approximately HK\$104.5 million) from approximately RMB322.6 million as at 30 June 2023 to approximately RMB419.5 million upon completion of the Open Offer.

6.2 Liquidity

According to the 2023 Annual Report, as at 30 June 2023, the cash and cash equivalents of the Group was approximately RMB44.0 million and the Group had current assets of approximately RMB705.3 million, and current liabilities of approximately RMB592.6 million. Accordingly, the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 June 2023 was approximately 1.19 times. Immediately upon completion of the Open Offer, the cash and cash equivalents of the Group is expected to increase by the expected net proceeds from the Open Offer of approximately RMB\$96.9 million (equivalents to approximately HK\$104.6 million), and accordingly the current ratio would improve to approximately 1.35 times.

6.3 Gearing ratio

As the net proceeds from the Open Offer will be used to repay bank borrowings which fall due within one year period, it is expected that the gearing ratio of the Group will be improved as a result of the Open Offer.

7 Whitewash Waiver

Assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of close of the Open Offer; (ii) none of the Qualifying Shareholders other than the Underwriter have taken up their entitlements under the Open Offer; and (iii) none of the Unsubscribed Shares have been taken up under the Unsubscribed Arrangements, the aggregate interests in the Company held by the Underwriter and Mr. Fang upon the close of the Open Offer will increase from the current level of approximately 15.16% to approximately 43.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Open Offer Shares. 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 it pursuant to Rule 26 of the Takeovers Code.

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An application has been made by the Underwriter and Mr. Fang to the Executive for the Whitewash Waiver. The Executive has indicated that it is minded to grant the Whitewash Waiver which will be conditional upon, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy at the EGM; and (ii) the approval by more than 50% of the Independent Shareholders voting in person or by proxy at the EGM in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder.

Based on our analysis of the reasons for and benefits of, and the principal terms of the Open Offer, we consider that the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned. If the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Open Offer will not proceed and the Company will scarpify all the benefits that are associated with the Open Offer. Accordingly, we consider that the Whitewash Waiver is to facilitate the implementation of the Open Offer and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Open Offer, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms and 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, we advise the Independent Board Committee to recommend to, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated therein, and the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 20 years of experience in the securities and investment banking industries.

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Consolidated financial information of the Group (being the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in equity) for each of the three financial years ended 30 June 2021, 2022 and 2023, together with the relevant notes thereto, are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and/or the Company (www.hzeg.com):

- (i) annual report of the Company for the year ended 30 June 2021 dated 30 September 2021 (pages 75 to 168) which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1024/2021102400115.pdf>;
- (ii) annual report of the Company for the year ended 30 June 2022 dated 30 December 2022 (pages 96 to 200) which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0203/2023020300953.pdf>; and
- (iii) annual report of the Company for the year ended 30 June 2023 dated 27 September 2023 (pages 92 to 196) which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1030/2023103001038.pdf>.

Set out below is a summary of the audited financial results of the Group for each of the three years ended 30 June 2021, 2022 and 2023 as extracted from the annual reports of the Company for the years ended 30 June 2021, 2022 and 2023.

	For the year ended 30 June		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Revenue	496,906,070	323,868,801	528,921,014
Profit/(loss) before income tax	23,107,940	(351,195,047)	(51,552,165)
Income tax expense	(6,592,011)	(15,543,792)	(1,278,895)
Profit/(loss) for the year	16,515,929	(366,738,839)	(52,831,060)
Profit/(loss) for the year attributable to:			
Shareholders of the Company	17,984,484	(363,753,165)	(51,248,791)
Non-controlling interests	<u>(1,468,555)</u>	<u>(2,985,674)</u>	<u>(1,582,269)</u>
Earnings/(loss) per share			
Basic	2.45	(38.65)	(4.82)
Dividend per share	nil	nil	nil
Diluted	2.45	(38.65)	(4.82)

	For the year ended 30 June		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Total comprehensive income for the year attributable to:			
Shareholders of the Company	27,499,357	(360,754,127)	(46,599,326)
Non-controlling interests	<u>(1,468,555)</u>	<u>(2,985,674)</u>	<u>(1,582,269)</u>
	<u>26,030,802</u>	<u>(363,739,801)</u>	<u>(48,181,595)</u>

No modified opinion, emphasis of matter or material uncertainty related to going concern was contained in the Company's auditor's report for the financial year ended 30 June 2021 issued by PricewaterhouseCoopers.

Please see below extracts of the disclaimer of opinion and qualified opinion issued by the Company's auditors, KTC Partners CPA Limited, as contained in the Company's auditors' reports for the two financial years ended 30 June 2022 and 2023, respectively:

Extracts from the Company's auditor's report for the financial year ended 30 June 2022

“Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Huazhang Technology Holding Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 96 to 200, which comprise the consolidated statement of financial position as at 30 June 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

*Basis for Disclaimer of Opinion**1. Abnormal transactions and balances*

As disclosed in note 7(i) to the consolidated financial statements, during the first half of 2022, when reviewing the balance of the long outstanding receivables of Zhejiang Huazhang Technology Limited (“**Zhejiang Huazhang**”), a wholly-owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang and three companies which are not subsidiaries of the Company during the period from 1 July 2019 to 30 June 2022 (the “**Subject Transactions**”). The three companies are (i) Tongxiang Jiafu Paper Equipment Co., Ltd. (“**Jiafu Paper**”), (ii) Tongxiang Yuxin Electric Co., Ltd. (“**Yuxin Electric**”) and (iii) Zhejiang Huazhang Fibertech Co., Ltd. (“**Fibertech**”) (collectively, the “**Subject Companies**”). In response to the discovery of the Subject Transactions, the Company has established an Independent Investigation Committee (the “**IIC**”), comprising all the independent non-executive directors of the Company, on 5 August 2022. The IIC has engaged an independent forensic accountant (the “**Forensic Investigator**”) to conduct an independent forensic accounting review on the Subject Transactions.

The Forensic Investigator issued its forensic accounting review report on 26 October 2022 (the “**Forensic Report**”). As stated in the Forensic Report, as of 30 June 2022, the net balances due from Jiafu Paper and Yuxin Electric were RMB39,541,029 and RMB28,656,484 respectively. However, there were three transactions amounting to a total of RMB20,447,000 which were remitted by Hangzhou Taige Automatic Co., Ltd. (杭州泰格動力自動化有限公司) (“**Hangzhou Taige**”) but being booked to the current account with Yuxin Electric. The Forensic Investigator made adjustments to the net balance due from Yuxin Electric for these three transactions with Hangzhou Taige and hence such balance as of 30 June 2022 was restated as RMB49,103,484. As of 30 June 2022, the net balance due from Fibertech recorded in the current accounts with Zhejiang Huazhang was RMB7,128,458. After the review of the Forensic Report, the total amount due from the Subject Companies amounted to RMB95,772,971.

As stated in the Forensic Report, the abnormality of the Subject Transactions lies in the fact that there existed funding arrangement transactions of significant amounts between Zhejiang Huazhang and its suppliers, Jiafu Paper, Yuxin Electric and Fibertech, which were without any procurement business nature and lacking supporting agreements with Zhejiang Huazhang. Furthermore, most of the Subject Transactions were not approved by the Group’s internal payment approval procedures, resulting in the existence of outstanding receivables between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech exceeding a reasonable limit. The funding arrangements between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech were arranged under the direct instruction of Mr. Zhu Genrong, the then chairman of the board of the Company and of Zhejiang Huazhang and the substantial shareholder of the Company (“**Mr. Zhu**”) and Ms. Zhu Lingyun, the then financial controller of Zhejiang Huazhang and the substantial shareholder of the Company (“**Ms. Zhu**”).

Having considered the Forensic Report, the IIC noted that the Subject Transactions were mainly instructed by Mr. Zhu and Ms. Zhu and were primarily caused by: (i) Mr. Zhu and Ms. Zhu having instructed transactions with Jiafu Paper and Yuxin Electric without sufficient business justification; and (ii) Mr. Zhu and Ms. Zhu having bypassed the Company's internal payment approval procedures and instructed the finance personnel of Zhejiang Huazhang to execute transactions with Jiafu Paper, Yuxin Electric and Fibertech.

As disclosed in note 21 and 33(c)(ii) to the consolidated financial statements, as of 30 June 2022 and 30 June 2021, the gross carrying amount of the amounts due from Jiafu Paper were RMB39,541,029 and RMB20,166,157 respectively, which were classified as other receivables/prepayment (the "**Amounts due from the Associate**") in the consolidated statement of financial position of the Group. The total gross carrying amount of the trade and other receivables due from Yuxin Electric and Fibertech (the "**Trade and Other Receivables**") as of 30 June 2022 and 30 June 2021 were RMB56,231,942 and RMB16,525,604, respectively.

As disclosed in note 7(i) to the consolidated financial statements, since the directors of the Group are of the view that the Amounts due from the Associate and the Trade and Other receivables due from Yuxin Electric and Fibertech cannot be recovered, the Group has recognised provisions for impairment losses of the amount due from the Subject Companies amounted to RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (the "**Provisions**").

As stated in the Forensic Report, the findings of the forensic accounting review were subject to certain limitations, including the Forensic Investigator was unable to contact and conduct interviews with Mr. Zhu and Ms. Zhu, the substantial shareholders, the respective legal representatives of Jiafu Paper, and the beneficial owner and legal representative of Yuxin Electric. As a result, the Forensic Investigator was unable to ascertain or clarify the rationale of the Subject Transactions.

Under the circumstances described above, we have not been able to obtain sufficient appropriate audit evidence to carry out audit procedures to satisfy ourselves as to the validity of the Subject Transactions, whether the Amounts due from the Associate, the Trade and Other Receivables as of 30 June 2022 and 30 June 2021 and the Provisions and their related disclosures have been accurately recorded and properly accounted for in the consolidated financial statements. There were no alternative audit procedures that we could perform to obtain sufficient and appropriate evidence to satisfy ourselves about the validity of the Subject Transactions and the Amounts due from the Associate and the Trade and Other Receivables as of 30 June 2022 and 30 June 2021 are fairly stated.

Any adjustment that might have been found necessary to the consolidated statement of financial position as of 30 June 2022 and 1 July 2021 would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosures in the notes to the consolidated financial statements.

2. *Share of loss of an associate and impairment loss on an associate*

As disclosed in note 13 to the consolidated financial statements, as of 30 June 2022 and 30 June 2021, the carrying amount of the Group's interest in the associate, Jiafu Paper, before impairment amounted to RMB4,947,538. In addition, the Group recognised impairment loss on the associate amounted to RMB4,897,538 in the consolidated profit or loss for the year ended 30 June 2022, which was determined by the Group based on the disposal price of RMB50,000 to a third party subsequent to the end of the reporting period, and share of nil profit or loss from the associate in the consolidated profit or loss for the year ended 30 June 2022.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether: (i) the share of results of the associate and the impairment loss of the associate referred were recognised accurately in the consolidated profit or loss of the Group for the years ended 30 June 2022 and 2021; and (ii) the net carrying amounts of the interest in the associate as at 30 June 2021 were free from material misstatements because we were not provided with access to the management personnel and books and records of the associate for us to determine whether the share of results of the associate and the impairment loss of the associate were properly accounted for.

Any adjustment that might have been found necessary to the consolidated statement of financial position as of 1 July 2021 would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosures in the notes to the financial statements for the year ended 30 June 2022."

Extracts from the Company's auditor's report for the financial year ended 30 June 2023

"Qualified Opinion

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 92 to 196, which comprise the consolidated statement of financial position as at 30 June 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

*Basis for Qualified Opinion**Corresponding figures*

As described in our auditor's report on the consolidated financial statements of the Group for the year ended 30 June 2022 ("**2022 Financial Statements**") and as disclosed in note 7(i) to the consolidated financial statements, during the first half of 2022, when reviewing the balances of the long outstanding receivables of Zhejiang Huazhang Technology Limited ("**Zhejiang Huazhang**"), a wholly-owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang and three companies which are not subsidiaries of the Company during the period from 1 July 2019 to 30 June 2022 (the "**Subject Transactions**"). The three companies were Tongxiang Jiafu Paper Equipment Co., Ltd. ("**Jiafu Paper**"), Tongxiang Yuxin Electric Co., Ltd. ("**Yuxin Electric**") and Zhejiang Huazhang Fibertech Co., Ltd. ("**Fibertech**") (collectively, the "**Subject Companies**"). In response to the discovery of the Subject Transactions, on 5 August 2022, the Company established an Independent Investigation Committee (the "**IIC**"), comprising all the independent non-executive directors of the Company. The IIC engaged an independent forensic accountant (the "**Forensic Investigator**") to conduct an independent forensic accounting review of the Subject Transactions.

The Forensic Investigator issued its forensic accounting review report on 26 October 2022 (the "**Forensic Report**"). After review of the Forensic Report, the total amount due from the Subject Companies amounted to RMB95,772,971.

As stated in the Forensic Report, the abnormality of the Subject Transactions lies in the fact that there existed funding arrangement transactions of significant amounts between Zhejiang Huazhang and its suppliers, the Subject Companies, which were without any procurement business nature and lacking supporting agreements with Zhejiang Huazhang. Furthermore, most of the Subject Transactions were not approved by the Group's internal payment approval procedures, resulting in the existence of outstanding receivables between Zhejiang Huazhang and the Subject Companies exceeding a reasonable limit. The funding arrangements between Zhejiang Huazhang and the Subject Companies were arranged under the direct instruction of Mr. Zhu Genrong, the then chairman of the board of the Company and of Zhejiang Huazhang and the substantial shareholder of the Company ("**Mr. Zhu**") and Ms. Zhu Lingyun, the then financial controller of Zhejiang Huazhang and the substantial shareholder of the Company ("**Ms. Zhu**").

As disclosed in note 21(i) and 33(c)(ii) to the consolidated financial statements, as of 30 June 2022, the gross carrying amount of the amounts due from Jiafu Paper was RMB39,541,029 and the total gross carrying amount of the trade and other receivables due from Yuxin Electric and Fibertech as of 30 June 2022 was RMB56,231,942.

As disclosed in note 7(i) to the consolidated financial statements, the directors of the Company were of the view that the amounts due from the Subject Companies could not be recovered, and the Group recognised provisions for impairment losses of the amount due from the Subject Companies amounted to RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (the "**Provisions**").

As stated in the Forensic Report, the findings of the forensic accounting review were subject to certain limitations. As a result, the Forensic Investigator was unable to ascertain or clarify the rationale of the Subject Transactions.

Under the circumstances described above, we have not been able to obtain sufficient appropriate audit evidence to carry out audit procedures to satisfy ourselves as to the validity of the Subject Transactions, whether the amounts due from the Subject Companies as of 30 June 2022 and the Provisions and their related disclosures have been accurately recorded and properly accounted for in the consolidated financial statements. There were no alternative audit procedures that we could perform to obtain sufficient and appropriate evidence to satisfy ourselves about the validity of the Subject Transactions and the amounts due from the Subject Companies as of 30 June 2022 are fairly stated. Any adjustment that might have been found necessary would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the disclosures in the notes to the consolidated financial statements. Our audit opinion on the 2022 Financial Statements was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor's Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA's “Code of Ethics for Professional Accountants” (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.”

Implications of the disclaimer of opinion and qualified opinion

The Board is of the view that the disclaimer of opinion issued by the Company's auditors (the “**Auditors**”) as contained in the Auditor's report for the year ended 30 June 2022 and the qualified opinion issued by the Auditors as contained in the Auditor's report for the year ended 30 June 2023 have no implications on the Open Offer and the operation of the Company for the following reasons: (i) the Company had addressed each of the two matters which the Auditors did not express an opinion on the results for the year ended 30 June 2022; (ii) the Auditors did not need to further disclaim the receivables from the Subject Companies as at 30 June 2023; and (iii) the Auditor's opinion on the results for the year ended 30 June 2023 was qualified solely because of the possible effect of the matters on the comparability of the year ended 30 June 2023 and the corresponding figures. For further information on how the Company addressed the disclaimer of opinion, please refer to the Company's announcement dated 9 August 2023 regarding the fulfilment of resumption guidance.

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2023, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the indebtedness of the Group was as follows:

- (i) bank loans and overdrafts of the Group of approximately RMB53.0 million secured by property, plant and equipment and prepaid land lease payments of the Group;
- (ii) unsecured other borrowings of approximately RMB10.0 million; and
- (iii) lease liabilities of RMB2.1 million which were secured by rental deposits and unguaranteed.

The aggregate of approximately RMB63.0 million of the bank loans and other borrowings of the Group as at 30 November 2023, as mentioned in (i) and (ii) above, was not guaranteed by the Company.

Save as aforesaid and apart from normal accruals and payables in the ordinary course of business, the Group, apart from intra-group liabilities, did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities as at 30 November 2023.

3. WORKING CAPITAL

The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group; and (ii) the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements and for at least 12 months from the date of this Circular.

4. MATERIAL CHANGE

Save as and except for disclosed below, as of the Latest Practicable Date, the Directors confirmed that there was no material change in the financial or trading position or outlook of the Group since 30 June 2023 (being the date to which the latest published audited financial statements of the Group were made up). As disclosed in the annual report of the Company for the year ended 30 June 2023, there were impairments on (i) financial and contract assets of the Group in the amount of approximately RMB16.4 million; (ii) property, plant and equipment of the Group in the amount of approximately RMB2.9 million; and (iii) investment properties of the Group in the amount of approximately RMB8.6 million, primarily and respectively due to (a) the then prevailing economic conditions, historical collection experience and outlook; (b) the property, plant and equipment's fair value, cost of disposal and independent valuation; and (c) the investment properties' fair value, related prepaid land lease payments and independent valuation. As such impairments are subject to impairment review from time to time, they are in nature non-recurring, which may or may not occur in any financial period subsequent to 30 June 2023. The Directors are not aware of any event subsequent to 30 June 2023 and up to the Latest Practicable Date that may give rise to recurrence of material impairment loss.

5. BUSINESS AND FINANCIAL PROSPECTS OF THE GROUP

The Group is principally engaged in the research and development, manufacture and sale of industrial automation systems, sludge treatment products and related services. In addition, the Group is also engaged in the provision of after-sales and other services to the Group's existing customers. The Group has over 20 years of experience in the provision of equipment to the paper industry and will seek to further expand this business segment.

At present, general economic recovery is picking up in the PRC. As an important industry of basic raw materials, the paper making industry will also experience rises in paper prices under the impetus from the recovery of overall demand, while it is expected that the price of wood pulp would be decreasing progressively. As a result, the paper making industry is anticipated to welcome an overall profit recovery which will come true gradually, when high-end, intelligent and green products have become the main directions for new project investment in the industry. Moreover, policies for the non-woven fabric industry mainly focus on incentives, as national measures such as encouragement on technology development for non-woven fabrics and recycling and reuse of waste non-woven fabrics would effectively safeguard the development of non-woven fabrics.

The Group has successfully overcome both the internal difficulties faced by the Group as a result of the former personnel's act of bypassing the Company's internal control system, please refer to the Company's announcement dated 12 May 2023 for further information; and the overall external environment challenges posed by the pandemic of COVID-19, including the disruption to the supply-chain which, under usual circumstances, would be crucial to the Company's upkeeping of its obligations to deliver projects deliverables. With the steady recovery of the economy and the supply-chain from the aftermath of the COVID-19 pandemic, and that the Company is currently united, the Company is continually regaining recognition from the market and our customers. Lean management, cost reduction and efficiency enhancement will continue to be adopted, aiming at achieving substantial breakthroughs and development by means of inducing internal potential, rejuvenating corporate vitality, increasing our competitiveness, strengthening external alliances, improving our outputs and treasuring cooperation. Relying on partners such as Siemens, the Group will continue to actively promote the high-end, intelligent and green development of paper making industry, so as to once again create a new chapter of win-win cooperation. In the future, demands in other markets relative to the field of automation will be explored, in addition to serving the paper industry, and new ideas will be conceived to further diversify our businesses, thereby enabling our expansion into the automation market as well as overseas markets.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

For illustrative purpose only, set out below is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group after completion of the Open Offer. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's net tangible assets for the financial period concerned.

A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the shareholders of the Company (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the directors of the Company (“**Directors**”) in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Open Offer on the audited consolidated net tangible assets of the Group attributable to the shareholders of the Company as if the Open Offer had taken place on 30 June 2023.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the audited consolidated net assets of the Group attributable to the shareholders of the Company as at 30 June 2023, as extracted from the published annual report of the Group for the year ended 30 June 2023, after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared for illustrative purpose only and based on the judgements, estimates and assumptions of the Directors, and because of the hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the shareholders of the Company as at the date to which it is made up or at any future date.

Audited consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 30 June 2023 <i>RMB</i> <i>(Note 1)</i>	Estimated net proceeds from the Open Offer <i>RMB</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the shareholders of the Company after completion of the Open Offer <i>RMB</i> <i>(Note 3)</i>	Audited consolidated net tangible assets per Share attributable to the shareholders of the Company as at 30 June 2023 <i>RMB</i> <i>(Note 4)</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the shareholders of the Company after completion of the Open Offer <i>RMB</i> <i>(Note 5)</i>
Based on 532,044,689 Open Offer Shares to be issued at a Subscription Price of HK\$0.20 per Open Offer Share				
322,592,203	96,957,503	419,549,706	0.303	0.263

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

1. The amount is determined based on the audited consolidated net assets of the Group attributable to shareholders of the Company of RMB358,105,285 as at 30 June 2023, with adjustments to exclude goodwill of RMB29,902,783 and other intangible assets of RMB5,610,299 as at 30 June 2023, extracted from the audited consolidated statement of financial position of the Group as at 30 June 2023 included in the annual report of the Company for the year ended 30 June 2023 issued on 27 September 2023.
2. The estimated net proceeds from the Open Offer are based on 532,044,689 Open Offer Shares to be issued at the Subscription Price of HK\$0.20 each per Open Offer Share, after deduction of the related expenses including, among others, placing commission and other professional fees. The estimated net proceeds are approximately HK\$104,558,938 (equivalent to approximately RMB96,957,503).
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the shareholders of the Company immediately after the completion of the Open Offer is based the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2023 plus the estimated net proceeds from the Open Offer as set out in Note 2 above.
4. The audited consolidated net tangible assets of the Group attributable to the shareholders of the Company per Share as at 30 June 2023 before the completion of the Open Offer was RMB0.303, which was based on the audited consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 30 June 2023 of RMB322,592,203 as set out in the note 1 above, divided by 1,064,089,378 shares in issue as at 30 June 2023.
5. Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share attributable to the shareholders of the Company as at 30 June 2023 immediately after completion of the Open Offer is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the shareholders of the Company immediately after completion of the Open Offer of approximately RMB419,549,706 as set out in the note 3 above, divided by 1,596,134,067 Shares which comprises
 - (i) 1,064,089,378 Shares in issue as at 30 June 2023; and
 - (ii) 532,044,689 Offer Shares to be issued, without taking into account any shares which may be issued pursuant to the share option scheme or general mandate, or any shares which may be repurchased pursuant to the general mandate.
6. No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 30 June 2023.

B. ACCOUNTANT’S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, from the independent reporting accountant, KTC Partners CPA Limited, Certified Public Accountants, Hong Kong.



**INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Huazhang Technology Holding Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huazhang Technology Holding Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 30 June 2023 and notes as set out in Appendix II to the circular issued by the Company dated 12 January 2024 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Appendix II to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed open offer of 532,044,689 shares on the basis of one (1) Open Offer Share for every two (2) Existing Shares held on the Record Date at the Subscription Price of HK\$0.20 per Open Offer Share (the “**Open Offer**”) on the Group’s net tangible assets as at 30 June 2023 as if the Open Offer had taken place at 30 June 2023. As part of this process, information about the Group’s audited consolidated net tangible assets of the Group attributable to the shareholders of the Company has been extracted by the Directors from the Group’s audited consolidated statement of financial position as at 30 June 2023, on which an annual report has been published.

Room 1305-07, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong

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Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 (“**AG 7**”) “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1, “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Circular is solely to illustrate the impact of the Open Offer on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction at 30 June 2023 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

KTC Partners CPA Limited
Certified Public Accountants (Practising)
Chow Yiu Wah, Joseph
Practising Certificate Number: P04686

Hong Kong, 12 January 2024

The following is the text of a letter, a valuation summary and valuation certificates prepared for the purpose of incorporation in this circular received from Vincorn Consulting and Appraisal Limited, an independent valuer, in connection with its valuation of the property interests held by the Group. Terms defined in this appendix applies to this appendix only.

Vincorn Consulting and Appraisal Limited
Units 1602-4, 16/F
FWD Financial Centre
No. 308 Des Voeux Road Central
Hong Kong



The Board of Directors

Huazhang Technology Holding Limited
Suite 901, 9/F,
Ocean Centre,
5 Canton Road, Tsim Sha Tsui,
Kowloon, Hong Kong

12 January 2024

Dear Sirs,

INSTRUCTION AND VALUATION DATE

We refer to your instructions for us to assess the Market Values of all property interests held by Huazhang Technology Holding Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) for the purposes of public disclosure. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary in order to provide you with our opinion of the Market Values of the property interests as at 31 December 2023 (the “**Valuation Date**”).

VALUATION STANDARDS

The valuation has been prepared in accordance with the HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors effective from 31 December 2020 with reference to the International Valuation Standards published by the International Valuation Standards Council effective from 31 January 2022; the requirements set out in the Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and Rule 11 of the Code on Takeovers and Mergers published by the Securities and Futures Commission.

VALUATION BASIS

Our valuation has been undertaken on the basis of Market Value. Market Value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowances have been made for any charges, mortgages or amounts owing on the property interests, nor for any expenses or taxations which may be incurred in effecting a sale.

VALUATION METHODOLOGY

There are three principal valuation approaches under the HKIS Valuation Standards 2020 and the International Valuation Standards, namely Market Approach, Income Approach and Cost Approach.

Market Approach is universally considered as the most accepted valuation approach for valuing most forms of property when relevant sale comparables are sufficiently available in the market. Income Approach relies on the rental potential of a property and is usually adopted when there is a lack of relevant sale evidences for an income generating property. Cost Approach, which bases on an aggregate of the depreciated replacement costs of the existing buildings and the market cost of acquiring the land, is generally applied if the sale evidences and rental potential of a property are not able to be identified.

In the course of our valuation, we have adopted Cost Approach for Property 1 of Group 1 since relevant sale comparables and potential rental income of Property 1 as a purpose-built industrial complex under owner’s occupation could not be identified.

Cost Approach is subject to an assumption of adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole) paying due regard to the total assets employed. The depreciated replacement costs of the existing buildings is based on the current market replacement (reproduction) costs of buildings less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the cost of the land, reference has been made to the land transactions as available in the locality.

For other properties, recent sale comparables relevant in terms of physical and locational attributes were sufficiently available and therefore Market Approach as the most accepted valuation approach has been applied.

Market Approach involves the analysis of recent sale comparables of similar properties to compare with the subject under valuation. Each comparable is analysed on the basis of its unit rate; each attribute of the comparables is then compared with the subject and where there are any differences, the unit rate is adjusted in order to arrive at the appropriate unit rate for the subject. This is done by making percentage adjustments to the unit rate for various factors, such as time, location, size and so on.

POTENTIAL TAX LIABILITIES

As advised by the Group, the potential tax liabilities which may arise from the sale of the property interests located in The People's Republic of China ("The PRC") include:

- (i) Value added tax plus surcharges on the consideration at a rate of 5.5%–5.65%;
- (ii) Corporate income tax on the profit from the sale of property at a rate of 25%; and
- (iii) Land value appreciation tax on the appreciated portion of land value at progressive tax rates as follows:

Appreciated portion of land value	Progressive tax rate
Not more than 50%	30%
More than 50% but not more than 100%	40%
More than 100% but not more than 200%	50%
More than 200%	60%

For the property interests held by the Group in The PRC, they are currently held by the Group and are not undergoing transaction as at the date of this report. Hence, the likelihood of any potential tax liabilities of these property interests being crystallized is remote.

LAND TENURE AND TITLE INVESTIGATION

We have been provided with copies of documents in relation to the titles of the property interests. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on information provided by the Group.

We have relied on the opinions dated 4 January 2024 given by the PRC legal adviser of the Group, Zhejiang L&H Law Firm, regarding the titles and encumbrances of the property interests in The PRC. We do not accept liability for any interpretation that we have placed on such information, which is more properly placed within the sphere of the legal adviser.

All legal documents disclosed in this letter, the valuation summary and the valuation certificates are for reference only. No responsibility is assumed for any legal matters concerning the legal titles to the property interests set out in this letter, the valuation summary and the valuation certificates.

INFORMATION SOURCES

We have relied to a considerable extent on information provided by the Group and opinions dated 4 January 2024 given by the PRC legal adviser of the Group, Zhejiang L&H Law Firm, in respect of the titles and encumbrances of the property interests in The PRC. We have also accepted advice given to us on matters such as identification of the properties, particulars of occupancy, areas and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Group that no material factors or information have been omitted or withheld from information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuation are reasonable and have had no reason to doubt the truth and accuracy of information provided to us by the Group which is material to the valuation.

INSPECTION AND INVESTIGATIONS

The properties were inspected and no material building defects were identified during inspection. Although not all areas were accessible for viewing at the time of inspection, we have endeavoured to inspect all areas of the properties. Investigations were carried out as necessary. Our investigations have been conducted independently and without influence from any third party in any manner.

We have not tested any services of the properties and are therefore unable to report on their present conditions. We have not undertaken any structural surveys of the properties and are therefore unable to comment on the structural conditions. We have not carried out any investigations on site to determine the suitability of the ground conditions for any future developments. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be required.

We have not carried out any on-site measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents or deduced from the plans are correct. All documents and plans have been used as reference only and all dimensions, measurements and areas are therefore approximations.

CURRENCY

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (“RMB”).

The valuation summary and the valuation certificates are attached hereto.

Yours faithfully,
For and on behalf of
Vincorn Consulting and Appraisal Limited

Vincent Cheung
BSc(Hons) MBA FRICS FHKIS RPS(GP)
MCIREA MHKSI MISCM MHIREA FHKIoD
RICS Registered Valuer
Registered Real Estate Appraiser & Agent PRC
Managing Director

Note:

Vincent Cheung is a fellow of the Royal Institution of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong Special Administrative Region (“**Hong Kong**”), a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators, a fellow of the Hong Kong Institute of Directors, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent People’s Republic of China. He is suitably qualified to carry out the valuation and has over 26 years of experience in the valuation of fixed and intangible assets of this magnitude and nature in the subject region.

VALUATION SUMMARY

Group 1 — Property Interests Held by the Group for Occupation in The PRC

No.	Property	Market Value as at 31 December 2023	Interest Attributable to the Group	Market Value
				as at 31 December 2023 Attributable to the Group
1	An Industrial Complex Located at No. 1360 Zhenhua Road, Wutong Subdistrict, Tongxiang, Jiaxing, Zhejiang Province, The PRC	RMB68,220,000	100%	RMB68,220,000
2	Units 1206–1210, Weixing Building, No. 252 Wenshan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC	RMB6,630,000	100%	RMB6,630,000
3	Room 2 on Level 2 of Unit 3, Room 2 on Level 3 of Unit 3, and Rooms 1 and 2 on Level 2 of Unit 4 of Block 1, Jinyuan Building, No. 60 Yongqing Road, Jiang'an District, Wuhan, Hubei Province, The PRC	RMB10,330,000	70%	RMB7,231,000
Sub-total:		<u>RMB85,180,000</u>		<u>RMB82,081,000</u>

Group 2 — Property Interests Held by the Group for Investment in The PRC

No.	Property	Market Value		
		as at 31 December 2023	Interest Attributable to the Group	as at 31 December 2023 Attributable to the Group
4	Unit 801, Block B, Changdi Huoju Building, No. 259 Wensan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC	RMB12,530,000	100%	RMB12,530,000
Sub-total:		<u>RMB12,530,000</u>		<u>RMB12,530,000</u>

Group 3 — Property Interests Held by the Group Partially for Occupation and Partially for Investment in The PRC

No.	Property	Market Value		
		as at 31 December 2023	Interest Attributable to the Group	as at 31 December 2023 Attributable to the Group
5	A Logistics Park Located at No. 4 Haigang Erheng Road, Gangkou Industrial Park, Jiangcheng District, Yangjiang, Guangdong Province, The PRC	RMB175,400,000	100%	RMB175,400,000
Sub-total:		<u>RMB175,400,000</u>		<u>RMB175,400,000</u>
Total:		<u>RMB273,110,000</u>		<u>RMB270,011,000</u>

VALUATION CERTIFICATE

Group 1 — Property Interests Held by the Group for Occupation in The PRC

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at 31 December 2023
1	An Industrial Complex Located at No. 1360 Zhenhua Road, Wutong Subdistrict, Tongxiang, Jiaxing, Zhejiang Province, The PRC	The property comprises a land parcel with a site area of approximately 41,540.37 square meters (“sq.m.”), on which four workshops, an office building, a canteen-cum dormitory building, a dormitory, two reception rooms, a power substation and various ancillary structures are erected. As per the Real Estate Title Certificates, the property has a total gross floor area (“GFA”) of approximately 35,160.04 sq.m.. As per information provided by the Group and the Real Estate Title Certificates, it was completed in between 2002 to 2019. The GFA breakdown of the property is listed as below:	As per our on-site inspection and information provided by the Group, the property is currently owner-occupied.	RMB68,220,000 (RENMINBI SIXTY EIGHT MILLION TWO HUNDRED AND TWENTY THOUSAND) 100% Interest Attributable to the Group: RMB68,220,000 (RENMINBI SIXTY EIGHT MILLION TWO HUNDRED AND TWENTY THOUSAND)

Block

No.	Portion	GFA (sq.m.)
1	Office	5,328.70
2	Workshop #1	2,851.25
3	Canteen & Dormitory	1,231.07
4	Dormitory	1,245.64
5	Workshop #2	11,016.96
6	Workshop #3	1,301.69
7	Reception Room (East)	47.16
8	Reception Room (North)	47.16
9	Power Substation	108.08
10	Workshop #4	<u>11,982.33</u>
	Total:	<u>35,160.04</u>

The land use rights of the property were granted for a term expiring on 8 May 2052 for industrial uses.

Notes:

1. The property was inspected by Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC* on 19 August 2023.
2. The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS FHKIS RPS(GP) MCIREA MHKSI MISC M FHKIoD MHIREA RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
3. Pursuant to ten Real Estate Title Certificates issued by Tongxiang Natural Resources and Planning Bureau, the land use rights of the property with a site area of 41,540.37 sq.m. and the building ownership rights of the property with a total GFA of 35,160.04 sq.m. were legally vested in Zhejiang Huazhang Technology Limited.

The details of the Real Estate Title Certificates are summarized below:

Portion	Certificate No.	Date of Instrument	Site Area (sq.m.)	GFA (sq.m.)
Block 1	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043244	29 October 2019	6,295.67	5,328.70
Block 2	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043186	29 October 2019	3,368.65	2,851.25
Block 3	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043247	29 October 2019	1,454.47	1,231.07
Block 4	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043245	29 October 2019	1,471.68	1,245.64
Block 5	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043246	29 October 2019	13,016.16	11,016.96
Block 6	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043241	29 October 2019	1,537.90	1,301.69
Block 7	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043243	29 October 2019	55.72	47.16
Block 8	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043242	29 October 2019	55.72	47.16
Block 9	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0043240	29 October 2019	127.69	108.08
Block 10	Zhe (2019) Tong Xiang Shi Bu Dong Chan Quan Di No. 0057321	3 December 2019	14,156.71	11,982.33
Total:			<u>41,540.37</u>	<u>35,160.04</u>

4. Pursuant to a Mortgage Agreement, No. 33100520230020410–20230093384–1 dated 3 August 2023 and entered into between Agricultural Bank of China Limited Hangzhou Banshan Branch and Zhejiang Huazhang Technology Limited, the land use rights and building ownership rights of a portion of the property, namely Block 5 with a site area and a GFA of 13,016.16 sq.m. and 11,016.96 sq.m. respectively, was subject to mortgage.

5. As per the information provided by the Group, Zhejiang Huazhang Technology Limited is a wholly owned subsidiary of the Company.
6. The general description and market information of the property are summarized below:
- Location : The property is located at No. 1360 Zhenhua Road, Wutong Subdistrict, Tongxiang, Jiaxing, Zhejiang Province, The PRC.
- Transportation : Hangzhou Xiaoshan International Airport and Tongxiang Railway Station are located approximately 62.5 kilometres and 9.2 kilometres away from the property respectively.
- Nature of Surrounding Area : The subject area is a predominately industrial area in Tongxiang with some commercial and residential buildings available.
7. We have been provided with a PRC legal opinion dated 4 January 2024 regarding the property by Zhejiang L&H Law Firm, which contains, inter alia, the following:
- (a) Zhejiang Huazhang Technology Limited has obtained relevant title certificates of the state-owned land use rights and building ownership rights of the property in accordance with laws, and is the legal holder of the state-owned land use rights and building ownership rights of the property;
 - (b) Subject to the agreement of the mortgagee, Zhejiang Huazhang Technology Limited can occupy, use, let, transfer, mortgage or by other means handle the relevant state-owned land use rights and building ownership rights of the property; and
 - (c) Except for the above-mentioned mortgage, the state-owned land use rights and building ownership rights of the property are not subject to any dispute or seizure.

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at 31 December 2023
2	Units 1206–1210, Weixing Building, No. 252 Wenshan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC	The property comprises five adjoining office units on Level 12 of a 23-storey office tower plus a basement level, namely Weixing Building. As per the Building Ownership Certificate, the property has a GFA of approximately 422.27 sq.m.. As per information provided by the Group, the property was completed in about 1997.	As per our on-site inspection and information provided by the Group, the property is currently vacant.	RMB6,630,000 (RENMINBI SIX MILLION SIX HUNDRED AND THIRTY THOUSAND) 100% Interest Attributable to the Group: RMB6,630,000 (RENMINBI SIX MILLION SIX HUNDRED AND THIRTY THOUSAND)
		The land use rights of the property were granted for a term expiring on 5 August 2044 for composite uses.		

Notes:

- The property was inspected by Noah Liu *BCom MSc(RE) Probationer of RICS* on 4 September 2023.
- The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS FHKIS RPS(GP) MCIREA MHKSI MISC MHIRES FHKIoD RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIRES MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
- Pursuant to a State-owned Land Use Rights Certificate, Hang Xi Guo Yong (2010) Di No. 008188, dated 10 June 2010 and issued by the People's Government of Hangzhou, the land use rights of the property with an apportioned site area of 51.10 sq.m. were granted to Zhejiang Huazhang Technology Limited for a term expiring on 5 August 2044 for composite uses.
- Pursuant to a Building Ownership Certificate, Hang Fang Quan Zheng Xi Yi Zi Di No. 10830366, dated 25 May 2010 issued by the Real Estate Administration Bureau of Hangzhou, the building ownership rights of the property with a GFA of 422.27 sq.m. were legally vested in Zhejiang Huazhang Technology Limited.
- Pursuant to a Mortgage Agreement, No. 33100520230020410–20230093384–2 dated 3 August 2023 and entered into between Agricultural Bank of China Limited Hangzhou Banshan Branch and Zhejiang Huazhang Technology Limited, the land use rights and building ownership rights of the property with a site area and a GFA of 51.10 sq.m. and 422.27 sq.m. respectively, was subject to mortgage.
- As per the information provided by the Group, Zhejiang Huazhang Technology Limited is a wholly owned subsidiary of the Company.

7. The general description and market information of the property are summarized below:

Location : The property is located at No. 252 Wenshan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC.

Transportation : Xueyuan Road Station of Metro Line Nos. 2 and 10, Hangzhou Railway Station and Hangzhou Xiaoshan International Airport are located approximately 1.2 kilometres, 7.8 kilometres and 33.0 kilometres away from the property respectively.

Nature of Surrounding Area : The subject area is a predominately residential area in Xihu District with some commercial buildings available.

8. We have been provided with a PRC legal opinion dated 4 January 2024 regarding the property by Zhejiang L&H Law Firm, which contains, inter alia, the following:

(a) Zhejiang Huazhang Technology Limited has obtained relevant title certificates of the state-owned land use rights and building ownership rights of the property in accordance with laws, and is the legal holder of the state-owned land use rights and building ownership rights of the property;

(b) Subject to the agreement of the mortgagee, Zhejiang Huazhang Technology Limited can occupy, use, let, transfer, mortgage or by other means handle the relevant state-owned land use rights and building ownership rights of the property; and

(c) Except for the above-mentioned mortgage, the state-owned land use rights and building ownership rights of the property are not subject to any dispute or seizure.

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at 31 December 2023
3	Room 2 on Level 2 of Unit 3, Room 2 on Level 3 of Unit 3, and Rooms 1 and 2 on Level 2 of Unit 4 of Block 1, Jinyuan Building, No. 60 Yongqing Road, Jiang'an District, Wuhan, Hubei Province, The PRC	The property comprises four residential units known as Room 2 on Level 2 of Unit 3, Room 2 on Level 3 of Unit 3, and Rooms 1 and 2 on Level 2 of Unit 4 of Block 1 (the "Subject Building") of a 12-storey residential building, namely Jinyuan Building (the "Subject Development") located at No. 60 Yongqing Road, Jiang'an District, Wuhan, Hubei Province, The PRC.	As per our on-site inspection and information provided by the Group, the property is currently owner-occupied.	RMB10,330,000 (RENMINBI TEN MILLION THREE HUNDRED AND THIRTY THOUSAND)
		As per four Real Estate Title Certificates, the master site of the Subject Development has a site area of approximately 988.84 sq.m. and the property has a total GFA of approximately 502.40 sq.m. and it was completed in about 2003.		70% Interest Attributable to the Group: RMB7,231,000 (RENMINBI SEVEN MILLION TWO HUNDRED AND THIRTY ONE THOUSAND)

The area breakdown of the property is listed below:

Portion	GFA (sq.m.)
Room 2 on Level 2 of Unit 3, Block 1	125.60
Room 2 on Level 3 of Unit 3, Block 1	125.60
Room 1 on Level 2 of Unit 4, Block 1	125.60
Room 2 on Level 2 of Unit 4, Block 1	<u>125.60</u>
Total:	<u>502.40</u>

The land use rights of the Subject Development were granted for a term expiring on 22 September 2068 for residential uses.

Notes:

1. The property was inspected by Leo Liu *BEcon MSc(RE)* on 27 December 2023.
2. The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS FHKIS RPS(GP) MCIREA MHKSI MISC M FHKIoD MHIREA RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
3. Pursuant to four Real Estate Title Certificates, both dated 15 October 2020 and issued by Wuhan Natural Resources and Planning Bureau, the land use rights and the building ownership right of the property, with a master site area of approximately 988.84 sq.m. and a total GFA of approximately 502.40 sq.m. were legally vested in Wuhan City Wu Kong System Engineering Company Limited (“*武漢市武控系統工程有限公司*”). The land use rights of the Subject Development were granted for a term expiring on 22 September 2068 for residential uses.

The details of the Real Estate Title Certificates are summarized below:

Portion	Certificate No.	GFA (sq.m.)
Room 2 on Level 2 of Unit 3, Block 1	'E (2020) Wu Han Shi Jiang'an Bu Dong Chan Quan Di No. 0033145	125.60
Room 2 on Level 3 of Unit 3, Block 1	'E (2020) Wu Han Shi Jiang'an Bu Dong Chan Quan Di No. 0033152	125.60
Room 1 on Level 2 of Unit 4, Block 1	'E (2020) Wu Han Shi Jiang'an Bu Dong Chan Quan Di No. 0033201	125.60
Room 2 on Level 2 of Unit 4, Block 1	'E (2020) Wu Han Shi Jiang'an Bu Dong Chan Quan Di No. 0033146	125.60
	Total:	<u>502.40</u>

4. As per the information provided by the Group, Wuhan City Wu Kong System Engineering Company Limited is a direct 70% owned subsidiary of the Company.
5. The general description and market information of the property are summarized below:

Location	: The property is located at No. 60 Yongqing Road, Jiang'an District, Wuhan, Hubei Province, The PRC.
Transportation	: Zhaojiaqiao Metro Station of Wuhan Metro Line Nos. 3 and 8, Hankou Railway Station and Wuhan Tianhe International Airport are located in approximately 630 meters, 5.9 kilometres and 25.9 kilometres away respectively.
Nature of Surrounding Area	: The subject area is a predominately residential area within Jiang'an District.

6. We have been provided with a PRC legal opinion dated 4 January 2024 regarding the property by Zhejiang L&H Law Firm, which contains, inter alia, the following:
- (a) Wuhan City Wu Kong System Engineering Company Limited has obtained relevant title certificates of the state-owned land use rights and building ownership rights of the property in accordance with laws, and is the legal holder of the state-owned land use rights and building ownership rights of the property;
 - (b) Wuhan City Wu Kong System Engineering Company Limited can occupy, use, let, transfer, mortgage or by other means handle the relevant state-owned land use rights and building ownership rights of the property; and
 - (c) The state-owned land use rights and building ownership rights of the property are not subject to any mortgage, dispute or seizure.

Group 2 — Property Interests Held by the Group for Investment in The PRC

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at 31 December 2023
4	Unit 801, Block B, Changdi Huoju Building, No. 259 Wensan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC	The property comprises an office unit on Level 8 of a 20-storey office tower plus two basement levels, namely Block B, Changdi Huoju Building. As per the Building Ownership Certificate, the property has a GFA of approximately 750.42 sq.m.. As per information provided by the Group, it was completed in about 2003. The land use rights of the property were granted for a term expiring on 17 June 2049 for composite uses.	As per our on-site inspection and information provided by the Group, the property is currently vacant.	RMB12,530,000 (RENMINBI TWELVE MILLION FIVE HUNDRED AND THIRTY THOUSAND) 100% Interest Attributable to the Group: RMB12,530,000 (RENMINBI TWELVE MILLION FIVE HUNDRED AND THIRTY THOUSAND)

Notes:

- The property was inspected by Noah Liu *BCom MSc(RE) Probationer of RICS* on 4 September 2023.
- The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS FHKIS RPS(GP) MCIREA MHKSI MISCM MHIREA FHKIoD RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
- Pursuant to a State-owned Land Use Rights Certificate, Hang Xi Guo Yong (2010) Di No. 008187, dated 10 June 2010 and issued by the People's Government of Hangzhou, the land use rights of the property with an apportioned site area of 92.20 sq.m. were granted to Zhejiang Huazhang Technology Limited for a term expiring on 17 June 2049 for composite uses.
- Pursuant to a Building Ownership Certificate, Hang Fang Quan Zheng Xi Yi Zi Di No. 10830365, dated 25 May 2010 issued by the Real Estate Administration Bureau of Hangzhou, the building ownership rights of the property with a GFA of 750.42 sq.m. were legally vested in Zhejiang Huazhang Technology Limited.
- Pursuant to a Mortgage Agreement, No. 33100520230020410-20230093384-3 dated 3 August 2023 and entered into between Agricultural Bank of China Limited Hangzhou Banshan Branch and Zhejiang Huazhang Technology Limited, the land use rights and building ownership rights of the property with a site area and a GFA of 92.20 sq.m. and 750.42 sq.m. respectively, was subject to mortgage.
- As per the information provided by the Group, Zhejiang Huazhang Technology Limited is a wholly owned subsidiary of the Company.

7. The general description and market information of the property are summarized below:

- Location : The property is located at located at No. 259 Wensan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC.
- Transportation : Xueyuan Road Station of Hangzhou Metro Line Nos. 2 and 10, Hangzhou Railway Station and Hangzhou Xiaoshan International Airport are located approximately 1.5 kilometres, 8.5 kilometres and 33.5 kilometres away from the property respectively.
- Nature of Surrounding Area : The subject area is a predominately residential area in Xihu District with some commercial buildings available.

8. We have been provided with a PRC legal opinion dated 4 January 2024 regarding the property by Zhejiang L&H Law Firm, which contains, inter alia, the following:

- (a) Zhejiang Huazhang Technology Limited has obtained relevant title certificates of the state-owned land use rights and building ownership rights of the property in accordance with laws, and is the legal holder of the state-owned land use rights and building ownership rights of the property;
- (b) Subject to the agreement of the mortgagee, Zhejiang Huazhang Technology Limited can occupy, use, let, transfer, mortgage or by other means handle the relevant state-owned land use rights and building ownership rights of the property; and
- (c) Except for the above-mentioned mortgage, the state-owned land use rights and building ownership rights of the property are not subject to any dispute or seizure.

Group 3 — Property Interests Held by the Group Partially for Occupation and Partially for Investment in The PRC

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at 31 December 2023																		
5	A Logistics Park Located at No. 4 Haigang Erheng Road, Gangkou Industrial Park, Jiangcheng District, Yangjiang, Guangdong Province, The PRC	<p>The property comprises a land parcel with a site area of approximately 193,202.88 sq.m., on which four warehouses, an ancillary office, a mechanical room, a guardhouse and various ancillary structures are erected.</p> <p>As per the Real Estate Title Certificate, the property has a total GFA of approximately 44,447.76 sq.m.. As per information provided by the Group, it was completed in about 2018.</p> <p>The area breakdown of the property is listed below:</p> <table border="1"> <thead> <tr> <th>Portion</th> <th>GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Warehouse 1#</td> <td>7,942.20</td> </tr> <tr> <td>Warehouse 2#</td> <td>13,154.80</td> </tr> <tr> <td>Warehouse 3#</td> <td>13,154.80</td> </tr> <tr> <td>Warehouse 4#</td> <td>8,825.00</td> </tr> <tr> <td>Ancillary Office</td> <td>1,102.30</td> </tr> <tr> <td>Guardhouse</td> <td>45.51</td> </tr> <tr> <td>Mechanical Room</td> <td>223.15</td> </tr> <tr> <td>Total:</td> <td><u>44,447.76</u></td> </tr> </tbody> </table> <p>The land use rights of the property were granted for a term expiring on 22 December 2065 for industrial uses.</p>	Portion	GFA (sq.m.)	Warehouse 1#	7,942.20	Warehouse 2#	13,154.80	Warehouse 3#	13,154.80	Warehouse 4#	8,825.00	Ancillary Office	1,102.30	Guardhouse	45.51	Mechanical Room	223.15	Total:	<u>44,447.76</u>	<p>As per our on-site inspection and information provided by the Group, a portion (which known as four warehouses and a mechanical room) of the property is currently subject to various tenancy agreements with the latest expiry date being on 30 April 2025 at a current monthly rent of approximately RMB644,236 exclusive of management fee and service charges, while the remaining portion (which known as an ancillary office and a guardhouse) is currently owner-occupied.</p>	<p>RMB175,400,000 (RENMINBI ONE HUNDRED SEVENTY FIVE MILLION FOUR HUNDRED THOUSAND)</p> <p>100% Interest Attributable to the Group:</p> <p>RMB175,400,000 (RENMINBI ONE HUNDRED SEVENTY FIVE MILLION FOUR HUNDRED THOUSAND)</p>
Portion	GFA (sq.m.)																					
Warehouse 1#	7,942.20																					
Warehouse 2#	13,154.80																					
Warehouse 3#	13,154.80																					
Warehouse 4#	8,825.00																					
Ancillary Office	1,102.30																					
Guardhouse	45.51																					
Mechanical Room	223.15																					
Total:	<u>44,447.76</u>																					

Notes:

1. The property was inspected by Ines Wang *BSc(TM) MSc(RE) Probationer of RICS* on 5 September 2023.
2. The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS FHKIS RPS(GP) MCIREA MHKSI MISC M FHKIoD MHIREA RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
3. Pursuant to a Real Estate Title Certificate, Yue (2018) Yang Jiang Shi Bu Dong Chan Quan Di No. 0008589, dated 4 April 2018 and issued by Yangjiang Bureau of Land and Resources, the land use rights and the building ownership right of the property with a site area of approximately 193,202.88 sq.m. and a total GFA of approximately 44,447.76 sq.m. were legally vested in Guangdong Huazhang Logistics Warehouse Limited. The land use rights of the property were granted for a term expiring on 22 December 2065 for industrial uses.
4. As per the information provided by the Group, Guangdong Huazhang Logistics Warehouse Limited is a wholly owned subsidiary of the Company.
5. The general description and market information of the property are summarized below:

Location	: The property is located at No. 4 Haigang Erheng Road, Gangkou Industrial Park, Jiangcheng District, Yangjiang, Guangdong Province, The PRC.
Transportation	: Yangjiang Port Highway (S51), Train Station of Yangjiang Port are located in approximately 2.0 kilometres and 3.0 kilometres away respectively.
Nature of Surrounding Area	: The subject area is a predominately industrial area within Gangkou Industrial Park, Jiangcheng District. The neighbourhood of the property is dominated by industrial developments.
6. We have been provided with a PRC legal opinion dated 4 January 2024 regarding the property by Zhejiang L&H Law Firm which contains, inter alia, the following:
 - (a) Guangdong Huazhang Logistics Warehouse Limited has obtained relevant title certificates of the state-owned land use rights and building ownership rights of the property in accordance with laws, and is the legal holder of the state-owned land use rights and building ownership rights of the property;
 - (b) Guangdong Huazhang Logistics Warehouse Limited can occupy, use, let, transfer, mortgage or by other means handle the relevant state-owned land use rights and building ownership rights of the property; and
 - (c) The state-owned land use rights and building ownership rights of the property are not subject to any mortgage, dispute or seizure.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular (other than information relating to the Underwriter and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular the omission of which would make any statement herein misleading.

The sole director of the Underwriter and the ultimate beneficial owner of the Underwriter, namely Mr. Fang, accepts full responsibility for the accuracy of the information contained in this Circular (other than information relating to the Group) and confirm, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests and short positions of Directors and chief executive in Shares, underlying shares and debentures of the Company or its associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) required to be notified to the Company and the Stock Exchange, are as follows:

Long positions in the Shares and/or underlying Shares

Name of Directors	Capacity/ Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of interest
Mr. Fang	Interest of a controlled corporation	682,170,842 ⁽¹⁾	64.11%
	Beneficial owner	11,160,000 ⁽²⁾	1.05%
Mr. Chen Hongwei	Beneficial owner	182,000	0.02%
	Beneficial owner	500,000 ⁽³⁾	0.05%
Mr. Shi Chenghu	Beneficial owner	89,452,000	8.41%
	Beneficial owner	1,000,000 ⁽³⁾	0.09%
Mr. Heng, Keith Kai Neng	Beneficial owner	300,000 ⁽³⁾	0.03%
Mr. Yao Yang Yang	Beneficial owner	300,000 ⁽³⁾	0.03%
Ms. Zhang Dong Fang	Beneficial owner	300,000 ⁽³⁾	0.03%

Notes:

- The Underwriter, a company incorporated in the British Virgin Islands and beneficially and wholly-owned by Mr. Fang, held 153,846,153 Shares. The Underwriter agreed to conditionally fully underwrite 451,401,613 Open Offer Shares pursuant to the Underwriting Agreement and irrevocably undertook to take up and pay for 76,923,076 Open Offer Shares, being the assured allotment of Open Offer Shares in respect of its shareholding pursuant to the Irrevocable Undertakings. Under the SFO, Mr. Fang is deemed to be interested in all the Shares registered in the name of the Underwriter.
- Mr. Fang held 7,440,000 Shares and irrevocably undertook to take up and pay for 3,720,000 Open Offer Shares, being the assured allotment of Open Offer Shares in respect of his shareholding pursuant to the Irrevocable Undertakings.
- These are interests in underlying Shares which represent the interests in share options granted to the respective Directors by the Company under the Share Option Scheme. Details of which are shown in the section headed “Share Option Scheme” below.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(ii) Interests and short positions of substantial shareholders in Shares, underlying shares and debentures of the Company or its associated corporation

As at the Latest Practicable Date, so far as the Directors were aware, persons/corporations (other than the Directors and the chief executive of the Company) which had interests and short positions in the Shares and underlying shares of the Company or its associated corporations which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group are as follows:

Name of substantial shareholders	Capacity/Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of interest
The Underwriter	Beneficial owner	230,769,229 ⁽¹⁾	21.69%
	Underwriter	451,401,613 ⁽²⁾	42.42%
Wealthy Land Investments Group Limited	Having a security interest in shares	123,964,000	11.65%
	Beneficial owner	230,326,400	21.65%
Mr. Yeung Wai	Interest of a controlled corporation	354,290,400 ⁽³⁾	33.30%
Mr. Yeung Yun Chuen	Interest of a controlled corporation	354,290,400 ⁽³⁾	33.30%
Kaiser Financing Company Limited	Beneficial owner	57,581,600 ⁽⁴⁾	5.41%
Mr. Yan Kam Cheong	Interest of a controlled corporation	57,581,600 ⁽⁴⁾	5.41%

Notes:

1. The Underwriter, a company incorporated in the British Virgin Islands and beneficially and wholly-owned by Mr. Fang, held 153,846,153 Shares and irrevocably undertook to take up and pay for 76,923,076 Open Offer Shares, being the assured allotment of Open Offer Shares in respect of its shareholding pursuant to the Irrevocable Undertakings.
2. The Underwriter agreed to conditionally fully underwrite 451,401,613 Open Offer Shares pursuant to the Underwriting Agreement.
3. Wealthy Land Investments Group Limited is a company incorporated in the British Virgin Islands and owned as to 42.00% by Mr. Yeung Wai and 36.00% by Mr. Yeung Yun Chuen. Under the SFO, both Mr. Yeung Wai and Mr. Yeung Yun Chuen are deemed to be interested in the Shares in which Wealthy Land Investments Group Limited has an interest.
4. The 57,581,600 Shares are registered in the name of Kaiser Financing Company Limited, a company wholly-owned by Mr. Yan Kam Cheong. Under the SFO, Mr. Yan Kam Cheong is deemed to be interested in the Shares registered in the name of Kaiser Financing Company Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interests or short positions owned by any persons/corporations (other than the Directors and the chief executive of the Company) in the shares or underlying shares of the Company or its associated corporations which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date:

- (a) save as disclosed in the section headed “Effect of the Open Offer on the Shareholding Structure of the Company” in the “Letter from the Board” in this Circular, none of the Underwriter, Mr. Fang or any party acting in concert 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) with any of them held, owned or controlled any other Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company. In addition, save for the Irrevocable Undertakings given by the Underwriter and Mr. Fang, details of which as set out in the section headed “Irrevocable Undertakings” in the “Letter from the Board” in this Circular and the Underwriting Agreement, none of the Underwriter, Mr. Fang or any party acting in concert with any of them had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (b) save as disclosed in the section headed “Effect of the Open Offer on the Shareholding Structure of the Company” in the “Letter from the Board” in this Circular, the sole director of the Underwriter, Mr. Fang, was not interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, the sole director of the Underwriter had not dealt in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (c) no person had irrevocably committed himself/herself to vote for or against 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;
- (d) save for the Irrevocable Undertakings given by the Underwriter and Mr. Fang, details of which as set out in the section headed “Irrevocable Undertakings” in the “Letter from the Board” in this Circular and the Underwriting Agreement, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Underwriter, Mr. Fang or any parties acting in concert with any of them, and none of them had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (e) none of the Underwriter, Mr. Fang or any party acting in concert with any of them has borrowed or lent any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company, save for any borrowed shares which have been either on-lent or sold during the Relevant Period;

- (f) none of the Company and the Directors held any shares, convertible securities, warrants, options or derivatives of the Underwriter or similar rights which are convertible or exchangeable into shares of the Underwriter. None of them had dealt for value in any shares, convertible securities, warrants, options or derivatives of the Underwriter during the Relevant Period;
- (g) save as disclosed in the paragraph headed “2. Disclosure of Interests” in this Appendix, none of the Directors had owned or controlled, or had dealt for value in, any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (h) none of the subsidiaries of the Company, pension funds of the Company or of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code had owned or controlled, or had dealt for value in, any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (i) no Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company were managed on a discretionary basis by fund managers connected with the Company and no such person had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (j) none of the Company nor any Directors had borrowed or lent any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company, save for any borrowed shares which have been either on-lent or sold during the Relevant Period;
- (k) save for the Irrevocable Undertakings given by the Underwriter and Mr. Fang, details of which as set out in the section headed “Irrevocable Undertakings” in the “Letter from the Board” in this Circular and the Underwriting Agreement, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate”, and none of them had dealt for value in any Shares or any securities, convertible securities, warrants, options or derivatives in respect of any Shares or securities of the Company during the Relevant Period;
- (l) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Underwriter, Mr. Fang or any parties acting in concert with any of them and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer, the Underwriting Agreement and the Whitewash Waiver;

- (m) apart from the Underwriting Agreement and the Irrevocable Undertakings given by the Underwriter and Mr. Fang, details of which as set out in the section headed “Irrevocable Undertakings” in the “Letter from the Board” in this Circular, there is no other understanding, arrangement, agreement or special deal between (i) any Shareholder; and (ii) the Underwriter, Mr. Fang and any party acting in concert with any of them, or the Company, its subsidiaries or associated companies; and
- (n) there was no agreement, arrangement or understanding between the Underwriter and other persons in relation to the transfer, charge or pledge of the Shares that will be issued and allotted to the Underwriter pursuant to the Open Offer or may be issued and allotted to the Underwriter pursuant to the fulfillment of its obligations under the Underwriting Agreement.

4. ARRANGEMENTS AFFECTING AND RELATING TO DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer, the Underwriting Agreement and the Whitewash Waiver;
- (b) there was no agreement or arrangement between any Director and any other person which was conditional or dependent upon the outcome of the Open Offer, the Underwriting Agreement and the Whitewash Waiver or otherwise connected with the Open Offer, the Underwriting Agreement and the Whitewash Waiver; and
- (c) there was no material contract entered into by the Underwriter in which any Director had a material personal interest.

5. DISCLOSURE OF OTHER INTERESTS OF THE DIRECTORS

(i) Interests in competing interests

As at the Latest Practicable Date, none of the Directors and their respective associates was considered to have an interest in any business which competes or is likely to compete or have any other conflict of interest, either directly or indirectly, with the business of the Group.

(ii) Interests in contracts or arrangements

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any subsisting contract or arrangement which was significant in relation to the business of the Group.

(iii) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 30 June 2023 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

6. SHARE CAPITAL

The issued share capital of the Company as at the Latest Practicable Date and upon the Open Offer Completion (assuming there is no other change in the number of Shares in issue) are as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>8,000,000,000</u> Shares	<u>80,000,000.00</u>
<i>Issued and fully paid share capital or credited as fully paid:</i>	
1,064,089,378 Shares in issue as at the Latest Practicable Date	10,640,893.78
<u>532,044,689</u> Open Offer Shares to be issued	<u>5,320,446.89</u>
<u>1,596,134,067</u> Shares in issue and fully paid immediately upon completion of the Open Offer	<u>15,961,340.67</u>

All the issued Shares in the capital of the Company rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. No Shares have been issued since 30 June 2023, being the date on which the latest audited financial statements of the Group were made up. Except for the Open Offer Shares contemplated under the Underwriting Agreement, as at the Latest Practicable Date, no Shares, options, warrants, conversion rights or any equity and debt securities of the Company was outstanding or was proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The issued Shares are listed on the Stock Exchange. None of the securities of the Company is listed or dealt in, and no listing or permission to deal in the securities of the Company is being or is proposed to be sought, on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are or will be waived or agreed to be waived.

Share Option Scheme

As at the Latest Practicable Date, the Company had outstanding Share Options granted under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 8,356,000 new Shares, details of which are set out below:

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

Save for the Share Options, 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 and there was no share or loan capital of any member of the Group which was under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

7. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price of Shares (HK\$)
30 June 2023	0.400
31 July 2023	0.400
31 August 2023	0.370
29 September 2023	0.395
31 October 2023	0.390
30 November 2023 (Last Trading Day)	0.395
29 December 2023	0.380
9 January 2024 (Latest Practicable Date)	0.435

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK\$0.370 on 31 August 2023 and HK\$0.435 on 9 January 2024 respectively.

8. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or been proposed to enter, into any service contract with the Company or any other member of the Group which is (i) entered into or amended within 6 months before the date of the Announcement (i.e. 1 June 2023); (ii) a continuous contract with a notice period of 12 months or more; (iii) a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) not expiring or may not be terminable by the Group within one year without payment of compensation (other than statutory compensation).

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) were entered into by members of the Group within the two years immediately preceding the date of the Announcement until the Latest Practicable Date which are or may be material:

- (i) the Underwriting Agreement; and
- (ii) the Placing Agreement.

10. CLAIMS AND LITIGATION

As at the Latest Practicable Date, so far as is known to the Board, the Group was involved in the following material litigation, claim or contingent liability.

Zhejiang Huazhang Technology Limited (“**Zhejiang Huazhang**”), a wholly-owned subsidiary of the Company, received a first instance judgment (the “**Judgment**”) dated 24 December 2021 handed down by the Intermediate People’s Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the “**Court**”) in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings.

According to the Judgment, the defendant and Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB37.6 million to the plaintiff. In light of the Judgment, the plaintiff also applied to the Court for a property preservation (財產保全) order against the defendant and Zhejiang Huazhang to freeze certain PRC bank accounts of Zhejiang Huazhang. The Court made a property preservation order on 12 January 2022 to freeze an aggregate amount of approximately RMB37.6 million in the bank accounts of Zhejiang Huazhang in the PRC for a period of one year ending in January 2023.

Zhejiang Huazhang lodged an appeal application (the “**Appeal Application**”) with the Higher People’s Court of Yunnan Province (雲南省高級人民法院) (the “**Appeal Court**”) against the Judgment. The Appeal Application was approved on 22 August 2022 and the Appeal Court ordered, among other things, to set aside the Judgement and the contractual dispute between the parties be retried at the Court. The Judgment was set aside and cannot be enforced. But the order made on 12 January 2022 has remained in full force as the plaintiff had applied to have the RMB37.6 million in the bank accounts of Zhejiang Huazhang in the PRC remained frozen. As at the Latest Practicable Date, no hearing date of the re-trial had been fixed with the Court and neither had the Court provided any direction regarding the property preservation order dated 12 January 2022. The Company is seeking advice from its PRC legal advisers regarding the status of the legal proceedings, in particular, the order dated 12 January 2022. Further information of the legal proceedings were set out in the Company’s announcements dated 21 January 2022 and 9 September 2022.

Up to the Latest Practicable Date, the above legal proceedings had no material adverse impact on the business operation and financials of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration or claims which would materially or adversely affect the operations of the Company and no litigation, arbitration or claim which would materially or adversely affect the operations of the Company was known to the Directors to be pending or threatened by or against any member of the Group.

11. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinions or advice contained in this Circular:

Name	Qualification
KTC Partners CPA Limited	Certified Public Accountants
Lego Corporate Finance Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Vincorn Consulting and Appraisal Limited	Independent professional valuer

Each of the above expert has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its report and/or opinion (as the case may be) and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of the above expert did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, each of the above expert did not have any direct or indirect interest in any assets which had been, since 30 June 2023, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any members of the Group.

Each of (i) the accountant's report of KTC Partners CPA Limited on the unaudited pro forma financial information of the Group; (ii) the letter from the Independent Financial Adviser; and (iii) the property valuation report and the valuation certificate from Vincorn Consulting and Appraisal Limited is given as of the date of this Circular for incorporation herein.

12. CORPORATE INFORMATION AND PARTIES TO THE OPEN OFFER

Registered Address	Cricket Square, Hutchins Drive, PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Head Office and Principal Place of Business in China	Room 1101, Block 2 Canal Advertising Industry Building No. 99 Xiangyuan Road, Gongshu District Hangzhou City, Zhejiang Province China
Principal Place of Business in Hong Kong	Suite 901, 9/F, Ocean Centre 5 Canton Road, Tsim Sha Tsui Kowloon Hong Kong
Principal Share Registrar and Transfer Office	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive, PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Branch Share registrar and transfer office	Tricor Investor Services Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Company Secretary	Ms. Yeung Wing Yan
Authorised representatives	Mr. Fang Hui Suite 901, 9/F, Ocean Centre 5 Canton Road, Tsim Sha Tsui Hong Kong Ms. Yeung Wing Yan Suite 901, 9/F, Ocean Centre 5 Canton Road, Tsim Sha Tsui Hong Kong

Principal Bankers	China CITIC Bank International Limited 61–65 Des Voeux Road Central Hong Kong
	Bank of China (Hong Kong) Limited Bank of China Tower 1, Garden Road Central, Hong Kong
Auditor and Reporting Accountant	KTC Partners CPA Limited Room 1305-07, 13/F, New East Ocean Centre 9 Science Museum Road Tsimshatsui East, Kowloon Hong Kong
Legal advisers to the Company in relation to the Open Offer	Stevenson, Wong & Co. 39/F Gloucester Tower, The Landmark 15 Queen’s Road Central Hong Kong
The Underwriter	Dao He Investment Limited Wickhams Cay II, Road Town Tortola, VG1110 British Virgin Islands
Director of the Underwriter	Mr. Fang Hui
Ultimate beneficial owner of the Underwriter	Mr. Fang Hui
Principal member of the Underwriter’s concert group	Mr. Fang Hui Suite 901, 9/F, Ocean Centre 5 Canton Road, Tsim Sha Tsui Hong Kong

13. DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Set out below are the particulars and biographies of the existing Directors and senior management of the Company:

(a) Particulars of the Directors and senior management of the Company

Name	Address
<i>Executive Directors</i>	
Mr. Chen Hongwei	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong
Mr. Fang Hui	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong
<i>Non-executive Director</i>	
Mr. Shi Chenghu	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong
<i>Independent non-executive Directors</i>	
Mr. Heng, Keith Kai Neng	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong
Mr. Yao Yang Yang	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong
Ms. Zhang Dong Fang	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong
<i>Senior management</i>	
Ms. Yeung Wing Yan	Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong

(b) Biographies of the Directors and senior management of the Company*Executive Directors*

Mr. Chen Hongwei (陳宏衛), aged 50, was appointed as executive director of the Company on 1 April 2022. Mr. Chen graduated from Hubei Institute for Nationalities* (湖北民族學院) with a Certificate in Mechanical Manufacturing and Automation in 1997. Mr. Chen has over 27 years of experience in corporate management and operations management during which he has gained industry knowledge and experience in the management of effective production automation in various businesses. Prior to joining the Group, Mr. Chen worked as a project manager in Guangdong Sanxing Machinery Equipment Company Limited* (廣東三星機械設備有限公司) from 1998 to 2002. From 2003 to 2017, Mr. Chen worked in Chiho-Tiande Group Limited (齊合天地集團有限公司) (currently known as Chiho Environmental Group Limited (齊合環保集團有限公司)) (a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 0976)) as deputy manager of the equipment and general department and deputy chief engineer. He worked as assistant general manager, deputy chief engineer and director of the equipment and general department at Zhejiang Hehe Environmental Resources Company Limited* (浙江和合環境資源有限公司) from March 2017 to February 2022. Mr. Chen has been working as a technical director of Hua Zhang Environmental Resources Investment Limited (華章環境資源投資有限公司), a subsidiary of the Company, since 2019. Since February 2022, Mr. Chen has been serving as deputy general manager of Zhejiang Huazhang Technology Limited* (浙江華章科技有限公司) and director of Guangdong Huazhang Logistics Warehouse Limited* (廣東華章物流倉儲有限公司), both of which are subsidiaries of the Company.

Mr. Fang Hui (方暉), aged 35, was appointed as an executive director and a member of the Nomination Committee of the Company on 29 April 2021 and as the authorised representative of the Company on 10 January 2022. Mr. Fang is responsible for the overall business development direction and supervision of our Group and the operations management and development of solid waste metal resources recycling.

Mr. Fang has strong background in solid waste recycling and recovery, waste disposal and environmental protection and successfully secured the necessary licenses for the Group's recycling project in Dubai in 2019. Between 2013 and 2014, he was an assistant of the general manager at Chiho-Tiande (HK) Limited, a subsidiary of Chiho Environmental Group Limited ("Chiho"). Chiho is a global leader in metal recycling and environmental protection and is listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 0976). In 2015, Mr. Fang found a group of companies which seeks to identify and invest in environmental projects throughout the world and subsequently in 2017, a PRC joint venture company based in Taizhou, China, was established with a total investment amount of USD50 million with the aim to build a 500 mu waste recycling and

* For identification purpose only

recovery park in Taizhou, China. The park is intended to use modern technologies and practices to transform and upgrade the solid waste recycling industry in Taizhou, to enhance their competitiveness and to help Taizhou create its own version of the circular economy.

Mr. Fang obtained a Bachelor of Science degree in Economics from the University of Bradford, United Kingdom, in 2012. Mr. Fang is also a director of Hua Zhang Environmental Resources Investment Limited which is a wholly owned subsidiary of the Company.

Non-executive Director

Mr. Shi Chenghu (石成虎), aged 48, was appointed as non-executive director of the Company on 27 April 2021. He is the founding partner and the chief executive officer of BANDS Financial Limited (“**BANDS**”), which is a commodity and financial futures broker based in Hong Kong. BANDS currently holds a type 2 (dealing in futures contracts) licence under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and Mr. Shi is currently a responsible officer to carry out type 2 (dealing in futures contracts) (since October 2015) regulated activities under the SFO. Mr. Shi started his career with China’s State Reserve Bureau in 1996, where he was involved in the strategic reserve management of ferrous and non-ferrous metals for the nation. In 2003, Mr. Shi joined Sempra Metals Far East Limited, a subsidiary of Sempra Energy, where he worked primarily for its London subsidiary, Sempra Metals Limited, a category 1 member of the London Metal Exchange (the “**LME**”). In 2008, as the China Chief Representative of Newedge Financial Inc. (“**Newedge**”), Mr. Shi founded CITIC Newedge Futures Co., Ltd., one of the first three Sino-foreign future joint ventures in China. The joint venture was regarded as the first step of the internationalisation of the China’s commodities futures market. Before establishing BANDS, Mr. Shi was a registered representative and responsible officer for type 2 (dealing in futures contracts) under SFO since 2006 and held several senior roles at a number of international financial institutions, including as managing director and head of commodities futures for Jefferies Hong Kong Limited in Asia between 2012 to 2015 and head of metals for Newedge in Asia between 2008 to 2012. Mr. Shi’s career has witnessed the phenomenal growth of Chinese economy and its influence to the global commodities market. Mr. Shi is widely recognised as a leading figure on promoting globalisation of Chinese commodities companies, Chinese metals market and Renminbi internationalisation on commodities trading. In 2020, Mr. Shi has been appointed as the member of the User Committee of the LME where he can voice the interests of metal trading community particularly from an Asian perspective. Mr. Shi obtained a Bachelor degree in Metallurgical Engineering from the University of Science and Technology Beijing in 1996 and an Executive Master of Business Administration from the China Europe International Business School in 2019.

Independent Non-executive Directors

Mr. Heng, Keith Kai Neng (邢凱能), aged 44, was appointed as independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee, of the Company, on 2 January 2019. Mr. Heng was appointed the chairman of the Audit Committee of the Company on 17 December 2021. Mr. Heng obtained a Bachelor of Arts degree in Accounting and Finance from The University of Manchester in 2001 and a Master of Corporate Governance from The Hong Kong Polytechnic University in 2018. Mr. Heng is a fellow of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, an associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and an associate of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Mr. Heng is currently a director of a secretarial firm. He has extensive experience in corporate governance, auditing and accounting in Hong Kong.

Mr. Yao Yang Yang (姚楊洋), aged 35, was appointed as independent non-executive director, the chairman of Nomination Committee and a member of the Audit Committee and the Remuneration Committee, of the Company, on 31 March 2021. He obtained a Bachelor's degree in Urban Planning and Design from Suzhou University of Science and Technology in 2011 and a Master of Urban Planning and Design degree from Huazhong University of Science and Technology in 2014. From March 2014 to December 2020, Mr. Yao worked at the group companies of Poly Developments and Holdings Group Co. Ltd (保利發展控股集團股份有限公司): started as a designer of the design division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司), took up the post of vice general manager and subsequently, manager of the design division of Poly Yancheng Property Development Limited* (保利鹽城房地產發展有限公司), and his last position in the group as senior manager of the investment division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司). From December 2020 to December 2022, Mr. Yao was the vice president of Tianjin Yikai Tomorrow Asset Management Co., Ltd.* (天津易凱明天資產管理有限公司). Mr. Yao is currently the managing partner of Nanjing Wanliyuejiang Management Consulting Partnership* (南京萬鯉躍江管理諮詢合夥企業). He has over 8 years of experience in the fields of business development and investment in China.

* For identification purposes only

Ms. Zhang Dong Fang (張東方), aged 61, was appointed as independent non-executive director and a member of the Audit Committee on 7 December 2021 and a member of the Remuneration Committee and the Nomination Committee of the Company on 17 December 2021. Ms. Zhang graduated from Guangdong Foreign Language and Trade University with a Bachelor's degree in Arts. Ms. Zhang has extensive experience in business management. From 1998 to 2010, she worked at Firemenich, a private group which is engaged in the production of flavors and fragrances for perfumes, cosmetics, foods and beverages, and household products. Ms. Zhang was the managing director and vice president, North Asia, of the said group overseeing its business in Greater China. From 2010 to 2015, Ms. Zhang was the chief executive officer and executive director of Vinda International Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 3331). From 2016 to 2020, Ms. Zhang was the chief executive officer and chairperson of the board of Shanghai Jahwa United Co. Ltd, a company listed on the Shanghai Stock Exchange Market, which is principally engaged in research, development, manufacture and distribution of skin care, personal care and home care.

Senior Management

Ms. Yeung Wing Yan (楊詠恩), aged 43, was appointed as the company secretary and authorised representative of the Company on 26 November 2021. Ms. Yeung holds a BA (Hons) in Accounting & Finance from the Lancaster University, United Kingdom. She is a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She has over 16 years of experience in accounting and financial management. Between 2010 and 2015, she was the financial controller of Chiho-Tiande Limited (currently known as Chiho Environmental Group Limited) (Stock Code: 0976) which is listed on the main board of The Stock Exchange of Hong Kong Limited. Ms. Yeung currently runs a CPA practice which involved in the provision of corporate secretarial services and audit and assurance services for clients that involved in trading, manufacturing, property investments and consumer products in mainland China, Hong Kong and elsewhere.

14. EXPENSES

The expenses in connection with the Open Offer, including the printing, registration, translation, legal, financial advisory, accounting and other professional fees, are estimated to be approximately HK\$1.5 million, which are payable by the Company.

15. LANGUAGE

The English texts of this Circular and the proxy form shall prevail over their Chinese texts in case of inconsistency.

16. DOCUMENT ON DISPLAY

Copies of the following documents will be published on the website of the SFC (<http://www.sfc.hk>) and the website of the Company (www.hzeg.com) up to and including the date of the EGM:

- (i) the material contracts mentioned in the paragraph headed “Material Contracts” in this Appendix;
- (ii) the letter from the Board to the Shareholders, the text of which is set out from pages 9 to 31 of this Circular;
- (iii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 32 to 33 of this Circular;
- (iv) the letter from the Independent Financial Adviser, the text of which is set out on pages 34 to 57 of this Circular;
- (v) the annual reports of the Company for the years ended 30 June 2021 to 2023;
- (vi) the articles of association of the Company;
- (vii) the memorandum and articles of association of the Underwriter;
- (viii) the report on the unaudited pro forma financial information of the Group from KTC Partners CPA Limited as set out in Appendix II to this Circular;
- (ix) the property valuation report and the valuation certificate prepared by Vincorn Consulting and Appraisal Limited the text of which is set out in Appendix III to this Circular;
- (x) the written consents referred to in the paragraph headed “Experts and Consents” in this Appendix; and
- (xi) this Circular.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Huazhang Technology Holding Limited (the “**Company**”) will be held at Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong on Friday, 2 February 2024 at 11:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTION

1. “**THAT** subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any delegate of the Executive Director) (the “**Executive**”), the wavier (the “**Whitewash Waiver**”) pursuant to Note 1 on the dispensations from Rule 26.1 of the Takeovers Code waiving any obligation on the part of Dao He Investment Limited (the “**Underwriter**”) to make a mandatory general offer for all the issued securities of the Company not already owned or agreed to be acquired by the Underwriter and any parties acting in concert with it, which would be triggered as a result of the fulfilment of its underwriting obligation under the underwriting agreement entered into between the Underwriter and the Company on 1 December 2023 (as amended by a supplemental agreement dated 22 December 2023 made between the Company and the Underwriter) (a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) (the “**Underwriting Agreement**”), be and are hereby approved, and any one director of the Company (the “**Director(s)**”) be and are hereby authorised to do all such things and acts and execute all documents which he/she considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Whitewash Waiver.”

NOTICE OF EGM

ORDINARY RESOLUTIONS

2. **“THAT** subject to and conditional upon the fulfillment or waiver (where applicable) of the conditions set out in the Underwriting Agreement:
 - (a) the allotment and issue of 532,044,689 shares (the **“Open Offer Share(s)”**) by way of open offer (the **“Open Offer”**) at the offer price of HK\$0.20 per Open Offer Share on the basis of one (1) Open Offer Share for every two (2) existing shares of the Company held by the shareholders (the **“Qualifying Shareholders”**) of the Company whose names appear on the register of members of the Company as at the close of business on Friday, 16 February 2024 (or such later date as may be determined and announced by the Company) (the **“Record Date”**) other than those shareholders (the **“Non-Qualifying Shareholders”**) of the Company whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown on the register of members of the Company are outside Hong Kong, whom the Directors, after making enquiry regarding the legal restrictions under the laws of relevant place and requirements of the relevant regulatory body or stock exchange, consider it necessary or expedient to exclude from Open Offer and the transactions contemplated thereunder, be and are hereby approved;
 - (b) the board of Directors (the **“Board”**) or a committee thereof be and is/are hereby authorised to allot and issue the Open Offer Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro-rata to the Qualifying Shareholders and, in particular, the Board may make such exclusions or other arrangements in relation to the Non-Qualifying Shareholders as it may deem necessary or expedient having regard to the legal restrictions under the laws of the place and requirements of the relevant regulatory body or stock exchange; and
 - (c) any one Director be and are hereby authorised to sign or execute such documents and do all such acts and things in connection with the allotment and issue of the Open Offer Shares, the implementation of the Open Offer in accordance with all terms and conditions of the Open Offer as set out in the **“Letter from the Board”** in the circular of the Company dated 12 January 2024 and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as he/she may in his/her discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.”

NOTICE OF EGM

3. “**THAT** the entering into the Underwriting Agreement by the Company be and is hereby approved, confirmed and ratified and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Open Offer Shares, if any, by the Underwriter) be and are hereby approved; and any one Director be and is hereby authorised to sign and execute such documents (including but not limited to deeds) and do all such acts and things incidental to the Underwriting Agreement as he/she considers necessary or otherwise expedient in connection with the implementation of or giving effect to the Underwriting Agreement (including without limitation entering into supplemental agreement(s) in relation to the Underwriting Agreement) and the transactions contemplated thereunder or in this resolution.”

By order of the Board
HUAZHANG TECHNOLOGY HOLDING LIMITED
Fang Hui
Executive Director

Hong Kong, 12 January 2024

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

Principal place of business in Hong Kong:
Suite 901, 9/F
Ocean Centre
5 Canton Road
Tsim Sha Tsui
Hong Kong

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and to vote instead of them. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or adjourned meeting.

NOTICE OF EGM

- (5) For the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 29 January 2024 (Monday) to 2 February 2024 (Friday), both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 26 January 2024 (Friday) for registration.
- (6) According to Rule 13.39(4) of the Listing Rules, the voting at the EGM will be taken by poll.

As at the date of this notice, the executive Directors are Mr. Fang Hui and Mr. Chen Hongwei, the non-executive Director is Mr. Shi Chenghu and the independent non-executive Directors are Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang.