

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

15 March 2024

To the Qualifying Shareholders, and for information only, the Non-Qualifying Shareholders

Dear Sir or Madam,

**OPEN OFFER ON THE BASIS OF
ONE OPEN OFFER SHARE FOR EVERY TWO EXISTING SHARES
HELD ON THE RECORD DATE**

INTRODUCTION

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

At the EGM, the necessary resolution approving, among other things, the Open Offer, the Underwriting Agreement and the Whitewash Waiver were duly passed by the Independent Shareholders by way of poll. As the Underwriter, Mr. Fang, Mr. Chen Hongwei and Mr. Shi Chenghu are involved in and/or interested in the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver, they have abstained from voting on the resolutions proposed at the EGM.

The purpose of this Prospectus is to provide you with further information on the Open Offer including information on dealings in and application for the Open Offer Shares, and certain financial and other general information of the Group.

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OPEN OFFER

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
Subscription 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
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. Details of the Share Options outstanding and the Optionholders 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

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

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 and the Underwriter 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 (see the paragraphs headed “Irrevocable Undertakings — Optionholders’ Undertakings” below).

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 25.93% over the closing price of HK\$0.27 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;

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- (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
- (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.

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 RMB0.252, as reflected in the unaudited pro forma financial information of the Group set out in Appendix II to this Prospectus, and the Open Offer Price would represent a discount of approximately 27.15% 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.

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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.

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 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 paragraphs headed "Underwriting arrangement for the Open Offer — Conditions of the Underwriting Agreement" below. As at the Latest Practicable Date, conditions precedent (i) and (ii) above have been fulfilled.

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.

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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 (see details set out in the section headed “Procedures in respect of the Unsubscribed Shares and the Unsubscribed Arrangements” below) to Independent Third Parties.

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.

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. The last date on which transfers of Shares were accepted for registration for participation in the Open Offer was 7 February 2024.

The Prospectus Documents are sent to Qualifying Shareholders. To the extent permitted under the relevant laws and regulations and reasonably practicable, the Prospectus only is sent to Non-Qualifying Shareholders for information purposes. The Non-Qualifying Shareholders are not entitled to any assured allotment under the Open Offer.

Qualifying Shareholders who take up their pro-rata allotment in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up any of its/his/her allotment under the Open Offer, its/his/her proportionate shareholding in the Company will be diluted. The invitation to subscribe for the Open Offer Shares made to the Qualifying Shareholders will not be transferable or capable of renunciation and there will not be any trading in the assured allotments on the Stock Exchange.

No application for the excess Open Offer Shares

The Qualifying Shareholders will not be entitled to subscribe for any Open Offer Shares in excess of their respective assured allotments. All Unsubscribed Open Offer Shares have not been placed by the Placing Agent or they have been placed but the places have not paid therefor at 4:00 p.m. on the Placing End Date will be underwritten by the Underwriter.

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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 Record Date, the Company had no Overseas Shareholders.

Application for the Open Offer Shares and Payment

For each Qualifying Shareholder, an Application Form is enclosed with this Prospectus which entitles him/her/it to subscribe for the number of the Open Offer Shares as shown therein subject to payment in full by the Latest Time for Application. If a Qualifying Shareholder wishes to exercise his/her/its right to apply for all number of the Open Offer Shares in his/her/its assured allotments of Open Offer Shares or any number of the Open Offer Shares less than his/her/its assured allotments of Open Offer Shares, the Qualifying Shareholder must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with a remittance for the full amount payable on application, with the Registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:00 p.m. on Tuesday, 2 April 2024 (or, under bad weather conditions, such later date and/or time as mentioned in the section headed “Expected Timetable” in this Prospectus). All remittance(s) must be made in Hong Kong dollars by cheques which must be drawn on an account with, or by banker’s cashier orders which must be issued by, a licensed bank in Hong Kong and made payable to “**TRICOR INVESTOR SERVICES LIMITED — A/C NO. 058**” and crossed “**Account Payee Only**”. No application(s) of Open Offer Shares can be made by any persons who are Non-Qualifying Shareholders. If a Qualifying Shareholder applies for a number of Open Offer Share that is in excess of his/her/its assured allotment of Open Offer Shares, such application is liable to be rejected.

It should be noted that unless the duly completed and signed Application Form, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on Tuesday, 2 April 2024 (or, under bad weather conditions, such later date and/or time as mentioned in the section headed “Expected Timetable” in this Prospectus), the assured allotments of the respective Qualifying Shareholders under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled and the relevant Open Offer Shares will be first placed by the Placing Agent under the Unsubscribed Arrangements, and if not successfully placed out, will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement. The Company may, at its discretion, treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions. The Company may require such incomplete Application Form to be completed by the relevant applicants at a later stage.

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All cheques and banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such monies (if any) shall be retained for the benefit of the Company. Completion and lodgment of the Application Form together with a cheque or banker's cashier order in payment of the Open Offer Shares being applied for will constitute a warranty that the cheque or banker's cashier order will be honoured upon first presentation. Remittance(s) will be presented for payment upon receipt by the Company and all interest earned (if any) will be retained for the benefit of the Company. Any Application Form in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and in that event the assured allotments of Open Offer Shares and all rights thereunder will be deemed to have been declined and will be cancelled. No receipt will be issued in respect of any application monies received.

Each Application Form is for use only by the Qualifying Shareholder named in it and is not transferable. No receipt will be issued in respect of any application monies received. If the Underwriting Agreement is terminated at or before 4:00 p.m. on the Latest Time for Termination, being the latest time for termination of the Underwriting Agreement, the Open Offer will not proceed and the monies received in respect of application for the Open Offer Shares without interest will be returned to the Qualifying Shareholders or, in case of joint holders, to the first-named person, by means of cheques crossed "**Account Payee Only**" to be despatched by ordinary post to their registered addresses and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members of the Company at their own risk on or before Thursday, 18 April 2024.

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 arrangements as stipulated 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.

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, on a best effort basis, at the Placing Price.

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 out, 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.

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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 shall commence on the second Business Day after the day on which the latest time for acceptance for the Open Offer Shares falls (i.e. 5 April 2024), and end on the Placing End Date (i.e. 15 April 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
- 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

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.

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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.

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 Thursday, 18 April 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 Thursday, 18 April 2024 by ordinary post at the respective Shareholders' own risk.

Application for listing of the Open Offer Shares

The Company has applied 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.

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

All necessary arrangements will be made to enable the Open Offer Shares in their fully-paid form to be admitted to CCASS. The first day of dealings in the Open Offer Shares is expected to commence on Friday, 19 April 2024.

Refund of application monies

If the conditions of the Underwriting Agreement as set out in the paragraphs headed “Conditions of the Underwriting Agreement” under the section headed “The Underwriting Arrangement for the Open Offer” in this “Letter from the Board” below are not fulfilled (or waived, as the case may be) or the Underwriting Agreement is terminated by the Underwriter on or before the Latest Time for Termination, the Open Offer will not proceed, and any application monies paid will be refunded, without interest, by means of a cheque to be despatched by ordinary post to the registered addresses of the relevant Qualifying Shareholders by not later than Thursday, 18 April 2024, at their own risk.

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.

Optionholders’ Undertakings

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. Please refer to the paragraphs headed “Issue Statistics” under the section headed “Open Offer” in this “Letter from the Board” above for details of the Share Options outstanding and the Optionholders.

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UNDERWRITING ARRANGEMENT FOR THE OPEN OFFER

Principal terms of the Underwriting Agreement

Date	:	1 December 2023 (as amended on 22 December 2023 and 15 February 2024)
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 Board 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 342C of the Companies (WUMP) Ordinance) (all having been duly authorized for registration by the Stock Exchange 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;

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- (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.

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 Prospectus.

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.

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FUND RAISING EXERCISE IN THE PRECEDING TWELVE-MONTH PERIOD

The Company has 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.

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 “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.

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	
	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 placees	—	—	—	—	451,401,613	28.28	—	—
Other Shareholders	<u>813,169,225</u>	<u>76.41</u>	<u>1,219,753,838</u>	<u>76.41</u>	<u>813,169,225</u>	<u>50.95</u>	<u>813,169,225</u>	<u>50.95</u>
Total	<u>1,064,089,378</u>	<u>100.00</u>	<u>1,596,134,067</u>	<u>100.00</u>	<u>1,596,134,067</u>	<u>100.00</u>	<u>1,596,134,067</u>	<u>100.00</u>

Notes:

1. The Underwriter is an investment holding company beneficially and wholly owned by Mr. Fang. Under the Takeovers Code, Mr. Fang is a party acting in concert with the Underwriter by virtue of his shareholding in the Underwriter. As at the Latest Practicable Date, the Underwriter owned 153,846,153 Shares and Mr. Fang owned 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”.

LETTER FROM THE BOARD

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 Shareholder take up the Open Offer Shares 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 Unsubscribed 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. If the Shareholders (other than the Underwriter and Mr. Fang) elect not to participate in the Open Offer, their shareholding interests in the Company will be diluted by approximately 28.28%.

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.

LETTER FROM THE BOARD

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.

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 31 December 2023, 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 December 2023, the Group's cash and cash equivalents were approximately RMB37.43 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 <i>(RMB)</i>
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>

LETTER FROM THE BOARD

The interest rates on the above bank borrowings ranged between 3.25% to 4.90% per annum. For the six months ended 31 December 2023, the Group incurred finance costs of approximately RMB2.69 million. As at 31 December 2023, the Group's trade and other payables were approximately RMB393.39 million, all of which were payable within one year, whilst the Group's trade and other receivables were approximately RMB154.52 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. For the six months ended 31 December 2023, the net cash inflow from operating activities was approximately RMB2.7 million.

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% of the total revenue generated by the Group for each of the year ended 30 June 2023 and the six months ended 31 December 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, which allocated proceeds are expected to be applied to and fully utilised by end of 2026. 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.

LETTER FROM THE BOARD

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 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 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 as a whole.

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.

On 1 February 2024, the Executive has conditionally granted the Whitewash Waiver, subject to: (A) (i) the Whitewash Waiver and (ii) the Open Offer and the Underwriting Agreement separately approved by (a) at least 75% and (b) more than 50%, respectively, of the independent vote (as defined in Note 1 on dispensations from Rule 26 of the Takeovers Code) that are cast either in person or by proxy at the EGM, to be taken on a poll; and (B) unless the Executive gives prior consent, no acquisition or disposal of voting rights of the Company being made by the Underwriter and its concert parties between the date of the Announcement and the completion of the issue of the Open Offer Shares.

LETTER FROM THE BOARD

Condition (A) of the Whitewash Waiver above has been fulfilled as at the Latest Practicable Date and it is expected that condition (B) of the Whitewash Waiver above will be fulfilled upon completion of the issue of the Open Offer Shares. Accordingly, the Underwriter will not be required to make a mandatory general offer for all the Shares currently in issue and not already owned or agreed to be acquired by it, as a result of the Underwriter performing its obligations under the Underwriting Agreement.

WARNING OF THE RISKS OF DEALING IN 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 THE 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 PROSPECTUS 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 Prospectus.

Yours faithfully,

For and on behalf of the Board

HUAZHANG TECHNOLOGY HOLDING LIMITED



Fang Hui

Executive Director