

29 June 2024

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
LOAN CAPITALISATION INVOLVING SUBSCRIPTION OF SHARES
UNDER SPECIFIC MANDATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement and the supplemental announcement of the Company dated 16 May 2024.

The purpose of this circular is to provide you with, among other things, (i) further details of the Loan Capitalisation Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver; (ii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in relation to the Loan Capitalisation and the Whitewash Waiver; (iii) a letter of

advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Loan Capitalisation and the Whitewash Waiver; and (iv) a notice convening the SGM.

LOAN CAPITALISATION INVOLVING SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE

Loan Capitalisation Agreement

On 25 April 2024 (after trading hours), the Company and the Subscriber have entered into the Loan Capitalisation Agreement, pursuant to which the Company conditionally agreed to allot and issue to the Subscriber, and the Subscriber conditionally agreed to subscribe for, a total of 5,060,000,000 Capitalisation Shares at the Capitalisation Price of HK\$0.05 per Capitalisation Share for a total consideration of HK\$253 million (equivalent to approximately RMB230 million). The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by capitalising, and setting off against, the Loan in full on a dollar-for-dollar basis upon completion of the Loan Capitalisation Agreement.

The principal terms of the Loan Capitalisation Agreement are set out below.

Date	25 April 2024
Parties	(a) the Subscriber as the subscriber; and (b) the Company as the issuer
	As at the Latest Practicable Date, the ultimate beneficial owners of the Subscriber are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui, the chairperson of the Board and the executive Director; and (ii) Ms. Chai, who is the spouse of Mr. Cui and the mother of Ms. Cui. Hence, the Subscriber is a connected person of the Company.
Total consideration	HK\$253 million (equivalent to approximately RMB230 million)
Number of Capitalisation Shares to be allotted and issued	5,060,000,000 Capitalisation Shares
Capitalisation Price per Capitalisation Share	HK\$0.05

As at the Latest Practicable Date, Jilin Rongyu, an indirect wholly-owned subsidiary of the Company, was indebted to the Ground Investment Holding, the entire issued share capital of which is owned by Mr. Cui and Ms. Chai, the Loan in the amount of approximately RMB230 million (equivalent to approximately HK\$253 million). The Loan is unsecured, interest free and repayable on or before 28 February 2025. The

Loan was provided to Jilin Rongyu by Ground Investment Holding for the purpose of the Group's general working capital requirement, primarily for the repayment of the Group's bank borrowings and finance costs. As at the Latest Practicable Date, the entire issued share capital of Ground Investment Holding was owned as to 75% by Jilin Dongxiu, a company beneficially wholly-owned by Mr. Cui, the non-executive Director and the father of Ms. Cui, and as to 25% by Changchun Dongxiu, a company beneficially owned as to approximately 4.55% and approximately 95.45% by Mr. Cui and Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui, respectively.

Debt Reorganisation

It is proposed that the Debt Reorganisation shall be conducted among (1) the Company; (2) Jilin Rongyu; (3) Ground Investment Holding; and (4) the Subscriber regarding the Loan, pursuant to which (a) the Loan owing to Ground Investment Holding by Jilin Rongyu shall be novated to, and borne by, the Company; (b) the rights of Ground Investment Holding as creditor of the Loan shall be assigned to the Subscriber.

Completion of the Debt Reorganisation is conditional upon satisfaction of the following conditions:

- (a) each of the signing parties having obtained the approvals from their respective board of directors to the Debt Reorganisation;
- (b) if necessary, all necessary consents and approvals required to be obtained on the part of the Company under the Listing Rules or other applicable laws and regulations in respect of the Debt Reorganisation having been obtained;

- (c) if necessary, the passing of the necessary shareholders resolution(s) at the general meeting of the Company approving the Debt Reorganisation; and
- (d) all necessary consents, approvals, registration or other applicable procedures required to be obtained by each party in respective of the offshore debt (if applicable) and offshore investment (if applicable) from the relevant government authorities in the PRC (including but not limited to the National Development and Reform Commission, the State Administration of Foreign Exchange, and the commerce management department) in respect of the Debt Reorganisation having been obtained or completed.

Upon completion of the Debt Reorganisation, the Company would be directly indebted to the Subscriber in the sum of the Loan. As at the Latest Practicable Date, condition (a) above has been fulfilled and condition (c) above is not necessary, while conditions (b) and (d) above remain outstanding as the Debt Reorganisation is subject to the consents and approvals from the National Development and Reform Commission, the State Administration of Foreign Exchange and the commerce management department. Save as disclosed, no further PRC government authorities' consents and approvals are required for the Debt Reorganisation. Further, as at the Latest Practicable Date, the Debt Reorganisation has yet to complete.

Loan Capitalisation

Subject to the completion of the Debt Reorganisation, the Company would be directly indebted to the Subscriber in the sum of the Loan. The Company will issue to the Subscriber the Capitalisation Shares at the Capitalisation Price, which shall be satisfied by capitalising, and setting off against, the Loan in full on a dollar-for-dollar basis upon completion of the Loan Capitalisation Agreement.

Capitalisation Shares

Assuming that there will be no changes in the total number of issued Shares between the Latest Practicable Date and the allotment and issue of the Capitalisation Shares, the Capitalisation Shares represent:

- (i) approximately 70.24% of the total number of issued Shares as at the Latest Practicable Date; and
- (ii) approximately 41.26% of the total number of issued Shares as enlarged by the allotment and issue of the Capitalisation Shares.

The Capitalisation Shares to be allotted and issued to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the SGM. The Concert Party Group and their associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Loan Capitalisation Agreement, the Specific Mandate and/or the Whitewash Waiver and the transactions contemplated respectively thereunder shall abstain from voting in respect of the resolution relating to the Loan Capitalisation Agreement, the Specific Mandate, the Whitewash Waiver and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, each of Charm Success, Ka Yik and Ms. Chai are beneficially interested in 434,320,694 Shares, 1,794,780,371 Shares and 850,000 Shares, respectively, representing approximately 6.03%, 24.91% and 0.01% of the issued Shares, respectively. Please refer to the section headed "Effects of the Loan Capitalisation Agreement on shareholding structure of the Company" in this circular for further details. As at the Latest Practicable Date, save for Charm Success, Ka Yik and Ms. Chai, no other Shareholders are required to abstain from voting on the aforesaid resolutions.

Ranking of the Capitalisation Shares

The Capitalisation Shares, when allotted and issued, shall rank *pari passu* in all respects among themselves and with the Shares then in issue.

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The Capitalisation Price

The Capitalisation Price of HK\$0.05 represents:

- (i) a premium of approximately 11.11% over the closing price of HK\$0.045 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 19.05% over the closing price of HK\$0.042 per Share as quoted on the Stock Exchange on 25 April 2024, being the date of the Loan Capitalisation Agreement (the “Last Trading Day”);
- (iii) a premium of approximately 6.38% over the average closing price of HK\$0.047 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;
- (iv) a discount of approximately 3.29% to the average closing price of HK\$0.0517 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;
- (v) a discount of approximately 15.68% to the average closing price of HK\$0.0593 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;
- (vi) a discount of approximately 83.18% to the average closing price of HK\$0.2973 per Share as quoted on the Stock Exchange for the last 360 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;
- (vii) there is no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) given that the theoretical diluted price of approximately HK\$0.0482 per Share is higher than the benchmarked price of approximately HK\$0.047 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Shares as quoted on the Stock Exchange on the date of the Loan Capitalisation Agreement of HK\$0.042 per Share; and (ii) the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement of HK\$0.047 per Share);
- (viii) there is no theoretical dilution effect as the theoretical diluted price of approximately HK\$0.0482 per Share is higher than the closing price as at the Latest Practicable Date of HK\$0.045 per Share;
- (ix) a premium of approximately 45.77% over the Group’s audited net assets per Share of approximately HK\$0.0343 (equivalent to approximately RMB0.0318 at the exchange rate of HK\$1 = RMB0.9284) as at 31 March 2024 based on the 7,203,638,808 Shares in issue as at 31 March 2024, being the date to which the latest published audited accounts of the Company were made up; and

- (x) a discount of approximately 0.79% to the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$0.0504 per Share (equivalent to approximately RMB0.0468 as the exchange rate of HK\$1 = RMB0.9284) as at 31 March 2024 based on (a) the 7,203,638,808 Shares in issue as at the Latest Practicable Date; and (b) the adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders of approximately RMB337.4 million.

The Capitalisation Price was determined after arm's length negotiations between the Company and the Subscriber with reference to (i) the recent and historical market prices of the Shares; (ii) the outstanding amount of the Loan; (iii) the market conditions, which suggest that it would be difficult for the Company to pursue sizeable equity financing alternative in the stock market; and (iv) the financial position of the Group, having considered that the audited net assets of the Group of approximately RMB228.9 million and the amount of cash and cash equivalents of approximately RMB53.6 million as at 31 March 2024.

The adjusted unaudited consolidated net asset value attributable to the Shareholders

By taking into account the effect of the revaluation surplus arising from the valuation of all the property interests held by the Group as set out in Appendix II to this circular, set out below is the calculation of the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders:

	<i>RMB'000</i>
Audited consolidated net asset value attributable to the Shareholders as at 31 March 2024	228,874
Adjustment:	
Revaluation surplus arising from the valuation of all the property interests held by the Group as at 31 March 2024 based on the property valuation report set out in Appendix II to this circular (<i>Note</i>)	<u>108,563</u>
Adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders	<u><u>337,437</u></u>

Note: This represents the excess of the market value of all the property interests held by the Group as at 31 March 2024 over their corresponding net book values as at 31 March 2024.

As at 31 March 2024, the adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders amounted to approximately RMB337.4 million.

Conditions precedent and termination

Completion of the Loan Capitalisation Agreement is conditional upon satisfaction of the following conditions:

- (i) the Listing Committee having granted the approval for the listing of and permission to deal in the Capitalisation Shares, and such approval and permission having not been subsequently revoked;
- (ii) the passing by the Independent Shareholders of resolution(s) at the SGM approving (i) the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the Specific Mandate) by more than 50% of the votes cast by the Independent Shareholders by way of poll; and (ii) the Whitewash Waiver by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll, in accordance with the Listing Rules and the Takeovers Code;
- (iii) the Debt Reorganisation having been completed;
- (iv) the Executive having granted the Whitewash Waiver (which have not been subsequently revoked) and all the conditions attached thereto (if any) having been satisfied;
- (v) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained; and
- (vi) all necessary consents and approvals required to be obtained on the part of the Subscriber in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained.

None of the above conditions can be waived by any party to the Loan Capitalisation Agreement. In the event that the above conditions precedent have not been satisfied on or before 31 December 2024 (or such other date and time as may be agreed by the Company and the Subscriber in writing), all liabilities of the Company and the Subscriber under the Loan Capitalisation Agreement shall terminate (save for those specified to survive termination) and no party will have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

Save for the consents and approvals required to be obtained by the Company as set out in conditions (i) to (iv) above, there is no other governmental, regulatory and corporate consents and approvals required to be obtained in respect of conditions (v) and (vi) above. As at the Latest Practicable Date, none of the above conditions have been satisfied.

As the completion of the Loan Capitalisation is subject to the fulfilment of the conditions precedent as stated in the Loan Capitalisation Agreement and as set out above, the Loan Capitalisation may or may not proceed. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares.

Completion

Completion of the subscription contemplated under the Loan Capitalisation Agreement shall take place at 4 p.m. on the third Business Day (or such other date and time as may be agreed by the Company and the Subscriber in writing) upon the satisfaction of the conditions under the Loan Capitalisation Agreement, upon which the parties thereto shall enter into the Deed of Set-off to set off the aggregate Capitalisation Price against the Loan in full on a dollar-for-dollar basis and carry out all necessary actions to allot and issue the Capitalisation Shares within the prescribed time limit.

Information of the parties to the Loan Capitalisation Agreement

The Company was incorporated in Bermuda as a limited liability company. The Company is principally engaged in investment holding and the Group is principally engaged in property development and management, including planning, designing, budgeting, licensing, contract tendering and contract administration and property investment in the PRC.

Jilin Rongyu was established in the PRC with limited liability and an indirect wholly owned subsidiary of the Company. It is principally engaged in investment holding and its subsidiaries are principally engaged in property development, property management, and property investment business.

Ground Investment Holding is a company established in the PRC with limited liability, and is principally engaged in financing consultancy services; investment activities with own fundings; asset management services with own fundings; enterprise management; leasing management; and property leasing. As at the Latest Practicable Date, the entire issued share capital of Ground Investment Holding was owned as to 75% by Jilin Dongxiu, a company beneficially wholly-owned by Mr. Cui, the non-executive Director and the father of Ms. Cui, and as to 25% by Changchun Dongxiu, a company beneficially owned as to approximately 4.55% and approximately 95.45% by Mr. Cui and Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui, respectively.

The Subscriber is a company incorporated in Hong Kong with limited liability, and is principally engaged in investment holding. As at the Latest Practicable Date, Mr. Cui and Ms. Chai are the ultimate beneficial owners of the Subscriber. Hence, each of the Subscriber and Ground Investment Holding is a connected person of the Company.

Mr. Cui, aged 58, is a non-executive Director of the Company. Mr. Cui has been the chairman of Ground Investment Holding from 2010 up to now. For the period from 2001 to 2010, Mr. Cui was the chairman of 吉林省廣澤集團有限公司 (Jilin Province Guangze Group Company Limited*). Mr. Cui was working as a manager of 吉林省儲備糧公司長春分公司 (Jilin Province Grain Reserve Company – Changchun Branch) for the period from 1999 to 2001. Mr. Cui graduated from Jilin Agricultural University major in agricultural studies in 1988 and obtained an EMBA degree at Cheung Kong Graduate School of Business in 2008.

Information on the Loan

As at the Latest Practicable Date, Jilin Rongyu, an indirect wholly-owned subsidiary of the Company, was indebted to the Ground Investment Holding, the entire issued share capital of which is owned by Mr. Cui and Ms. Chai, the Loan in the amount of approximately RMB230 million (equivalent to approximately HK\$253 million). The Loan is unsecured, interest free and repayable on or before 28 February 2025. The Loan was provided to Jilin Rongyu by Ground Investment Holding for the purpose of the Group's general working capital requirement, primarily for the repayment of the Group's bank borrowings and finance costs. As at the Latest Practicable Date, the entire issued share capital of Ground Investment Holding was owned as to 75% by Jilin Dongxiu, a company beneficially wholly-owned by Mr. Cui, the non-executive Director and the father of Ms. Cui, and as to 25% by Changchun Dongxiu, a company beneficially owned as to approximately 4.55% and approximately 95.45% by Mr. Cui and Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui, respectively.

Details of the Loan are set out as follows:

Borrower	Recipients (Note)	Date of loan receipts	Loan amount (RMB)	Outstanding Loan amount as at the Latest Practicable Date (RMB)
Jilin Rongyu	Jilin Province Xisheng Real Estate Development Co., Ltd.	21 December 2020	35,314,811	35,314,811
	Baishan Ground Real Estate Development Company Limited	24 December 2021	12,824,383	12,824,383
	Fusong Changbaishan Ground Tourism Development Company Limited	28 October 2021 30 December 2022	100,000,000 24,239,599	100,000,000 24,239,599
	Fusong Ground Real Estate Development Company Limited	21 December 2021 9 June 2022	28,838,005 28,831,617	28,838,005 28,831,617
		Total	230,048,415	230,048,415

Note: All the recipients above are indirect wholly-owned subsidiaries of the Company.

Reasons for and benefits of the Loan Capitalisation Agreement

As disclosed in the 2023 Interim Report and the 2023 Annual Results, the Group has been proactive in seeking appropriate investment opportunities and conducting prudent project research, due diligence or formulating execution plans on its core business as well as in areas including but not limited to cultural tourism projects and supplementary businesses in mineral water industry and ginseng industry. Nevertheless, the financial performance of the Group has been adversely impacted by the lack of newly completed property project delivered and the decrease in sales of properties, which had in turn led to a significant decrease in the overall revenue and gross profit of the Group (1) for the six months ended 30 September 2023 as compared to that of the corresponding period in 2022 and (2) for the year ended 31 March 2024 as compared to the year ended 31 March 2023, and a change in the financial position of the Group from profit making to loss making. In light of the persisting uncertainties in the property market of the PRC, the loss position of the Group as well as the aforementioned business plans of the Group, the Board considers that it is vital for the Group to have access to additional funding and working capital in order to maintain its competitiveness in the market.

The Group had been in a highly leveraged financial position with substantial amount of bank and other borrowings. As disclosed in the 2023 Annual Results, as at 31 March 2024, the Company had loans of approximately RMB420.6 million which would become due within one year or on demand, and the gearing ratio of the Company was approximately 80%. Coupled with the recent cautious investment sentiment and the increasing trend of the interest rate in the debt market, the Company had difficulties in seeking debt or equity financing to finance its business development. Based on the figures as set out in the 2023 Annual Results and assuming there is no other change to the financial position of the Group up to the date of Completion, the gearing ratio of the Company immediately after completion of the Loan Capitalisation will be lowered to 68%, resulting in a healthier financial position of the Group.

Taking into account the financial performance of the Group, limited cash and cash equivalents available (approximately RMB53.6 million as at 31 March 2024 based on the 2023 Annual Results) as well as the business plan of the Group in the near future, the Board (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser, but excluding Mr. Cui and Ms. Cui who had abstained from voting on the relevant Board resolutions and providing views on the matters) considers that while there is no immediate need to repay the Loan, it is a good timing to conduct the Loan Capitalisation as the completion of the Loan Capitalisation would lead to a healthier financial position of the Group as disclosed above, and the Loan Capitalisation represents a good opportunity to (i) allow the Company to settle the Loan without utilising all existing financial resources of the Company which may be used for expansion of the Group's businesses, and (ii) reduce the current gearing level of the Group which in turn strengthen its financial position and debt financing capability in the long run.

The Directors (excluding Ms. Cui and Mr. Cui) had considered other alternative financing methods to settle the Loan. For debt financing, having considered the lack of security for arranging any possible debt financing, the Directors (excluding Ms. Cui and Mr. Cui) considered that the Group is not in a feasible position to obtain further debt financing from financial institutions for settlement of the Loan. The increasing trend of the interest rate in the debt market will also increase the interest burden of the Group. In respect of equity fund raising, given the relatively substantial amount of the Loan, the recent weak sentiment

of the stock market and uncertain economic environment, it is difficult to procure an underwriter for rights issue or placing or a placing agent for share placement which is able to raise sufficient funding for the settlement of the Loan.

Among the possible alternatives available to the Company, the Company considers that the Loan Capitalisation is an appropriate and cost-effective method to the Company. Comparing to debt financing, the Loan Capitalisation would allow the Company to avoid further finance cost.

Although (1) the allotment and issue of the Capitalisation Shares will have a dilution effect on the shareholding interest of the existing Shareholders and (2) the Capitalisation Price is at discount as compared to the average closing price for the last 10, 30 and 360 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement, respectively, having considered (i) the Capitalisation Price represents a premium over (a) the market price of the Shares as of the date of the Loan Capitalisation Agreement; and (b) the average closing price for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement; (ii) the Loan Capitalisation can discharge the settlement obligations of the Loan; (iii) the Capitalisation Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will enlarge the capital base, and accordingly, strengthen the financial position of the Group; and (iv) other alternative financing methods as mentioned above are not viable for the Group, the Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser but excluding Mr. Cui and Ms. Cui who had abstained from voting on the relevant Board resolutions and providing views on the matters) consider the dilution effect arising from the allotment and issue of the Capitalisation Shares is justifiable in this regard. Although the Loan Capitalisation Agreement is not in the ordinary and usual course of business of the Group, the terms of the Loan Capitalisation Agreement, which was negotiated on an arm's length basis and agreed on normal commercial terms between the parties thereto, and the Loan Capitalisation Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and have been entered into on normal commercial terms, and in the interests of the Company and Shareholders as a whole.

Independent Financial Adviser's Opinion

The Independent Financial Adviser considered the Capitalisation Price to be fair and reasonable so far as the Independent Shareholders are concerned and the potential dilution effect on the shareholding interests of the existing minority Shareholders being acceptable. For details of the Independent Financial Adviser's analysis, please refer to the letter of the Independent Financial Adviser set out in this circular.

Future intentions of the Subscriber regarding the Group

Upon Completion, the Subscriber will become, and the Concert Party Group will continue to be, a controlling shareholder (as defined under the Listing Rules) of the Company. The Subscriber confirms that:

- (a) the Concert Party Group intends that the Group will continue with its existing business following the completion of the Subscription;

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- (b) the Concert Party Group shares the view of the Board as disclosed in the paragraph headed “Reasons for and benefits of the Loan Capitalisation Agreement” above, in which it is mentioned that the Loan Capitalisation is in the interests of the Group; and
- (c) there is no intention to introduce any major changes to the existing business of the Group or the continued employment of the Group’s employees and there is no intention to redeploy the fixed assets of the Group other than in its ordinary course of business.

Use of proceeds

As the Capitalisation Price will be satisfied by way of offsetting the Loan, there will be no remaining net proceeds from the allotment and issue of the Capitalisation Shares available to be utilised by the Company.

Effects of the Loan Capitalisation Agreement on shareholding structure of the Company

For illustration purposes only and assuming that (1) no Share Options will be exercised; (2) neither 2021 Convertible Bonds nor 2023 Convertible Bonds have been converted; and (3) there will be no changes in the total number of issued Shares between the Latest Practicable Date and the allotment and issue of the Capitalisation Shares, the table below sets out the shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Loan Capitalisation.

	As at the Latest Practicable Date		Immediately after completion of the Loan Capitalisation	
	No. of Shares	Approx. %	No. of Shares	Approx. %
Substantial Shareholder				
Charm Success (Note 1)	434,320,694	6.03	434,320,694	3.54
Ka Yik (Notes 1 & 2)	1,794,780,371	24.91	1,794,780,371	14.64
Ms. Chai	850,000	0.01	850,000	0.01
The Subscriber (Note 3)	—	—	5,060,000,000	41.26
Sub-total (The Concert Party Group)	2,229,951,065	30.95	7,289,951,065	59.45
Hong Kong Toprich Investment Limited (Note 4)	1,042,000,000	14.46	1,042,000,000	8.50
Public Shareholders				
Public shareholders	3,931,687,743	54.59	3,931,687,743	32.05
Total	7,203,638,808	100.00	12,263,638,808	100.00

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Notes:

- (1) Charm Success and Ka Yik are companies wholly owned by Deep Wealth Holding Limited, which is in turn wholly held by TMF (Cayman) Ltd. as trustee of the Ground Trust. The Ground Trust is a discretionary trust set up by Ms. Cui as settlor and protector, and TMF (Cayman) Ltd. as trustee on 27 July 2016. By virtue of part XV of the SFO, Ms. Cui is deemed to be interested in the securities of the Company held by Charm Success and Ka Yik.
- (2) Ka Yik entered into a sale and purchase agreement (the "SPA") on 29 July 2022 pursuant to which Ka Yik agreed to sell 1,000,000,000 Shares (representing approximately 13.88% of the total issued share capital of the Company as at the Latest Practicable Date) to Tianfeng International Holding Limited ("Tianfeng"). Tianfeng is a company wholly owned by Jilin Wanding Holdings Group Co., Ltd.*, which 90%, 5% and 5% of its shares are owned by (i) Mr. Sui Guangyi ("Mr. Sul"), a former non-executive Director not acting in concert with the Concert Party Group; (ii) Mr. Wang Jian (王健), an independent third party not acting in concert with the Concert Party Group; and (iii) Ms. Wang Min (王敏), an independent third party not acting in concert with the Concert Party Group, respectively. As at the Latest Practicable Date, while Tianfeng shall be deemed to be interested in those 1,000,000,000 Shares via its interests in the SPA, as Tianfeng has not yet fulfilled all of the obligations undertaken by it (i.e. the only outstanding obligation being the undertaking by Tianfeng to procure the Group to discharge any corporate guarantee given by Ka Yik or its associates as a security for the Group's borrowing when fall due or upon re-financing), notwithstanding the consideration payable by Tianfeng under the SPA has been fully settled, the completion of the SPA has not taken place and the transaction has not completed yet. Accordingly, Ka Yik remains to be the legal and beneficial owner of the 1,000,000,000 Shares as at the Latest Practicable Date.
- (3) The Subscriber is a wholly-owned subsidiary of Ground Investment Holding, which is in turn held as to 75% by吉林省東秀投資有限公司 (Jilin Dongxiu Investment Limited*) (i.e. Jilin Dongxiu), a company beneficially wholly-owned by Mr. Cui, and as to 25% by 長春市東秀投資有限公司 (Changchun Dongxiu Investment Limited*) (i.e. Changchun Dongxiu), a company beneficially owned as to approximately 4.55% by Mr. Cui and as to 95.45% by Ms. Chai. The Subscriber is considered to be the controlled corporation of Jilin Dongxiu. Mr. Cui, the non-executive Director, through his shareholding in Jilin Dongxiu and being one of the ultimate beneficial owners of the Subscriber, is deemed to be interested in the securities held by the Subscriber by virtue of Part XV of the SFO.
- (4) These 1,042,000,000 Shares are held by Hong Kong Toprich Investment Limited, which is in turn wholly owned by Final Destination Limited, which is in turn wholly owned by Eternity Sky Limited, which is in turn wholly owned by Flying Goddess Limited, which is in turn wholly owned by Ding Yi Feng Holdings Group International Limited, a company the shares of which are listed on the Main Board of the Stock Exchange and approximately 22.26% of shares of which is held by/deemed to be held by Mr. Sui by virtue of Part XV of the SFO.
- (5) Certain percentage figures included in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As at the Latest Practicable Date, the outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company consist of (1) 15,400,000 Share Options which entitle the holders of thereof to subscribe for an aggregate of 15,400,000 Shares at an exercise price of a range between HK\$0.98 to HK\$1.20 per Share Option; (2) the 2021 Convertible Bonds; and (3) the 2023 Convertible Bonds (a total of 134,831,460 conversion shares will be issued to the bondholders upon exercising the conversion rights under the 2023 Convertible Bonds in full at the initial conversion price of HK\$0.445 per conversion share), among which the following member(s) of the Concert Party Group are a holder of the followings:

Name of holder within the Concert Party Group	No. of Share Options or principal amount of convertible bonds held
Ka Yik	Convertible bonds in the principal amount of HK\$103,076,730 which may be converted to a total of 264,299,307 conversion shares (i.e. the 2021 Convertible Bonds)

Save as disclosed, the Group has no outstanding warrants, options, convertible securities or other derivatives convertible into Shares, and no share or loan capital of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shares or other derivatives in respect of securities which are being offered for or which carry voting rights have been issued or granted or agreed conditionally or unconditionally to be issued or granted.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the ultimate beneficial owners of each of the Subscriber and Ground Investment Holding are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui, the chairperson of the Board and the executive Director; and (ii) Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui. Hence, each of the Subscriber and Ground Investment Holding is a connected person of the Company.

The Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder constitutes a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Cui and Mr. Cui have abstained from voting on the Board resolution(s) approving the Loan Capitalisation Agreement and the transactions contemplated thereunder. The Concert Party Group and their associates (i.e. Charm Success, Ka Yik and Ms. Chai) and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Loan Capitalisation Agreement, the Specific Mandate and/or the Whitewash Waiver and the transactions contemplated respectively thereunder shall also abstain from voting at the SGM in respect of the resolution(s) approving the Loan Capitalisation Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. Save as disclosed above, (i) no other Director has a material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolution(s) in relation to the aforesaid matters; (ii) no other Shareholder has any material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) and the Whitewash Waiver and therefore no other Shareholder is required to abstain from voting at the SGM in respect of the resolution(s) approving the aforesaid matters.

APPLICATION FOR LISTING OF THE CAPITALISATION SHARES

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

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the ultimate beneficial owners of the Subscriber are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui; and (ii) Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui. Ms. Cui, being the settlor and protector of The Ground Trust (details of which are set out in the section headed “Effects of the Loan Capitalisation Agreement on shareholding structure of the Company” above), is deemed to be interested (by virtue of Part XV of the SFO) in an aggregate of 2,229,101,065 Shares of the Company, representing approximately 30.94% of the issued Shares as at the Latest Practicable Date via her interests in Ka Yik and Charm Success. Pursuant to the definition under the Takeovers Code, the Subscriber, Ground Investment Holding, Mr. Cui, Ms. Chai, Ms. Cui, Charm Success, Ka Yik, Jilin Dongxiu and Changchun Dongxiu are presumed to be under classes (1) and (8) of the definition of acting in concert under the Takeovers Code, and as a matter of fact are, parties acting in concert.

Under the Loan Capitalisation Agreement, the Subscriber shall subscribe for a total of 5,060,000,000 Capitalisation Shares. Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Shares, the aggregate shareholding interest of the Concert Party Group would increase from 2,229,951,065 Shares, representing approximately 30.95% of the issued Shares as at the Latest Practicable Date, to 7,289,951,065 Shares, representing approximately 59.45% of the issued Shares as enlarged by the allotment and issue of the Capitalisation Shares immediately after completion of the transactions contemplated under the Loan Capitalisation Agreement.

Upon completion of the Loan Capitalisation, the Concert Party Group would be required to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the issued Shares (other than those already owned or agreed to be acquired by the Concert Party Group) unless the Whitewash Waiver is granted by the Executive.

An application for the Whitewash Waiver has been made by the Subscriber to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Whitewash Waiver will be conditional upon, among other things, (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder. The Concert Party Group and their associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Loan Capitalisation Agreement and/or the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM. Other than Charm Success, Ka Yik and Ms. Chai who are members of the Concert Party Group and Shareholders, none of the Shareholders is

involved in or interested in the Loan Capitalisation Agreement and/or the transactions contemplated thereunder, and/or the Whitewash Waiver and is required to abstain from voting in respect of the resolution(s) to approve the aforesaid matters at the SGM.

If the Whitewash Waiver is not granted and/or approvals by the Independent Shareholders are not obtained, or if any other conditions precedent under the Loan Capitalisation Agreement is not fulfilled, the subscription contemplated under the Loan Capitalisation Agreement will not proceed.

The Company confirms that the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder do not and will not give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules).

Shareholders and public investors should note that immediately upon completion of the Loan Capitalisation Agreement and the issue and allotment of the Capitalisation Shares, the shareholding of the Concert Party Group in the Company will exceed 50% of the voting rights of the Company and that the Concert Party Group may increase its shareholding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.

FUND-RAISING ACTIVITIES OF THE COMPANY DURING THE PAST TWELVE MONTHS

The Company has conducted the following fund-raising activities in the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement(s)	Fund raising activities	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
31 May 2023; 9 June 2023; 23 June 2023	The Company entered into a conditional placing agreement with Kingston Securities Limited in relation to the placing of convertible bonds in the principal amount of up to HK\$150.0 million (convertible into up to 337,078,651 Shares) (i.e. the 2023 Convertible Bonds). On completion, convertible bonds with aggregate principal amount of HK\$60.0 million (convertible into up to 134,831,460 Shares) have been placed to independent third party not acting in concert with the Concert Party Group.	Approximately HK\$58.3 million (equivalent to RMB54.1 million)	(i) potential acquisition and/or projects investment in new business; (ii) repayment of the Group's indebtedness and finance cost; and (iii) general working capital of the Group	(i) approximately RMB30.8 million has been applied for the acquisition of ginseng assets and investment in a mineral water project, all of which has been utilised; (ii) approximately RMB19.5 million has been applied for repayment of the Group's indebtedness and finance cost, of which approximately RMB18.7 million has been utilised; and (iii) approximately RMB3.8 million has been applied for general working capital of the Group, all of which has been utilised.

Save as disclosed above, the Company has not conducted other fundraising exercise involving issue of equity securities during the 12 months immediately preceding the Latest Practicable Date.

GENERAL

The Independent Board Committee, comprising all independent non-executive Directors (who have no direct or indirect interest in the Loan Capitalisation and the Whitewash Waiver), namely Mr. Tsang Hung Kei, Mr. Wang Xiaochu and Mr. Wang Xueguang, has been established pursuant to Rule 2.8 of the Takeovers Code and the Listing Rules to advise the Independent Shareholders as to, among other things, whether the terms of the Loan Capitalisation Agreement and the Whitewash Waiver are fair and reasonable, in the interests of the Company and the Shareholders as a whole, and how to vote, after taking into account the recommendations of the Independent Financial Adviser. Mr. Cui, the non-executive Director, is the father of Ms. Cui and a member of the Concert Party Group, and is therefore considered to have material interest in the Loan Capitalisation Agreement and the Whitewash Waiver. Accordingly, Mr. Cui will not be a member of the Independent Board Committee (for the purpose of Rule 2.8 of the Takeovers Code).

The Independent Financial Adviser has been appointed (with the approval of the Independent Board Committee) pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Board Committee and the Independent Shareholders on the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the Whitewash Waiver and to make recommendation as to voting.

SGM

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve, among other matters, (i) the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the Specific Mandate) by more than 50% of the votes cast by the Independent Shareholders by way of poll; and (ii) the Whitewash Waiver by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll, in accordance with the Listing Rules and the Takeovers Code. A notice convening the SGM to be held at 24/F, Office Plus @ Wan Chai, 303 Hennessy Road, Wan Chai, Hong Kong on Tuesday, 16 July 2024 at 3:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is also enclosed. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the website of the Company (<http://www.huayininternational.com>).

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as follows:

- (i) in case of those members registered on the principal register: at the office of the Company's principal share registrar, MUFG Fund Services (Bermuda) Limited, c/o Suntera Corporate Services Limited at 18/F, On Building, 162 Queen's Road Central, Central, Hong Kong; and
- (ii) in case of those members registered on the Hong Kong branch register: at the office of the Company's Hong Kong branch share registrar, Tricor Abacus Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong,

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as soon as possible but in any event and in both cases, not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

The Concert Party Group and their associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Loan Capitalisation Agreement, the Specific Mandate and/or the Whitewash Waiver and the transactions contemplated respectively thereunder shall abstain from voting on the resolutions to approve (i) the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the Specific Mandate) and (ii) the Whitewash Waiver, respectively, at the SGM. As at the Latest Practicable Date, save for Charm Success, Ka Yik and Ms. Chai, no other Shareholders are required to abstain from voting on the aforesaid resolutions.

RECOMMENDATION

Your attention is drawn to (i) the letter of advice from the Independent Board Committee to the Independent Shareholders as to, among other things, whether the terms of the Loan Capitalisation Agreement and the Whitewash Waiver are fair and reasonable, in the interests of the Company and the Shareholders as a whole, and how to vote, after taking into account the recommendations of the Independent Financial Adviser; and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder and the Whitewash Waiver and to make recommendation as to voting

ADDITIONAL INFORMATION

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

Since completion of the Loan Capitalisation Agreement and the transactions contemplated thereunder are subject to the fulfilment of the respective conditions as set out therein and in this circular, the Loan Capitalisation Agreement and the relevant transactions may or may not proceed. Completion of the Loan Capitalisation is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders.

The Whitewash Waiver may or may not be granted by the Executive and if granted, will, among others things, be subject to the approval by at least 75% of the votes cast by the Independent Shareholders by way of poll in respect of the Whitewash Waiver, more than 50% of the votes cast by the Independent Shareholders by way of poll in respect of the Loan Capitalisation, and the grant of the Specific Mandate, respectively, at the SGM.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company, and if you are in any doubt about your position, you should consult your professional advisers.

華音國際控股有限公司 Hua Yin International Holdings Limited

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By order of the Board of
Hua Yin International Holdings Limited



Cui Mindong

Non-executive Director

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