
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

中國寶沙發展控股有限公司
China Bozza Development Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Provisional Liquidators Appointed)
(For Restructuring Purpose)
(Stock code: 1069)

PROPOSED RESTRUCTURING INVOLVING
(1) CAPITAL REORGANISATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) ISSUE OF SUBSCRIPTION SHARES TO THE INVESTOR
UNDER SPECIFIC MANDATE;
(4) SCHEME OF ARRANGEMENT INVOLVING CREDITORS' SCHEME
CASH CONSIDERATION, ISSUE OF SCHEME SHARES UNDER SPECIFIC
MANDATE AND PROMISSORY NOTES;
(5) APPLICATION FOR WHITEWASH WAIVER; AND
(6) SPECIAL DEALS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



Independent Financial Adviser to
the Takeovers Code IBC and the Independent Shareholders



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 12 to 64 of this circular. A letter of advice from the Independent Financial Adviser to the Takeovers Code IBC and the Independent Shareholders is set out on pages 67 to 106 of this circular. The recommendation of the Takeovers Code IBC to the Independent Shareholders is set out on pages 65 to 66 of this circular.

A notice convening the EGM to be held at 22/F, World Wide House, 19 Des Voeux Road Central, Central, Hong Kong, at 11:00 a.m. on Monday, 27 March 2023 is set out on pages 123 to 128 of this circular. A form of proxy for use at the EGM or any adjournment thereof is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM, excluding Saturdays, Sundays and public holidays in Hong Kong (i.e. 11:00 a.m. on Thursday, 23 March 2023), or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

3 March 2023

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DEFINITIONS

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

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Admitted Claim(s)”	all Scheme Claim(s) against the Company which have been admitted under the Creditors’ Scheme by the Scheme Administrators or the adjudicator (as the case may be)
“Announcement”	the joint announcement dated 30 December 2022 made by the Company and the Investor in relation to, among others, the Proposed Restructuring
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Auditors”	CCTH CPA Limited, certified public accountants and the auditors of the Company
“Authorised Share Capital Diminution”	the proposed diminution of the authorised but unissued share capital of the Company by cancelling all unissued shares of HK\$0.01 each (which shall include the authorised but unissued share capital arising from the Capital Reduction)
“Authorised Share Capital Increase”	upon the Capital Reduction and Authorised Share Capital Diminution becoming effective, the proposed increase in the authorised share capital of the Company from HK\$1,102,422 divided into 110,242,204 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 New Shares of HK\$0.01 each by the creation of 9,889,757,796 New Shares
“Board”	the board of Directors
“Capital Reduction”	upon the Share Consolidation becoming effective, the proposed reduction of the par value of each issued Consolidated Share of HK\$0.20 to HK\$0.01 by cancelling the paid-up capital of the Company to the extent of HK\$0.19 on each issued Consolidated Share
“Capital Reorganisation”	the proposed capital reorganisation of the Company’s share capital involving (i) the Share Consolidation; (ii) the Capital Reduction; (iii) the Authorised Share Capital Diminution; (iv) the Authorised Share Capital Increase; and (v) the Share Premium Cancellation
“Cayman Companies Act”	Companies Act (2022 Revision) of the Cayman Islands as amended from time to time
“Cayman Court”	the Grand Court of the Cayman Islands

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 40,000 Shares to 16,000 New Shares
“Claim(s)”	any debt, liability or obligation of the Company, whether known or unknown, whether present or future, whether certain or contingent, whether liquidated or unliquidated and which includes without limitation a debt or liability to pay money or money’s worth, any liability under any statute or enactment, any liability for breach of trust, any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution which would be admissible to proof in a compulsory winding-up of the Company under the Companies Ordinance and Cayman Companies Act
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended from time to time
“Company”	China Bozza Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange (stock code: 1069)
“Completion”	completion of the Proposed Restructuring in accordance with the provisions of the Restructuring Framework Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.20 each in the share capital of the Company upon the Share Consolidation becoming effective
“Creditors”	collectively, all the creditors of the Company with Admitted Claims against the Company as at the date on which Creditors’ Scheme become effective
“Creditors’ Scheme”	the proposed scheme of arrangement pursuant to sections 666 to 675 of the Companies Ordinance and made between the Company and the Creditors in its present form or with or subject to any modifications, additions, or conditions that the Hong Kong Court may approve or impose, which involving (a) the Creditors’ Scheme Cash Consideration; (b) the Scheme Shares Issue; and (c) the Promissory Notes Issue
“Creditors’ Scheme Cash Consideration”	a cash amount of HK\$30,000,000 to be distributed to the Creditors under the Creditors’ Scheme
“Director(s)”	director(s) of the Company

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“Director Creditor(s)”	directors of the Group who are creditors of the Company, and subject to adjudication by the Scheme Administrators upon the Creditors’ Scheme taking effect, may be Creditors
“EGM”	an extraordinary general meeting of the Company to be convened and held on 27 March 2023 at 11:00 a.m. at 22/F, World Wide House, 19 Des Voeux Road Central, Central, Hong Kong to consider and, if thought fit, approve, among others, all the resolutions of the Company necessary and appropriate in relation to (i) the Restructuring Framework Agreement and the transactions contemplated under; (ii) the Capital Reorganisation; (iii) the Subscription, including the grant of specific mandate for the allotment and issue of the Subscription Shares, (iv) the transaction contemplated under the Creditors’ Scheme, including the grant of specific mandate for the issuing and allotment of the Scheme Shares; (v) the Whitewash Waiver; (vi) the Special Deals; and (vii) any other matters as required by law, the Listing Rules, the Takeovers Code, the Stock Exchange and/or the SFC, which are necessary to give effect to any transactions contemplated under the Restructuring Framework Agreement
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of his delegate(s)
“Former Director Creditor(s)”	former directors of the Group in the last 12 months preceding the date of the Restructuring Framework Agreement who are creditors of the Company, and subject to adjudication by the Scheme Administrators upon the Creditors’ Scheme taking effect, may be Creditors
“Funding Agreement”	the funding agreement dated 23 August 2022 entered into between the Company as borrower and the Investor as lender for a credit facility of a total sum up to HK\$26.0 million
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	any court in Hong Kong that has jurisdiction to hear the provisional liquidation case the Company is subjected to

DEFINITIONS

“Independent Financial Adviser”	China Tonghai Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Takeovers Code IBC and the Independent Shareholders in respect of the Proposed Restructuring, the Whitewash Waiver and the Special Deals and whether the terms thereof are fair and reasonable and how to vote at the EGM
“Independent Shareholder(s)”	Shareholder(s) other than (i) the Investor, Ms. Huang, their associates and parties acting in concert with any of them and (ii) Shareholders who are involved in or interested in the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver or the Special Deals (including the creditors of the Company, the Scheme Administrators, Mr. Wang, Ms. Tian, Ms. Hui, the Director Creditors and the Former Director Creditors)
“Independent Third Party(ies)”	any person or company together with its ultimate beneficial owner(s) who or which is/are not connected person(s) of the Company and is/are third party(ies) independent of the Company and its connected person(s)
“Investor”	Zhonggangtong International Holding Group Co., Limited, a company incorporated in Hong Kong with limited liability and is beneficially wholly-owned by Ms. Huang
“Joint Provisional Liquidators”	Mr. Osman Mohammed Arab and Mr. Lai Wing Lun, both of RSM Corporate Advisory (Hong Kong) Limited and Mr. Martin Nicholas John Trott of R&H Restructuring (Cayman) Limited
“Last Trading Day”	30 September 2021, being the last trading day prior to the suspension of trading of the Shares on the Stock Exchange
“Latest Practicable Date”	28 February 2023, being the latest practicable date prior to the despatch of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Loan”	the credit facility of a total sum up to HK\$26.0 million provided by the Investor to the Company under the Funding Agreement
“Long Stop Date”	31 December 2023 or such other dates as the parties to the Restructuring Framework Agreement may agree in writing
“Mr. Wang”	Mr. Wang Yue (王岳), an executive Director and a substantial Shareholder as at the Latest Practicable Date

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“Ms. Huang”	Ms. Huang Hou (黃後) (previously known as Huang Xuefang (黃雪芳), an Independent Third Party
“Ms. Hui”	Ms. Hui Hing Connell (許慶), an executive Director and a Shareholder as at the Latest Practicable Date
“Ms. Tian”	Ms. Tian Guangmei (田光梅), a former Director and a Shareholder as at the Latest Practicable Date
“New Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“Petition”	the winding-up petition filed against the Company by Professor Fei Phillip, the chairman of the Board, at the Cayman Court for the purpose of facilitating the debt restructuring of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promissory Notes”	promissory notes in the aggregate principal amount of HK\$120.0 million to be issued by the Company under the Creditors’ Scheme pursuant to the terms thereof
“Promissory Notes Issue”	the issue of the Promissory Notes under the Creditors’ Scheme
“Proposed Restructuring”	the proposed restructuring of the Company’s capital and debt comprising (i) the Capital Reorganisation and the Change in Board Lot Size; (ii) the Subscription; (iii) the Creditors’ Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals
“Relevant Period”	the period commencing six months prior to 30 December 2022, being the date of the Announcement and ending on the Latest Practicable Date
“Restructuring Costs”	any and all fees and expenses incurred by the Company relating to the negotiation, preparation, execution and performance of the Restructuring Framework Agreement and of each document referred to in it and the Proposed Restructuring, including but not limited to the Capital Reorganisation, the Change in Board Lot Size, the Creditors’ Scheme, and submission of the Resumption Proposal
“Restructuring Documents”	Restructuring Framework Agreement, the Subscription Agreement and all other documents necessary to document and implement the transactions contemplated in the Proposed Restructuring, the Restructuring Framework Agreement, the Creditors’ Scheme and the Resumption Proposal

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“Restructuring Framework Agreement”	the restructuring framework agreement dated 30 December 2022 and entered into amongst the Company, the Joint Provisional Liquidators and the Investor relating to the Proposed Restructuring
“Resumption”	resumption of trading of the Shares (or the New Shares if the Capital Reorganisation has become effective) on the Stock Exchange
“Resumption Guidance”	the guidance received from the Stock Exchange regarding the resumption of trading of the Shares on the Stock Exchange as set out in the announcements of the Company dated 31 December 2021 and 27 June 2022
“Resumption Proposal”	the proposal in relation to the Resumption submitted by the Company to the Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“Sanction Order”	the approval or sanction on the Creditors’ Scheme by the Hong Kong Court
“Scheme Administrators”	such persons who are to be appointed as scheme administrators pursuant to the terms of the Creditors’ Scheme, which are expected to be Messrs. Osman Mohammed Arab and Lai Wing Lun, both of RSM Corporate Advisory (Hong Kong) Limited
“Scheme Claim(s)”	a Claim: (a) which is not a preferential Claim (and where the Claim is only in part a preferential Claim, then the person is a Creditor only to the extent of the non-preferential portion of the Claim); (b) which is not a secured Claim (and where the Claim is only in part a secured Claim, then the person is a Creditor only to the extent of the unsecured part of the Claim); (c) which is not a claim for Restructuring Costs; and (d) which is not an amount due from the Company to the Investor under the Funding Agreement
“Scheme Company”	a company to be incorporated in Hong Kong with limited liability, being a special purpose vehicle to be held and controlled by the Scheme Administrators or such other company as may be nominated by the Scheme Administrators
“Scheme Funds”	all funds from time to time credited to the Scheme Trust Account, including any interest thereon
“Scheme Shares”	140,000,000 New Shares to be allotted and issued under the Creditors’ Scheme pursuant to the terms thereof
“Scheme Shares Issue”	the issue of 140,000,000 New Shares under the Creditors’ Scheme

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“Scheme Trust Account”	an interest-bearing trust account to be opened in the names of the Scheme Company and/or any of the Scheme Administrators with a licensed bank in Hong Kong for the purposes of holding Scheme Funds for the benefit of the Creditors
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the existing ordinary share(s) of HK\$0.002 each in the share capital of the Company prior to the Capital Reorganisation
“Share Consolidation”	proposed consolidation of every 100 issued Shares into one Consolidated Share
“Share Premium Cancellation”	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company as at the effective date of the Capital Reorganisation which will then be credited to the contribution surplus reserve account of the Company and be applied to set off against the accumulated losses of the Company as at the effective date of the Capital Reorganisation, and the balance of any such credit remaining after offsetting such accumulated losses (if any) shall be transferred to the Company’s distributable reserve and used for such purposes as the Board may deem fit in accordance with all applicable laws and the memorandum and articles of association of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Special Deals”	the proposed settlement of the indebtedness to Mr. Wang, Ms. Tian and Ms. Hui under the Creditors’ Scheme, which constitutes special deals under Rule 25 of the Takeovers Code
“Specific Mandate”	the specific mandate to be granted by the Shareholders to the Board at the EGM for the allotment and issue of the Subscription Shares and the Scheme Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 466,000,000 Subscription Shares by the Investor subject to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 30 December 2022 and entered into amongst the Investor (as subscriber), the Company (as issuer) and the Joint Provisional Liquidators

DEFINITIONS

“Subscription Price”	a price of approximately HK\$0.1288 per Subscription Share
“Subscription Shares”	466,000,000 New Shares to be subscribed by the Investor under the Subscription
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
“Takeovers Code IBC”	an independent committee of the Board established which comprises the non-executive Director, namely Mr. Gu Sotong, who has no direct or indirect interest in the Proposed Restructuring, the Whitewash Waiver and the Special Deals, established in accordance with the Takeovers Code to advise the Independent Shareholders on the fairness and reasonableness of the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription; (iii) the Creditors’ Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the transactions contemplated thereunder, and to advise the Independent Shareholders how to vote at the EGM
“US\$”	United States Dollars, the lawful currency of the United States of America
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations on the part of the Investor to make a mandatory general offer for all the issued Shares and other securities (if any) of the Company, which would otherwise arise as a result of the completion of the Subscription
“%”	per cent

The exchange rate adopted in this circular for illustration purpose only is RMB1.00 to HK\$1.12. Such conversion should not be construed as a representation that the currency could actually be converted at that rate.

* *For ease of reference, the names of the PRC incorporated companies and entities have been included in this circular in both Chinese and English language. In the event of any inconsistency, the Chinese name shall prevail.*

EXPECTED TIMETABLE

The expected timetable for implementation of the Proposed Restructuring is set out below:

Event	Time and Date 2023
Latest time for lodging transfer documents and relevant share certificates to be eligible to attend and vote at the EGM	4:30 p.m. on Monday, 20 March
Closure of register of members for the purpose of ascertaining Shareholders' eligibility to attend and vote at the EGM	Tuesday, 21 March to Monday, 27 March (both dates inclusive)
Latest time for return of proxy forms for the EGM	11:00 a.m. on Thursday, 23 March
Record date for determining Shareholders' eligibility to attend and vote at the EGM	Monday, 27 March
Date and time of the EGM.	11:00 a.m. on Monday, 27 March
Publication of announcement of results of the EGM	before 7:00 p.m. on Monday, 27 March
Hong Kong Court's first hearing for convening a Creditors' meeting	Tuesday, 18 April

EXPECTED TIMETABLE

The following events are conditional on (i) the results of the EGM and the relevant court hearings; and (ii) the fulfilment of the conditions for the implementation of the Proposed Restructuring, therefore, the dates are tentative:

Application to the Cayman Court by petition for an order confirming the Capital Reduction and hearing of the application	After the EGM
Registration of court order confirming the Capital Reduction and minutes showing the share capital as altered by the order with the registrar of companies in the Cayman Islands	After the Cayman Court hearing
Creditors' meeting to consider and, if thought fit, approve the Creditors' Scheme	After the Hong Kong Court's first hearing
Hong Kong Court's second hearing on the petition to sanction the Creditors' Scheme	Before the Completion
Completion of the Subscription and issuance of Subscription Shares and despatch of certificates for the Subscription Shares to the Investor	Before the Completion
The Creditors' Scheme becomes effective and issuance of Scheme Shares and despatch of certificates for the Scheme Shares to be held by the Scheme Company on behalf of the Creditors.	Before the Completion
Fulfilment of all the resumption conditions imposed by the Stock Exchange and publication of an announcement relating to the Resumption	Before the Completion
Application for withdrawal or stay of the Petition and the discharge of the Joint Provisional Liquidators	After the Creditors' Scheme becomes effective
Effective date of the Capital Reorganisation	On or before 14 July ^(Note)
Resumption and dealings in the New Shares (including the Subscription Shares and Creditors' Shares) commences	On or before 14 July

EXPECTED TIMETABLE

All times and dates specified in the timetable above refer to Hong Kong times and dates unless otherwise specified.

On 22 February 2023, the Company submitted the Resumption Proposal to the Stock Exchange and explained that the Company would have substantially implemented the steps that will lead to the resumption of trading in accordance with the Resumption Guidance by 3 April 2023, with the limited exception of certain procedural steps to be taken with respect to the Capital Reorganisation and the Creditors' Scheme. The Company thus requested that the resumption deadline be extended to 14 July 2023.

The timetable is tentative only. In the event that the Stock Exchange does not consent to the extension of the resumption deadline to 14 July 2023 and the Company fails to satisfy all of the Resumption Guidance imposed by the Stock Exchange by 3 April 2023, the Listing Division of the Stock Exchange may recommend the Listing Committee to proceed with the cancellation of the Company's listing status at its discretion.

Any subsequent change to the expected timetable will be announced by the Company as and when appropriate.

Note: Further announcement(s) will be made by the Company to inform the Shareholders of the timetable of the trading arrangement in respect of the New Shares as and when appropriate.

LETTER FROM THE BOARD

中國寶沙發展控股有限公司
China Bozza Development Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Provisional Liquidators Appointed)

(For Restructuring Purpose)

(Stock code: 1069)

Joint Provisional Liquidators:

Mr. Osman Mohammed Arab
Mr. Lai Wing Lun
Mr. Martin Nicholas John Trott

Executive Directors:

Professor Fei Phillip (*Chairman*)
Mr. Li Wenjun
Mr. Wang Yue
Ms. Hui Hing Conniel
Mr. Lai Chi Yin Samuel

Non-Executive Director:

Mr. Gu Sotong

Independent Non-Executive Directors:

Mr. Liu Zhaoxiang
Ms. Wong Hoi Ying
Mr. Wang Yibin
Mr. Guo Zhonglong

Registered Office:

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

Principal place of business

in Hong Kong:

Unit 12, 12/F., Tower A
New Mandarin Plaza
No. 14 Science Museum Road
Tsim Sha Tsui, Kowloon
Hong Kong

3 March 2023

To the Shareholders

Dear Sir or Madam,

PROPOSED RESTRUCTURING INVOLVING
(1) CAPITAL REORGANISATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) ISSUE OF SUBSCRIPTION SHARES TO THE INVESTOR
UNDER SPECIFIC MANDATE;
(4) SCHEME OF ARRANGEMENT INVOLVING CREDITORS' SCHEME
CASH CONSIDERATION, ISSUE OF SCHEME SHARES UNDER SPECIFIC
MANDATE AND PROMISSORY NOTES;
(5) APPLICATION FOR WHITEWASH WAIVER; AND
(6) SPECIAL DEALS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

LETTER FROM THE BOARD

I. INTRODUCTION

References are made to (i) the announcements of the Company dated 3 December 2020, 9 December 2020, 28 January 2021, 11 May 2021 and 29 October 2021 in relation to, among other things, Professor Fei Phillip's filing of a winding up petition against the Company at the Cayman Court, the application by the Company for the appointment of the Joint Provisional Liquidators for restructuring purposes, and the obtaining of an order granted by the High Court of Hong Kong for the recognition of the appointment of the Joint Provisional Liquidators; (ii) the announcements of the Company dated 30 September 2021, 30 November 2021 and 15 December 2021 in relation to, among other things, the delay in publication of the audited results of the Company for the eighteen months ended 30 June 2021; (iii) the announcement of the Company dated 4 October 2021 relating to the suspension of trading of Shares on the Stock Exchange; (iv) the announcements of the Company dated 31 December 2021 and 27 June 2022 in relation to the guidance received from the Stock Exchange regarding the resumption of trading of the Company's shares on the Stock Exchange; (v) the announcements of the Company dated 5 January 2022, 11 April 2022, 4 July 2022, 7 October 2022 and 5 January 2023 in relation to the quarterly update on the resumption progress of the Company; (vi) the announcements of the Company dated 26 August 2022 and 1 September 2022 in relation to the Funding Agreement; and (vii) the Announcement in relation to, among others, the Proposed Restructuring which involves (i) the Capital Reorganisation and the Change in Board Lot Size; (ii) the Subscription; (iii) the Creditors' Scheme involving (a) the Creditors' Scheme Cash Consideration; (b) the Scheme Shares Issue; and (c) the Promissory Notes Issue; (iv) the Whitewash Waiver; and (v) the Special Deals.

On 3 December 2020 (Cayman Islands time), upon the filing of a winding up petition against the Company by Professor Fei Phillip, the chairman of the Board, at the Cayman Court for the purpose of facilitating the debt restructuring of the Company and upon the application by the Company for the appointment of the Joint Provisional Liquidators, an order in favour of the Company was granted by the Grand Court and the Joint Provisional Liquidators were appointed as the joint provisional liquidators of the Company on a light touch approach for restructuring purposes. The provisional liquidation of the Company and the appointment of the Joint Provisional Liquidators pursuant to the order of the Cayman Court was recognised by the High Court of Hong Kong on 5 February 2021.

Trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 4 October 2021 as the Company failed to publish the audited results for the eighteen months ended 30 June 2021 in accordance with Rule 13.49 of the Listing Rules.

On 23 August 2022, the Company as the borrower, the Investor as the lender, and the Joint Provisional Liquidators entered into the Funding Agreement, pursuant to which the Investor has agreed to grant a credit facility of up to HK\$26.0 million to the Company, subject to the terms and conditions thereunder. The Funding Agreement was entered into for the sole purpose of securing the HK\$26.0 million credit facility to facilitate the preparation and implementation of the Proposed Restructuring, and to support the business operation of the Group to ensure the Company will continue to be in satisfaction of the listing requirements.

LETTER FROM THE BOARD

On 30 December 2022, the Company and the Joint Provisional Liquidators entered into the Restructuring Framework Agreement with the Investor, pursuant to which the Company will implement the Proposed Restructuring which involves restructuring of the debts and liabilities, capital structure and share capital of the Company including (i) the Capital Reorganisation and the Change in Board Lot Size; (ii) the Subscription; and (iii) the Creditors' Scheme involving (a) the Creditors' Scheme Cash Consideration; (b) the Scheme Shares Issue; and (c) the Promissory Notes Issue; (iv) the Whitewash Waiver; and (v) the Special Deals.

The purpose of this circular is to provide you, among other things, (i) further details of the Proposed Restructuring; (ii) a letter of recommendation from the Takeovers Code IBC in relation to the Proposed Restructuring (including the Subscription and the Creditors' Scheme), the Whitewash Waiver and the Special Deals; (iii) a letter of advice from the Independent Financial Adviser in relation to the Proposed Restructuring, the Whitewash Waiver and the Special Deals; and (iv) a notice convening the EGM.

II. THE PROPOSED RESTRUCTURING

Details of the Proposed Restructuring are set out as follows.

A. THE RESTRUCTURING FRAMEWORK AGREEMENT

Date

30 December 2022

Parties

- (i) the Company;
- (ii) the Investor; and
- (iii) the Joint Provisional Liquidators.

Conditions precedent for Completion

Completion shall be conditional upon the following conditions precedent being fulfilled on or before the Long Stop Date:

- (i) the signing of all Restructuring Documents by all the parties thereunder as may be required to be entered into before Completion;
- (ii) the Creditors' Scheme becoming effective;

LETTER FROM THE BOARD

- (iii) the passing of the necessary resolutions by the Independent Shareholders at the EGM in accordance with the requirements of the Takeovers Code and the Listing Rules approving:
 - (a) the Capital Reorganisation;
 - (b) the Restructuring Framework Agreement and the transactions contemplated therein under;
 - (c) the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate to issue the Subscription Shares);
 - (d) the Creditors' Scheme;
 - (e) the grant of the Specific Mandate to issue the Scheme Shares;
 - (f) the Whitewash Waiver and the Special Deals; and
 - (g) any other necessary decisions to carry out transactions made under the Restructuring Framework Agreement,and not having been revoked or vitiated;
- (iv) the Executive having granted the Whitewash Waiver and consented to the Special Deals and all the conditions attached thereto having been satisfied and such approvals not having been subsequently revoked or withdrawn;
- (v) the listing of and permission to deal in all of the New Shares, the Subscription Shares and the Scheme Shares, having been granted by the Listing Committee of the Stock Exchange (either unconditionally or subject to conditions) and such permission not having been subsequently revoked or withdrawn;
- (vi) the Stock Exchange having conditionally or unconditionally approved or decided to allow the Company to proceed with the resumption of the trading in the Shares (or the New Shares) on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with the restoration of public float, if applicable) or waived by the Stock Exchange;
- (vii) an office copy of an order of the Hong Kong Court sanctioning the Creditors' Scheme pursuant to the Companies Ordinance having been delivered to the Registrar of Companies in Hong Kong for registration;

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- (viii) an application having been made to the Cayman Court for an order sanctioning the withdrawal or stay of the petition presented against the Company and the discharge of the Joint Provisional Liquidators in the Cayman Islands;
- (ix) all necessary governmental, regulatory and corporate authorisations, approvals, consents and/or waivers for the entering into of the Restructuring Framework Agreement and the performance of obligations thereunder having been obtained and effective; and
- (x) the completion of the Capital Reorganisation and the Subscription.

As at the Latest Practicable Date, save for the consents, approvals and/or waivers required to be obtained by the Company as set out in conditions (iii) to (viii) above, there is no other governmental, regulatory and corporate authorisations, approvals, consents and/or waivers required to be obtained in respect of condition (ix) above. As at the Latest Practicable Date, none of the conditions above has been fulfilled. None of the conditions above can be waived by any party to the Restructuring Framework Agreement.

Termination of the Restructuring Framework Agreement

Termination by the Joint Provisional Liquidators and/or Company

The Joint Provisional Liquidators and/or the Company may terminate the Restructuring Framework Agreement by serving written notice to other parties to the Restructuring Framework Agreement if the Investor is in material breach of any provision of the Restructuring Framework Agreement.

If the Restructuring Framework Agreement is terminated by the Joint Provisional Liquidators and/or the Company following a material breach of the Investor of its obligations under the Restructuring Framework Agreement and such material breach has not been rectified within 14 business days from the date of such breach, provided that none of the situation under the paragraph hereinbelow headed “Automatic Termination” arises, (i) the Creditors’ Scheme shall terminate and all the Scheme Claims shall be deemed to have revived and the Creditors will be entitled to pursue against the Company in respect of such Scheme Claims as if the Creditors’ Scheme had never been effective and binding provided that credit be given to any distribution made under the Creditors’ Scheme; and (ii) any amount of the Scheme Funds remaining in the Scheme Trust Account, after deduction of all the Restructuring Costs incurred, shall be transferred to the Investor as soon as practicable following the termination and the Investor shall be entitled to demand the repayment of all amount provided by it to the Company under the Funding Agreement together with the interest accrued thereon pursuant to the terms of the Funding Agreement.

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Termination by the Investor

The Investor may terminate the Restructuring Framework Agreement by serving written notice to other parties to the Restructuring Framework Agreement if (i) the Company is in material breach of any provision of the Restructuring Framework Agreement; or (ii) the Funding Agreement has been terminated for any reason in accordance with the terms thereunder.

The Company and the Joint Provisional Liquidators may terminate the Funding Agreement if the Investor fails to process the drawdown request within 7 business days from the date of the making of the drawdown request by the Joint Provisional Liquidators on behalf of the Company, or if the drawdown request is rejected, the Investor fails to provide a reason for rejection within 7 business days from the date of the written request from the Company or the Joint Provisional Liquidators for the reason of rejection.

The Investor may terminate the Funding Agreement if (i) the Investor has decided not to pursue any further restructuring of the Company, with 7 business days' prior notice being provided to the Company; or (ii) there is an event of default as specified under the Funding Agreement.

Automatic Termination

The Restructuring Framework Agreement shall be terminated automatically if on or before the Long Stop Date:

- (i) an order has been made by the Hong Kong Court and/or the Cayman Court to wind-up the Company;
- (ii) the listing of the Shares has been cancelled by the Stock Exchange;
- (iii) the conditions set out under the paragraph headed "Conditions precedent for Completion" above are not satisfied on or before the Long Stop Date; or
- (iv) any government authority issues, promulgates or enforces any law, regulation, rule, policy, order or notice that prohibits the completion of the Proposed Restructuring; or the government authority provides amended opinions or additional conditions in relation to the Proposed Restructuring which the parties to the Restructuring Framework Agreement cannot accept, or the parties cannot within 30 days or a reasonable period of time as agreed by them reach a written consent to amend or supplement the Restructuring Framework Agreement pursuant to the aforementioned amended opinions or additional conditions raised by the government authority.

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If the Restructuring Framework Agreement is terminated by the Investor or terminated automatically, (i) the Creditors' Scheme shall terminate and all the Scheme Claims shall be deemed to have revived and the Creditors will be entitled to pursue against the Company in respect of such Scheme Claims as if the Creditors' Scheme had never been effective and binding provided that credit be given to any distribution made under the Creditors' Scheme; and (ii) any amount of the Scheme Funds remaining in the Scheme Trust Account, after deduction of all the Restructuring Costs incurred, shall be transferred to the Investor as soon as practicable following the termination and the Investor shall be entitled to demand the repayment of all amount provided by it to the Company under the Funding Agreement together with the interest accrued thereon pursuant to the terms of the Funding Agreement.

B. THE CAPITAL REORGANISATION

Pursuant to the Restructuring Framework Agreement, the Company proposes to implement, subject to the approval by the Shareholders, the Capital Reorganisation. The Capital Reorganisation will comprise:

- (i) the Share Consolidation – the consolidation of every 100 issued Shares of HK\$0.002 each into one Consolidated Share of HK\$0.20 each;
- (ii) the Capital Reduction – upon the Share Consolidation becoming effective, the par value of each Consolidated Share will be reduced from HK\$0.20 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.19 on each Consolidated Share;
- (iii) the Authorised Share Capital Diminution – to diminish the authorised but unissued share capital by cancelling all the existing authorised but unissued shares (which shall include the authorised but unissued share capital arising from the Capital Reduction);
- (iv) the Authorised Share Capital Increase – upon the Capital Reduction and the Authorised Share Capital Diminution becoming effective, the Company's authorised share capital will be increased from HK\$1,102,422 divided into 110,242,204 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 New Shares of HK\$0.01 each by creation of 9,889,757,796 New Shares; and
- (v) the Share Premium Cancellation – the entire amount standing to the credit of the share premium account of the Company as at the effective date of the Capital Reorganisation will be cancelled and credited to the contribution surplus reserve account of the Company and be applied to set off against the accumulated losses of the Company as at the effective date of the Capital Reorganisation, and the balance of any such credit remaining after offsetting such accumulated losses (if any) shall be transferred to the Company's distributable reserve and used for such purposes as the Board may deem fit in accordance with all applicable laws and the memorandum and articles of association of the Company.

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Fractional entitlement to New Shares

Fractional New Shares arising from the Capital Reorganisation will be disregarded and will not be issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional New Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Shareholders who are concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser and may wish to consider the possibility of buying or selling the Shares in a number sufficient to make up an entitlement to receive a whole number of New Shares.

Effects of the Capital Reorganisation

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will not, by itself, alter the underlying assets, liabilities, businesses, operations, management or financial position of the Company and the Group or the rights and the proportionate interests of the Shareholders in the Company. The Capital Reorganisation will not involve in any diminution of any liability in respect of any unpaid capital of the Company or the return of capital or cash to the Shareholders.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company, before and after completion of the Capital Reorganisation:

	Immediately before the Capital Reorganisation	Immediately after the Capital Reorganisation
Nominal value	HK\$0.002 per Share	HK\$0.01 per New Share
Authorised share capital	HK\$100,000,000	HK\$100,000,000
Number of authorised shares	50,000,000,000 Shares	10,000,000,000 New Shares
Number of issued and paid-up shares	11,024,220,415	110,242,204

Based on 11,024,220,415 Shares in issue as at the Latest Practicable Date and assuming that the par value of each of the 110,242,204 Consolidated Shares will be reduced from HK\$0.20 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.19 on each Consolidated Share, a credit of HK\$2,094,601,878.85 (equivalent to approximately RMB1,870.2 million) will arise as a result of the Capital Reduction. It is proposed that the total credit arising in the accounts of the Company from the Capital Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Cayman Companies Act, which together with the amount already in the contributed surplus account in the amount of approximately RMB18,038,000 as at 30 June 2022, will be used by the Board to set-off against the accumulated losses of the Company after the Capital Reorganisation becoming effective or in any manner as the Board may deem fit as may be permitted under the applicable laws and the memorandum and articles of association of the Company.

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Ranking of the New Shares after the Capital Reorganisation

The New Shares after the Capital Reorganisation will be identical and rank pari passu in all respects with each other.

Conditions precedent of the Capital Reorganisation

The implementation of the Capital Reorganisation shall be conditional upon:

- (i) the passing of the necessary resolutions by the Shareholders by way of poll at the EGM to approve the Capital Reorganisation;
- (ii) the completion of the necessary registration procedures and the obtaining of all necessary approvals from the Cayman Court, regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation, if any; and
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the New Shares in issue following the Capital Reorganisation taking effect, and such approval has not been revoked.

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

Expected effective date of the Capital Reorganisation

The Capital Reorganisation shall become effective when the conditions mentioned above are fulfilled. Upon the approval of the Capital Reorganisation by the Shareholders at the EGM, the legal advisers to the Company (as to Cayman Islands law) will apply to the Cayman Court for hearing date(s) to confirm the Capital Reduction and a further announcement will be made by the Company as soon as practicable after relevant court hearing date(s) is/are confirmed.

Listing and dealings

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

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

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Exchange of certificates for New Shares

Subject to the Capital Reorganisation becoming effective, Shareholders may submit for exchange of their existing share certificates in light blue colour for the Existing Shares to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for share certificates in pink colour for the New Shares at the expense of the Company.

Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) will be payable by the Shareholders to the Company's branch share registrar and transfer office in Hong Kong for exchange of share certificates.

After parallel trading in the New Shares (in the form of both existing share certificates and new share certificates) ceases, trading will only be in New Shares which share certificates will be issued in pink colour. Existing share certificates in light blue colour for the Existing Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title.

Further announcement(s) will be made by the Company to inform the Shareholders of the arrangements of the free exchange of the New Share certificates for the Existing Share certificates as and when appropriate.

C. CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Shares are listed on the Stock Exchange in board lot of 40,000 Shares. It is proposed that, subject to the Capital Reorganisation becoming effective, the board lot size for trading on the Stock Exchange be changed from 40,000 Shares to 16,000 New Shares. For illustration purpose, based on the closing price of HK\$0.010 per Share (equivalent to the theoretical closing price of HK\$1.00 per New Share) as quoted on the Stock Exchange on the Last Trading Day, the value of each board lot of 16,000 New Shares, assuming the Capital Reorganisation had already been effective, would be HK\$16,000.

The proposed change in board lot size will not result in any change in the relative rights of the Shareholders.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares as a result of the Change in Board Lot Size, the Company has appointed Lego Securities Limited as an agent to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares. Shareholders who wish to take advantage of this service should contact Mr. Kelvin Li of Lego Securities Limited at Room 301, 3/F, China Building, 29 Queen's Road Central, Hong Kong or at telephone number (852) 3188 8055 during normal business hours (i.e. 9:00 a.m. to 4:00 p.m., Monday to Friday). Holders of the Shares who would like to match odd lots are recommended to make an appointment in advance by dialing the telephone number of Lego Securities Limited set out above.

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Further announcement(s) will be made by the Company to inform the Shareholders of the odd lot arrangement as and when appropriate.

Shareholders should note that the matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

D. THE SUBSCRIPTION

The Subscription Agreement

On 30 December 2022, the Investor (as subscriber), the Company (as issuer) and the Joint Provisional Liquidators entered into the Subscription Agreement, pursuant to which, the Investor (who is not a Shareholder and is an Independent Third Party), will subscribe the Subscription Shares to be issued by the Company at the Subscription Price for the purpose of the Proposed Restructuring.

The Subscription Shares

Pursuant to the terms and conditions of the Subscription Agreement, the Investor shall subscribe for a total of 466,000,000 Subscription Shares for a total subscription price of HK\$60.0 million, representing approximately HK\$0.1288 per Subscription Share, which shall be satisfied by the Investor in the following manner:

- (i) firstly, by offsetting the outstanding amount (including principal and unpaid interest accrued thereon up to the date of completion of the Subscription (if any)) drawn down from the credit facility provided under the Funding Agreement as at the completion date of the Subscription on a dollar-to-dollar basis for a maximum of HK\$29,999,999; and
- (ii) secondly, the remainder of which (at least HK\$30,000,000) shall be settled by way of cash to the Company.

As at the Latest Practicable Date, out of the HK\$26.0 million credit facility under the Funding Agreement, approximately HK\$15.0 million has been drawn down by the Company and the amount of outstanding interests accrued under the Funding Agreement is approximately HK\$0.17 million. In the event that the Subscription does not take place on or before the Long Stop Date or the Restructuring Framework Agreement has been terminated pursuant to the terms therein, the Company shall remain liable to all outstanding amounts under the Funding Agreement. Any outstanding amount under the Funding Agreement which has not been off-set against the subscription money for the Subscription Shares shall remain liable by the Company to the Investor.

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The total number of Subscription Shares to be allotted and issued under the Subscription represents:

- (i) approximately 80.87% of the issued shares of the Company upon the completion of the Capital Reorganisation as enlarged by the allotment and issue of the Subscription Shares; and
- (ii) approximately 65.06% of the issued shares of the Company upon the completion of the Capital Reorganisation as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares.

The Subscription Price

The Subscription Price of approximately HK\$0.1288 per Subscription Share represents:

- (i) a discount of approximately 87.12% to the theoretical closing price of HK\$1.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.010 per Share as quoted on the Stock Exchange on the Last Trading Day (i.e. HK\$0.010 times 100);
- (ii) a discount of approximately 87.62% to the theoretical average closing price of HK\$1.040 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0104 as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 87.73% to the theoretical average closing price of HK\$1.050 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0105 as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately HK\$3.2440 over the theoretical audited consolidated net liabilities of the Company as at 30 June 2022 (as disclosed in the annual results announcement of the Company for the financial year ended 30 June 2022) of approximately RMB2.781 per New Share (equivalent to approximately HK\$3.115 per New Share) as adjusted for the effect of the Capital Reorganisation.

The aggregate nominal value of 466,000,000 Subscription Shares is HK\$4,660,000.

The Subscription Price was determined after arm's length negotiation between the Company and the Investor with reference to (i) the financial position of the Group; (ii) the recent market conditions; (iii) the fact that trading in the Shares on the Stock Exchange has been suspended since 4 October 2021 and the Proposed Restructuring is the only viable resumption proposal to rescue the Company to avert the delisting of the Shares on the Stock Exchange; and (iv) the substantial funding to be provided by the Investor for the Company to proceed with the restructuring plan.

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The difference in the issue price of the Scheme Shares and the Subscription Shares is due to the vastly different nature and background leading up to the issue of the Scheme Shares and the Subscription Shares. The Scheme Shares are issued as part of the compromise arrangement between the Company and the Creditors for indebtedness incurred by the Company which involved: (i) the allotment and issue of Scheme Shares to the Creditors; (ii) the payment of the Creditors' Scheme Cash Consideration; and (iii) the issue of the Promissory Notes (details of which are set out in the section headed "Letter from the Board – II. The Proposed Restructuring – E. The Creditors' Scheme" in this circular). On the other hand, the Subscription Shares are issued to the Investor to provide new money to the Company for the restructuring and future operations of the Group which the Investor has to bear significant risks on the success of the Proposed Restructuring and the Resumption.

As disclosed in the annual results announcement of the Company for the financial year ended 30 June 2022, the audited loss attributable to owners of the Company for the financial year ended 30 June 2022, net current liabilities and net liabilities as at 30 June 2022 were approximately RMB18.9 million, RMB334.9 million and RMB306.6 million, respectively.

As the Group has been recording audited net losses since the financial year ended 31 December 2012 up to and including the financial year ended 30 June 2022 and is heavily in debt, the Directors are of the view that a discounted Subscription Price is inevitable in this large-scale fundraising exercise. Further, a discounted issue price is not uncommon among companies involving creditors' scheme or debt restructuring. In light of the fact that the Investor is willing to provide fresh money to the Company during its hard time to maintain its operation and pursue the Proposed Restructuring, and to support the future operation of the Group after the restructuring despite the uncertainty surrounding the future performance of the Group with reference to its existing business condition, the Directors (excluding the Takeovers Code IBC whose view is expressed and set forth in the letter from the Takeovers Code IBC contained in this circular having considered the advice of the Independent Financial Adviser) consider that the Subscription Price is fair and reasonable and the Subscription is in the interest of the Company and the Shareholders as a whole.

Conditions precedent of the Subscription

Completion of the Subscription shall be conditional upon:

- (i) an office copy of an order of the Hong Kong Court sanctioning the Creditors' Scheme pursuant to the Companies Ordinance having been delivered to the Registrar of Companies in Hong Kong for registration;
- (ii) the completion of the Capital Reorganisation;
- (iii) the Company having obtained either conditional approval or approval-in-principle from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Scheme Shares on the Stock Exchange (and such approval has not been revoked);

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- (iv) the passing of the necessary resolutions by the Independent Shareholders at the EGM to approve the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder respectively (including the Capital Reorganisation, the Subscription, the Creditors' Scheme, the Whitewash Waiver and the Special Deals);
- (v) the Executive having granted the Whitewash Waiver and consented to the Special Deals and all the conditions attached thereto having been satisfied and such approvals not having been subsequently revoked or withdrawn;
- (vi) the Stock Exchange having conditionally or unconditionally approved or decided to allow the Company to proceed with the resumption of the trading in the Shares (or the New Shares) on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with the restoration of public float, if applicable) or waived by the Stock Exchange; and
- (vii) all other necessary waivers, consents and approval including but not limited to those from the Stock Exchange and any other relevant government or regulatory authorities, which are required (if any) for the implementation of the Proposed Restructuring and all transactions contemplated thereunder having been obtained.

As at the Latest Practicable Date, save for the waivers, consents and/or approvals required to be obtained by the Company as set out in conditions (i), (iii), (iv), (v) and (vi) above, there is no other waiver, consent and approval required to be obtained in respect of condition (vii) above. As at the Latest Practicable Date, none of the conditions above has been fulfilled. None of the conditions above can be waived.

Application for the listing of the Subscription Shares

The Subscription is subject to the Independent Shareholders' approval. If approved, the Company will allot and issue the Subscription Shares under the Specific Mandate to be granted by the Independent Shareholders at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Ranking of the Subscription Shares

The Subscription Shares will rank *pari passu* in all respects with each other and with the New Shares in issue on the date of allotment and issue of the Subscription Shares in accordance with the Company's memorandum and articles of association and will have the same voting, dividend, return of share capital and other rights attached or accruing thereto as from the date of allotment and issue of the Subscription Shares.

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E. THE CREDITORS' SCHEME

As at the Latest Practicable Date, based on the available books and records of the Company, the total estimated indebtedness owed by the Company to its Creditors is approximately HK\$550.0 million. Although this indebtedness figure is indicative and will be subject to the notices of claim filed in accordance with the terms of the Creditors' Scheme, the final determination by the Scheme Administrators and (if applicable) adjudicator under the Creditors' Scheme, the final indebtedness figure is not expected to exceed HK\$600.0 million and the Company will make an announcement as soon as the final indebtedness figure becomes available which is expected to be after the implementation of the Creditors' Scheme.

Once the Creditors' Scheme having become effective, the Creditors' Scheme will become legally binding on the Company and its Creditors upon, *inter alia*, filing of the Sanction Order of the Hong Kong Court with the Company Registry in Hong Kong.

The Creditors' Scheme will involve (i) the Creditors' Scheme Cash Consideration; (ii) the Scheme Shares Issue; and (iii) the Promissory Notes Issue, details of which are set out below.

Creditors' Scheme Cash Consideration

Upon the Creditors' Scheme becoming effective and after the adjudication for the Admitted Claims is completed, HK\$30.0 million of the consideration of the Subscription will be utilised to be distributed to the Creditors with Admitted Claims on a pro-rata basis for their Admitted Claim. The distribution of the Creditors' Scheme Cash Consideration will be conducted in accordance with the terms of the Creditors' Scheme.

Scheme Shares Issue

Under the Creditors' Scheme, the Company will also implement the Scheme Shares Issue, under which the Company will allot and issue 140,000,000 New Shares at the issue price of HK\$0.55 per Scheme Share to the Scheme Administrators or the Scheme Company for the benefit of the Creditors with Admitted Claims on a pro-rata basis for their Admitted Claims. HK\$77.0 million of the Admitted Claims will be discharged by the Scheme Shares Issue.

The Admitted Claims would be subject to the notices of claim submitted by the Creditors and adjudication to be conducted by the Scheme Administrators after the fulfilment of all conditions precedent and the implementation of the Creditors' Scheme. At this stage, the amount of Admitted Claims is yet to be determined.

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The issue price of the Scheme Shares of HK\$0.55 per Scheme Share was determined with reference to the prevailing market conditions, situation and financial position of the Company and recovery rate to be approved by the Creditors. The issue price of the Scheme Shares represents:

- (i) a discount of approximately 45.0% to the theoretical closing price of HK\$1.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.010 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 47.12% to the theoretical average closing price of HK\$1.040 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0104 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 47.62% to the theoretical average closing price of HK\$1.050 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0105 for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and
- (iv) a premium of approximately HK\$3.6652 over the theoretical audited consolidated net liabilities of the Company as at 30 June 2022 (as disclosed in the annual results announcement of the Company for the financial year ended 30 June 2022) of approximately RMB2.781 per New Share (equivalent to approximately HK\$3.115 per New Share) as adjusted for the effect of the Capital Reorganisation.

The 140,000,000 Scheme Shares will represent approximately 19.55% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Scheme Shares and after adjusted for the effect of the Capital Reorganisation), and will rank *pari passu* in all respects with each other and with the New Shares in issue on the date of allotment and issue of the Scheme Shares in accordance with the Company's memorandum and articles of association and will have the same voting, dividend, return of share capital and other rights attached or accruing thereto as from the date of allotment and issue of the Scheme Shares.

The aggregate nominal value of 140,000,000 Scheme Shares is HK\$1,400,000.

Application for the listing of the Scheme Shares

The allotment and issue of the Scheme Shares is subject to the Independent Shareholders' approval. The Company will allot and issue the Scheme Shares under the Specific Mandate to be granted by the Independent Shareholders at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Scheme Shares.

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Promissory Notes Issue

The Creditors' Scheme further envisages that the Company will implement the Promissory Notes Issue, under which the Company will issue Promissory Notes in the aggregate principal amount of HK\$120.0 million, to be secured by the charge of all forest lands owned by the Group which are located at (i) Muma Town of Jiange County of Sichuan Province, (ii) Zhengxing Town of Jiange County of Sichuan Province, (iii) Yixing Town of Jiange County of Sichuan Province (“**Senbo Forest**”), (iv) Longyuanzhen, Houshixiang and Dianzixiang town of Jiange County of Sichuan Province; (v) Kaifeng Town, Yingshui village, Guangping village, Zheba village, Jiange County of the Sichuan Province, or secured by the charge of the entire shares in the company(ies) that owns those forest lands, to the Scheme Administrators or the Scheme Company for the benefit of the Creditors on a pro-rata basis for their Admitted Claims. The Promissory Notes will have a maturity of five years and carry interest payable annually in arrears at the following rates: nil for the first year, 2% per annum for the second year, 3% per annum for the third year; 4% per annum for the fourth year, and 6% per annum for the fifth year. The principal of the Promissory Notes will be repaid on the maturity date.

The Group's plantation forest assets are regarded as biological assets and are carried at fair value less costs to sell, which were valued by an independent external valuer. Based on the audited consolidated financial statements of the Group, as of 30 June 2022, the fair value of the forest lands owned by the Group to be charged as security for the Promissory Notes amounted to approximately RMB80.5 million. The forestry management business of the Group recorded (i) revenue of nil and approximately RMB6.8 million, and (ii) segment loss of approximately RMB490.7 million and segment profit of approximately RMB10.9 million for the eighteen months ended 30 June 2021 and the year ended 30 June 2022, respectively.

In considering the settlement method of the Admitted Claims under the Creditors' Scheme, the Board has considered alternative settlement methods including the issue of convertible bonds. In light of the dilution effect of the Scheme Shares Issue to the existing Shareholders and to the Investor, the Board is of the view that it would not be desirable to settle the Admitted Claims by the issue of convertible bonds as it would further dilute the shareholding interests of the existing public Shareholders.

On the other hand, the Promissory Notes Issue allows the Company to conduct debt refinancing without causing immediate cash outflow pressure on the Group and could reduce the burden to the Company's financial resources. The asset pledge arrangement under the Promissory Notes Issue is offered to provide security to the Creditors in light of the previous financial performance of the Group in order to gain Creditors' support of the Creditors' Scheme which is critical to the rescue of the Company. Upon issue of the Promissory Notes, the Creditors will not own any of the forest lands or shares of the company(ies) that owns those forest lands.

Based on the foregoing, the Board (excluding the Takeovers Code IBC whose view is expressed and set forth in the letter from the Takeovers Code IBC contained in this circular having considered the advice of the Independent Financial Adviser) considers that the Promissory Notes Issue (including the security arrangement) is fair and reasonable and in the interests of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

Based on the assessment of the Board on the future business prospect of the Group, which is discussed under the section headed “Letter from the Board – IV. Information of the Group – Prospect and future plan” in this circular, following Completion, the Group will have sufficient internal resources generated from its existing businesses to satisfy the repayment of the Promissory Notes as they fall due. The Board intends to finance the repayment of the Promissory Notes by internal resources of the Group.

Returns to Creditors under the Creditors’ Scheme

Based on (i) the Creditors’ Scheme Cash Consideration of HK\$30.0 million; (ii) the aggregate principal amount of the Promissory Notes of HK\$120.0 million; and (iii) the Scheme Share Issue at the issue price of HK\$0.55 for a total consideration of HK\$77.0 million, the recovery rate under the Creditors’ Scheme for the estimated indebtedness owed by the Company to the Creditors as at the Latest Practicable Date of approximately HK\$550.0 million is approximately 41.3%.

The aggregate amount payable by the Company to the Creditors with Admitted Claims under the Creditors’ Scheme was determined with reference to (i) the prevalent financial market conditions; (ii) the Group’s recent financial performance and its financial position; (iii) the business prospects of the Group given the current market conditions; and (iv) the recovery rate to be approved by the Creditors.

Conditions precedent to the Creditors’ Scheme

The Creditors’ Scheme shall become effective upon fulfilment of the following conditions precedent:

- (i) over 50% in number of the Creditors, representing at least 75% in value of the Creditors, present and voting in person (or through electronic means, if applicable) or by proxy at the Creditors’ Scheme meeting, voting in favour of the Creditors’ Scheme;
- (ii) the Hong Kong Court sanctions the Creditors’ Scheme and a copy of the order of the Hong Kong Court is delivered to the Registrar of Companies in Hong Kong for registration;
- (iii) the Company having obtained either conditional approval or approval-in-principle from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Scheme Shares on the Stock Exchange (and such approval has not been revoked);
- (iv) the passing of the necessary resolutions by (i) at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) at least 50% of the Independent Shareholders at the EGM by way of poll in respect of (a) the Capital Reorganisation; (b) the Subscription; (c) the Creditors’ Scheme (including the issue and allotment of the Scheme Shares); (d) the Special Deals and the transactions contemplated thereunder;

LETTER FROM THE BOARD

- (v) the Subscription Agreement having become unconditional;
- (vi) the Restructuring Framework Agreement having become unconditional (save for the conditions (ii), (vi), (viii) and (x) set out under the paragraph hereinabove headed “Conditions precedent for Completion”); and
- (vii) the Capital Reorganisation having become effective.

All the conditions precedent to the Creditors’ Scheme are not capable of being waived. As at Latest Practicable Date, none of the conditions above has been fulfilled.

As the completion of the Subscription and the Scheme Shares Issue are inter-conditional upon each other, the Subscription Shares and the Scheme Shares will be issued at the same time. In simple words, if for any reason the Subscription does not proceed, the Scheme Shares Issue will not proceed, and vice versa.

Pursuant to the Restructuring Framework Agreement, if the Creditors’ Scheme has not become effective and the Subscription has not been completed on or before the Long Stop Date, the Restructuring Framework Agreement will be terminated and the Creditors’ Scheme will not proceed.

Subject to the approval of the Creditors, the Shareholders, the Hong Kong Court and relevant regulators, and upon completion of the Creditors’ Scheme, all the claims of the Creditors against the Company, and liabilities of the Company will be compromised, discharged, waived and/or settled in full. The Creditors’ Scheme will become legally binding on the Company and the Creditors upon fulfilment of the conditions set out in the paragraph headed “Conditions precedent to the Creditors’ Scheme” above and upon the filing of the order of the Hong Kong Court with the Registrar of Companies in Hong Kong. As at the Latest Practicable Date, the Creditors’ Scheme has not come into effect. The Company will provide an update on the Creditors’ Scheme as and when appropriate.

As at the Latest Practicable Date, (i) save for Mr. Wang, Ms. Tian and Ms. Hui (as elaborated further under the section headed “Letter from the Board – XII. Takeovers Code Implications – B. Special Deals” in this circular), none of the creditors of the Company and their ultimate beneficial owners are Shareholders; (ii) save for Mr. Wang, Ms. Tian, Ms. Hui, the Director Creditors and the Former Director Creditors, the creditors of the Company are Independent Third Parties; and (iii) none of the creditors of the Company are acting in concert with the Investor or Ms. Huang.

LETTER FROM THE BOARD

F. THE FUNDING AGREEMENT

On 23 August 2022, the Company as the borrower, the Investor as the lender, and the Joint Provisional Liquidators entered into the Funding Agreement, pursuant to which the Investor has agreed to grant a credit facility of up to HK\$26.0 million to the Company, subject to the terms and conditions thereunder. The Funding Agreement was entered into for the sole purpose of securing the Loan under the Funding Agreement to facilitate the preparation and implementation of the Proposed Restructuring, and to support the business operation of the Group to ensure the Company will continue to be in satisfaction of the listing requirements.

The principal terms of the Funding Agreement are set out below.

Date

23 August 2022

Parties

- (i) the Investor;
- (ii) the Company; and
- (iii) the Joint Provisional Liquidators.

Principal amount of the Loan

A credit facility for a total sum of up to HK\$26.0 million to be provided by the Investor to the Company subject to the terms and conditions of the Funding Agreement.

Interest rate

3% per annum or upon an event of default as stipulated under the Funding Agreement, the default interest rate is 5% per annum compounded annually.

Application of the Loan

The Company shall apply all amounts of Loan towards the payment (or reimbursement) of:

- (i) the fees and expenses of the Joint Provisional Liquidators (including legal costs of the Company in respect of the Proposed Restructuring);
- (ii) any fees, costs and expenses (except for the fees and expenses of the Joint Provisional Liquidators) incurred or to be incurred in connection with the restructuring of the Group and the professional fees and expenses of the legal advisors to the Joint Provisional Liquidators;

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- (iii) any fees, costs and expenses (including legal costs) in connection with the negotiation, preparation and execution of any transactions contemplated under the Funding Agreement, the Restructuring Framework Agreement and the Creditors' Scheme;
- (iv) the working capital of the Group, including but not limited to, any fees, costs and expenses (except for the fees and expenses of the Joint Provisional Liquidators) incurred or to be incurred in connection with the general working capital of the Group; and/or
- (v) any other purpose as may be agreed between the Joint Provisional Liquidators and the Investor from time to time.

Nature and priority of the Loan

Subject to the approval of the Cayman Court, provided that the Investor is not in breach of any terms and conditions of the Funding Agreement, the Loan together with the interest thereon shall be treated or regarded as the fees and expenses properly incurred by the Company in preserving, realising or getting in the assets, which will be paid out of the assets of the Company in priority to all other existing and future unsecured liabilities and debts of the Company.

Term and repayment

The Loan drawn down by the Company together with the interest thereon will be due and payable by the Company on the earliest of:

- (i) thirty-six (36) months after the date of the Funding Agreement;
- (ii) the completion of the Subscription;
- (iii) the Stock Exchange or the SFC rejected or objected the transactions contemplated under the Resumption Proposal;
- (iv) immediately upon termination of the appointment of the Joint Provisional Liquidators; or
- (v) the occurrence of an event of default under the Funding Agreement.

As at the Latest Practicable Date, approximately HK\$15.0 million has been drawn down by the Company and the amount of outstanding interests accrued under the Funding Agreement is approximately HK\$0.17 million. The Funding Agreement has been sanctioned by the Cayman Court on 17 October 2022.

LETTER FROM THE BOARD

III. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE RESTRUCTURING FRAMEWORK AGREEMENT AND THE SUBSCRIPTION AGREEMENT, AND THE USE OF PROCEEDS

The Proposed Restructuring, along with the Funding Agreement, form a vital part of the resumption plan of the Company as it provides the Group with the necessary financing to resolve the debts of the Company by the implementation of the Creditors' Scheme.

In view of the above and considering the liquidity shortage and financial condition of the Group and the willingness of the Investor to finance the Group in order to relieve the indebtedness of the Company and to support the business operations and expansion of the Group, the Joint Provisional Liquidators, the executive Directors and the independent non-executive Directors consider that the entering into of the Restructuring Framework Agreement and the Subscription Agreement will facilitate the debt restructuring of the Company and to satisfy the Resumption Guidance set out by the Stock Exchange. With the introduction of the Investor as a Shareholder, it is expected that the experience and network of Ms. Huang as the sole shareholder and sole director of the Investor in business management and the financial sector could help the Group to develop and manage its business. Having considered the factors above, the Joint Provisional Liquidators, the Directors (excluding the Takeovers Code IBC whose view is expressed and set forth in the letter from the Takeovers Code IBC contained in this circular having considered the advice of the Independent Financial Adviser) consider that the terms of the Restructuring Framework Agreement and the Subscription Agreement are on normal commercial terms that are fair and reasonable and the entering into of the Restructuring Framework Agreement and the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

Use of proceeds

The gross proceeds from the Subscription are expected to amount to HK\$60.0 million, of which HK\$30.0 million will be applied for the distribution of the Creditors' Scheme Cash Consideration and the remaining balance (if any) after off-setting against the outstanding principal amount drawn and unpaid interest accrued under the Funding Agreement is expected to be used for the relevant cost for restructuring, general working capital and business development of the Group's forestry management and ginseng-related businesses.

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The proportion of the outstanding amount under the Funding Agreement against which the consideration of the Subscription will be set off shall depend on the actual amounts drawn down therefrom. As at the Latest Practicable Date, out of the HK\$26.0 million credit facility under the Funding Agreement, approximately HK\$15.0 million has been drawn down by the Company and the amount of outstanding interests accrued under the Funding Agreement is approximately HK\$0.17 million. Assuming that HK\$15.17 million of the consideration of the Subscription is set-off against the outstanding amount under the Funding Agreement and HK\$44.83 million of the consideration of the Subscription is settled by way of cash, the Company is expected to receive net proceeds of approximately HK\$44.73 million from the Subscription after the deduction of the relevant expenses incidental to the Subscription. The net proceeds from the Subscription after the deduction of the relevant expenses incidental to the Subscription of approximately HK\$44.73 million will be applied as follows:

- (i) Firstly, HK\$30.0 million will be used for the distribution of the Creditors' Scheme Cash Consideration;
- (ii) Secondly, approximately HK\$4.73 million will be used to pay the relevant restructuring costs of the Company;
- (iii) Thirdly, approximately HK\$10.0 million will be used for general working capital of the Group.

Assuming that HK\$29,999,999 of the consideration of the Subscription is set-off against the outstanding amount (including principal and unpaid interest accrued) under the Funding Agreement and the remainder of the consideration of the Subscription (at least HK\$30,000,000) is settled by way of cash, the Company is expected to receive net proceeds of approximately HK\$29.9 million from the Subscription after the deduction of the relevant expenses incidental to the Subscription.

The net issue price per Subscription Share after the deduction of the relevant expenses incidental to the Subscription is approximately HK\$0.1285.

LETTER FROM THE BOARD

IV. INFORMATION OF THE GROUP

The Group is principally engaged in forestry management (i.e. plantation, logging and sale of timber related products), ginseng-related business (i.e. plantation and sale of ginseng) and investment holding.

Trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 4 October 2021 as the Company failed to publish the audited results for the eighteen months ended 30 June 2021 in accordance with Rule 13.49 of the Listing Rules. Since then, the Stock Exchange has informed the Company of the Resumption Guidance which was set out in the announcements of the Company dated 31 December 2021 and 27 June 2022, respectively.

Business operations of the Group

During the eighteen months ended 30 June 2021, the Group was principally engaged in (i) forestry management, (ii) provision of services in relation to management, leasing, sale and installation of container houses, and (iii) money lending. Due to the change in business strategy of the Group and the under-performed financial results of the money lending business and container houses business, the Group has decided to cease these business operations since September 2020 and June 2022, respectively. Nevertheless, the Group has been actively exploring potential business opportunities and actively accessing the possibility of strategic cooperation with potential business partners, to diversify the stream of revenue of the Group in order to add momentum to the business growth of the Group and to maximise Shareholders' return. As a result, since August 2022, the Group has commenced the ginseng plantation and trading business (the "**Ginseng Business**").

(a) Forestry management business

Revenue generated from the Group's forestry management business is mainly derived from sales of timber logs which are harvested from the Group's forests. The Group recognises revenue from timber log sales when control of the relevant goods is transferred to the customers.

Pursuant to the Forestry Law of the PRC, trees logging in the forests requires relevant logging permits, and the quantities of trees harvesting in the forests must be carried out pursuant to the provisions of the relevant approved logging permits. The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for revenue generation in the forestry segment.

LETTER FROM THE BOARD

According to the 14th Five-Year Plan (2021–2025), which was approved by the National People’s Congress on 11 March 2021, the PRC government sets out the blueprints for improving the quality and stability of the ecosystem and promoting the harmonious coexistence of mankind and nature, including to strengthen forests protection and restoration, which limits the number of permits and the annual logging quotas to be approved by the respective authorities. In particular, for Sichuan Province, according to the 14th Five-Year Plan, the annual logging quota permitted by the PRC government was approximately 158,716 cubic meters, which represented a decrease of approximately 36.6% as compared to the annual logging quota of approximately 250,460 cubic meters as set out in the 13th Five-Year Plan (2016–2020). Moreover, it is expected that going forward, the local government authority in Sichuan Province will continue to adopt environmental protection measures by approving logging activities mainly focusing on unhealthy trees/forests which usually come with a lower yield rate of timber as compared to those healthy or mature trees/forests. A yield rate of timber refers to the percentage of volume of usable timber per unit being logged. Generally, the volume of usable timber that can be extracted from unhealthy trees/forests is lower than that from healthy or mature trees/forests and therefore lower the yield rate. Such government policies, if adopted, may limit the growth of the Group’s forestry management business notwithstanding that there is no change to the pre-requisite requirements for the Group to obtain the logging quotas. In particular, the Company expects that the environmental protection policies/measures promulgated by the PRC government will result in a decrease in the Group’s logging yield rate from approximately 66% prior to 2021 to approximately 40% since 2021. The amount of logging quotas that the Group expects to obtain in the calendar years 2023 (second batch), 2024 and 2025 will be similar to that for the calendar year of 2022 since the logging quotas for the calendar year of 2022 were obtained after the 14th Five-Year Plan was promulgated and that the overall logging quota for Sichuan Province for 2021-2025 has been fixed.

As at the Latest Practicable Date, all of the forest lands owned by the Group are located in the Sichuan Province in the PRC. According to the needs of production and operation, the Group applies to the National Forestry and Grassland Administration for forest logging quotas annually. Generally, each logging permit is valid for one to two months and the Group can only carry out logging activities within the stipulated validity period. The logging permits will specify the logging quantity approved from time to time. The Group is required to conduct logging activities according to the approved quantity as stated on the logging permits as well as all applicable laws, rules and regulations including but not limited to the Forestry Law of the PRC and the Measures for the Administration of Regenerative Felling of Forests. In particular, the Group must not conduct logging activities beyond the designated boundaries for harvesting, and must not fell precious trees and trees that are still under growth.

The logging permits obtained by the Group for the years 2021, 2022 and 2023 specified that the Group shall adopt the method of tending logging, i.e. logging conducted in order to cultivate the young and pre-mature forests, or in Chinese 撫育採伐. Accordingly, the trees fell by the Group for each of these years are from forests where growth has become very slow or has stopped which comes with a yield rate of around 40%.

For the eighteen months ended 30 June 2021, due to the outbreak of the COVID-19 pandemic in the PRC, the PRC government imposed stringent precautionary measures such as social distancing and mandatory quarantine restrictions, which caused administrative difficulties for local government authorities in granting logging permits. Hence, the Group was unable to obtain logging permits for the calendar year of 2020 from the local government authority and was unable to conduct logging operations throughout the eighteen months ended 30 June 2021.

LETTER FROM THE BOARD

In July 2021, the Group has obtained logging permits for the calendar year of 2021 with logging quantity of 6,003.3 cubic meters in aggregate. As at the Latest Practicable Date, all of the aforesaid approved quantity has been sold and has contributed revenue to the Group for the financial year ended 30 June 2022.

Due to the resurgence of the COVID-19 pandemic in 2022, the PRC government has imposed more stringent precautionary measures, such as social distancing and partial lockdown in Sichuan Province. Hence, the issuing of the logging permits of the Group has been delayed. In November 2022, the Group successfully obtained the logging permits for the calendar year of 2022 with logging quantity of 16,648.0 cubic meters in aggregate. As at the Latest Practicable Date, the Group has completed the sales of all the approved quantity for 2022 which has contributed logging revenue to the Group for the year ending 30 June 2023.

In order to activate the forestry management business of the Group, the management of the Group has further negotiated with the National Forestry and Grassland Administration and had obtained extra logging quotas in December 2022 for the calendar year of 2023. The logging quantity amounted to approximately 10,305.0 cubic meters in aggregate. Such logging quota is expected to contribute further revenue to the Group for the second-half of the financial year ending 30 June 2023.

It should be noted that it is an industry norm that the government authority will normally issue logging permits in the third quarter of each calendar year and the Group will usually conduct logging operations during the fourth quarter of each calendar year. Hence, the Group actually only failed to obtain logging permit for the calendar year of 2020. There was slight delay in obtaining the logging permits for the calendar year of 2022 (November 2022) due to continued administrative difficulties during the COVID-19 pandemic. The Directors consider that the situation in calendar years 2020 and 2022 were exceptional due to the COVID-19 pandemic. With the approved logging permits, the Group is able to resume operations for revenue generation in the forestry segment and accordingly, the Directors consider the forestry management business has resumed to normal with the resumption of logging activities and will bring in stable revenue to the Group. The Group has been engaging in the forestry management business since 2013 and had not experienced any difficulty in obtaining logging permits except for the calendar year of 2020. The Directors are of the opinion that as the mobility restrictions and other control measures ease off they do not foresee there to be any obstacle for the Group in obtaining logging permits.

Customers

As at the Latest Practicable Date:

- With respect to the approved logging quantity of 6,003.3 cubic meters for the year of 2021, the Group has contracted with only one customer for the permitted quantity because of the limited quantity. The customer was a timber processing plant; and
- With respect to the approved logging quantity of 16,648.0 cubic meters for the year of 2022, the Group has contracted with three customers for the permitted quantity. These customers include two timber processing plants and a wood furniture and product manufacturer.

LETTER FROM THE BOARD

All of the customers of the Group for its forestry management business for the year ended 30 June 2022 and the six months ended 31 December 2022 are (i) new customers; (ii) Independent Third Parties; and (iii) independent from the Investor, Ms. Huang and their respective connected persons. The Group usually enters into one-off standard timber sales contracts with its customers, the major terms of which are summarised hereinbelow:

Subject matter: The Group shall supply cypress timber to the customers on contracted harvest reserves.

Pricing term: Fixed price per cubic meter

The settlement amount shall be calculated based on the actual amount of finished wood and subject to delivery notes signed by designated persons of both parties.

Payment and credit terms: The customers shall pay deposit to the Group upon signing of the timber sales agreement. The deposits being charged depends on the contract amount.

The customers shall pay 50% of the contract amount as first instalment to the Group upon acceptance of the goods.

The customers shall pay the remaining contract amount to the Group within 120 days after the acceptance of the goods.

Other matters: The customers shall be responsible in organising the logging and transportation of timber.

All costs to be incurred in relation to the logging, such as labour costs, costs of machinery and equipment, handling costs, site cleaning fees, etc., shall be borne by the customers.

It is an industry norm that forestry companies will not enter into long-term sales agreements with its customers because the annual sales amount is subject to logging permits to be granted each year. It is also an industry norm that forestry companies will only sell its timber to a limited number of customers due to limited amount of logging quotas. The Group utilises the network it maintained in the forestry industry for years to continue to attract or retain customers for its forestry management business.

LETTER FROM THE BOARD

(b) *Ginseng Business*

As discussed above, in the 14th Five-Year Plan (2021–2025), the PRC government sets down the blueprints for environmental protections policies, in particular, limiting the overall logging quotas of the forests in the PRC in order to maintain the generic growth of the forests in the PRC. In order to protect the ecosystem of the forests in the PRC, it is expected that during the 14th Five-Year Plan, the local government authority in Sichuan Province would continue to adopt environmental protection measures by approving logging activities mainly focusing on unhealthy trees/forests which usually come with a lower yield rate of timber as compared to those healthy or mature trees/forests. Such government policies may limit the development of the Group's forestry management business. In this regard, the Group has been actively seeking new opportunities for business growth and expansion, with an aim to increase the return for the Shareholders amid the aforesaid challenging business environment.

Driven by the prevailing trend of promoting healthy lifestyle, the PRC citizens pay more attention to healthcare products, meanwhile the PRC government also actively promotes related policies to enhance the level of healthiness nationally. Having considered the challenges faced by the Group's forestry management business, in order to utilise the inherent advantage of the Group by further capitalising on the Group's existing forest lands, the Directors have explored business opportunities in the healthcare market and the Group has commenced and tapped into the Ginseng Business since August 2022.

Laws and regulations

The Company has completed the procedures for registration of change of business license and business filing to include plantation and sale of ginseng under the business scope of the Company. The Group does not require any other licence or qualifications to engage in the plantation or trading of ginseng in the PRC. Foreign-invested enterprises are not prohibited from engaging in the plantation or trading of ginseng in the PRC.

Business model

The breed of ginseng planted and sold by the Group is a compound hybridisation breed with traditional wild ginseng grown in the north or cold regions and other different varieties of ginseng. Such breed of ginseng is able to be grown in higher temperature regions (up to at 32°C) and suitable for in-door/under-forest planting, while maintaining the characteristic of nutrient-rich of wild ginseng, which greatly improve the production efficiency as compared to that of the traditional wild ginseng. Given the planting characteristic and medical value of ginseng planted and sold by the Group, it is considered the ideal plant which could make use of the Group's existing resources in utilising the forest lands of the Group, so as to expand the business portfolio of the Group without affecting the Group's logging activities for its forestry management business.

LETTER FROM THE BOARD

The Ginseng Business allows the Group to develop under-forest economy on the Group's existing forest lands. Under-forest economy refers to planting, breeding, collection and processing of products, and utilisation of forest landscapes in the under-forest space based on forest land resources, forest space and forest ecological environment, in order to improve forest land productivity, labour productivity and capital utilisation rate. Revenue currently generated from the Ginseng Business is derived from sales of ginseng that are purchased from a supplier.

The Group's forest lands provide sufficient plantation sites for ginseng plantation. The Group's forest lands span across 21,045 Chinese Mu. The Group plans to assign an aggregate of 200 Chinese Mu forest land for ginseng plantation where 120,000 pieces of ginseng can be planted in one Chinese Mu of forest land. This means the Group can plant at most 24 million pieces of ginseng on its designated forest lands. In addition, the type of ginseng grew by the Group can be planted under-forest. Hence, the Group can utilise its existing forest lands for logging activities and ginseng plantation simultaneously. Accordingly, the plantation of ginseng would not impact the Group's logging activities for its forestry management business.

It takes approximately one year for the ginseng to be harvested and sold to the customers. In December 2022, the Group has completed the first phrase of ginseng seeding according to its ginseng plantation plan of approximately 6 million pieces on the designated 50 Chinese Mu forest land in the Senbo Forest. According to the plan of the Group, the first batch of one-year ginseng is expected to be harvested in November 2023 and can be sold to customers thereafter.

However, the value and medicinal ingredient of ginseng increases over time with reference to its age. Generally speaking, ginseng which aged over five years is more popular in the market and the market price of which is substantially higher than those aged below five years. Having considered the aforesaid nature of ginseng, it is the plan of the Group to focus on the sale of aged ginseng of over five years. As it will take time for the Group to self-grow its inventory of aged ginseng, as well as to strengthen the working capital of the Group for the plantation operation, to capture the market share and develop its customer base in the ginseng industry in the PRC, the Group has also commenced the ginseng trading business in August 2022 by purchasing aged ginseng from its supplier. It is the intention of the Group that it will gradually decrease the purchases of aged ginseng from third-party suppliers when it has self-grown sufficient inventory of aged ginseng on its own.

LETTER FROM THE BOARD

The Group finance the purchases of ginseng seeds and aged ginseng mainly by its internal resources and the funding under the Funding Agreement.

Scale of manpower

The Group intends to gradually employ up to 15 staff by the end of 2027 for its ginseng trading business. On the other hand, the ginseng plantation business will require a minimal number of employees since, as further elaborated below, the Group will utilise the technical support and maintenance services provided by its supplier for ginseng plantation and the Group will engage workers for plantation supervision.

Supplier

The Group has entered into a legally-binding ginseng planting framework agreement with an independent supplier (the “**Supplier**”) for the plantation of ginseng on the Senbo Forest. Pursuant to the said framework agreement, the Supplier will be responsible for, among others, the supply of ginseng seeds and culture medium, and provision of technical support and maintenance services (including fertilisation, weeding, insecticide and soil preparation) to the Group for a period of 10 years. Below sets forth the major terms of the ginseng planting framework agreement:

Term:	From 2 August 2022 to 1 August 2032
Subject matter:	The Supplier will be responsible for, among others, the supply of ginseng seeds and culture medium, and provision of technical support and maintenance services (including fertilisation, weeding, insecticide, soil preparation) to the Group.
Specific purchase contracts:	The parties shall negotiate and enter into specific purchase contracts or orders from time to time to agree on the quantity, pricing, payment terms, deliver time and method, etc. of the specific purchased ginseng seed and culture medium.
Quality standard:	In order to ensure the quality of ginseng, the Supplier undertakes the germination rate of each respective batch of ginseng shall be 100%. Any shortfall of germination rate shall be compensated by the Supplier with the equivalent quality and aged ginseng.
Exclusivity:	The cooperation between the two parties is exclusive. During the term of agreement, the Supplier is not allowed to supply similar products or services to other third parties in the PRC.

LETTER FROM THE BOARD

In order to broaden the revenue base of the Group and to ensure a stable supply of aged ginseng for the Ginseng Business before the Group is able to self-grow sufficient aged ginseng inventory, the Group has also entered into a legally-binding long-term supply framework agreement with the Supplier for the supply of aged ginseng (i.e. five years or above), the major terms of which are summarised as follows:

Subject matter: The Supplier shall supply aged ginseng to the Group upon receiving the purchase order of the Group from time to time, subject to an aggregate minimum annual purchase amount of RMB35.0 million.

In the event that the Group is unable to fulfil respective minimum annual purchase amount, the Group shall pay to the Supplier an amount equivalent to 1% of the unfulfilled purchase amount.

Term: 5 years

Pricing: The price of ginseng supplied by the Supplier shall not be higher than the lowest price available for similar products available in the market.

Early termination: Any party may terminate the agreement by giving one month's notice to the other party.

Specific purchase contracts: The parties shall negotiate and enter into specific purchase contracts or orders from time to time to agree on the quantity, pricing, payment terms, deliver time and method, etc. of the specific purchased ginseng.

Exclusivity: The cooperation between the two parties is exclusive. During the term of agreement, the Supplier is not allowed to supply similar products to other third parties in the PRC.

LETTER FROM THE BOARD

The Supplier is independent from the Investor, Ms. Huang and their respective connected persons. It is currently the only supplier to the Ginseng Business of the Group. To reduce reliance on the Supplier, the Company intends to gradually decrease the purchases of aged ginseng from the Supplier when it has self-grown sufficient inventory of aged ginseng. In terms of the ginseng plantation operation, the Group will be able to use its first batch of self-grown ginseng plant as seeding for future ginseng plantation. Therefore, it is expected that the Group would no longer require to purchase seedings from the Supplier after the first year of ginseng plantation. Culture medium is a common supply available from abundant sources, hence the Group does not rely on the Supplier to provide culture medium. The key technicality of the ginseng plantation business is developing the formula of the ginseng breed, which the Group has obtained by purchasing the ginseng seeds. The plantation and maintenance process only involves low-skill labour work without high technicality. Therefore, the Group does not have heavy reliance on the Supplier for its ginseng plantation business.

Customers

The Group aims to tap into the ginseng industry in the PRC and establish its large-scale ginseng wholesale network with competitive prices, focusing on the business-to-business model and targeting well-established ginseng distributors, pharmaceutical companies and ginseng-product processing plants. The management of the Group has strived to establish its customer base for the ginseng business. As at the Latest Practicable Date, the Group has entered into legally-binding long-term ginseng framework sales agreements with eight customers in Guangdong, Jiangsu, Guizhou and Anhui Provinces from different sectors, such as pharmaceutical, health care, food and beverage, and international trading. Such customers were sourced by the sales and marketing team of the Group and referral by a sales agent. All the customers of the Ginseng Business are Independent Third Parties and independent from the Investor, Ms. Huang and their respective connected persons.

All of the sales agreements were entered into in relation to the ginseng (all of which aged five years and above) purchased from the Supplier. Although the Group does not have secured customers for its self-grown ginseng at the moment, it will target at its trading customers for its self-grown ginseng with an aim to replace the ginseng trading business in the future when it has self-grown sufficient inventory of aged ginseng on its own. Going forward, the Group intends to enter into framework agreements with customers in relation to its self-grown ginseng.

LETTER FROM THE BOARD

Sets forth below are the major terms of the standard ginseng sales agreements entered into between the Group and its customers:

Subject matter: The Group shall supply ginseng to the customers upon the customers' request and subject to an aggregate minimum annual sales amount of RMB66.0 million.

In the event that the customer is unable to fulfil the respective minimum annual sales amount, the customer shall pay to the Group an amount equivalent to 1% of the unfulfilled sales amount.

Term: 5 years

Pricing basis: The price of the specific purchased ginseng shall be determined by the parties through arm's length negotiation and on normal commercial terms with reference to the market prices for the same type of products supplied.

Payment and credit terms: The customer shall pay 10% of the contract amount as deposit to the Group within 15 days after receiving the separate purchase order from customer.

The customer shall settle the full sales amount before the shipment of the order.

Other matters: The cooperation between the two parties is exclusive. During the terms of agreement, the customer is not allowed to procure similar products from other third parties in the PRC.

With respect to the business model of the ginseng trading business of the Group, legal title of the ginseng inventory will be transferred from the Supplier to the Group upon receipt of the shipment at the warehouse of the Group located in Jiange County in the PRC, logistic of which is arranged by the Supplier. The Group maintains sufficient inventory of ginseng at its warehouse to meet customers' demand from time to time. Upon receiving the purchase orders from the customer, the Group shall arrange the logistics and be responsible for the shipment from its warehouse to the location designated by the customer. Legal title will then be transferred to the customer upon receipt of shipment by the customer.

As the Group has entered into a long-term supply framework agreement with the Supplier to ensure the stable supply of aged ginseng while the Group self-grow its inventory of aged ginseng, the Group will be able to maintain stable and adequate supply of inventory to meet customers' demand for its ginseng trading business.

LETTER FROM THE BOARD

As of 31 December 2022, the Group has supplied to all eight independent customers secured by it with an aggregate of approximately 138,000 pieces of ginseng (all of which aged five years and above). Accordingly, the Group has recorded revenue from such sales for the six months ended 31 December 2022.

Prospect and future plan

The growing popularity of nutraceuticals and food supplements containing herbal and natural extracts is expected to further propel the growth of the global extracts market over the coming years. The transaction volume of Chinese medicine wholesale market increased from approximately RMB88.5 billion in 2015 to approximately RMB157.9 billion in 2020, representing a CAGR of approximately 10.14%. Under the national scheme of “Healthy China 2030”, a series of policies relating to the promotion and development of traditional Chinese medicine, elderly healthcare, tourism and culture was launched in recent years. In August 2016, the State Council of the PRC issued the “Healthy China 2030 Plan” (《健康中國 2030 規劃綱要》), which targets a total scale for the healthcare industry of at least RMB16 trillion by 2030. The healthcare and tourism industries shall become an important engine for economic growth for the coming decade. In 2020, the aggregate output of ginseng amounted to approximately 59,780 tonnes in the PRC, which increased to approximately 69,850 tonnes in 2021, representing an increase of 16.8%. The demand for ginseng in the PRC amounted to 58,235 tonnes in 2020 and reached to 70,031.9 tonnes in 2021, representing an increase of 20.3%. With the improvement of the domestic economy, the consumers’ demand for ginseng has increased continuously with a CAGR of 7.15% from 2010 to 2021.

Notwithstanding the limited track record of the Ginseng Business, the Directors are of the view that the new Ginseng Business will enable the Group to expand its business portfolio, diversify its income stream and broaden its revenue base going forward. With the Group’s inherent advantage of sufficient plantation site and the secured long-term supplies and sales, the Group is well-equipped to capture the growing demand of ginseng in the PRC. Although neither the existing management of the Group, the Board and/or Ms. Huang possesses the relevant experience or expertise in ginseng plantation and trading, the Board is confident it will be able to operate and manage the Ginseng Business in a sustainable manner given that (i) the plantation and maintenance operation of the ginseng plantation business does not require high skill and knowledge; (ii) the Group can take advantage of the existing business network, management experiences and skills of the Board and the management of the Group to improve and expand the Ginseng Business; and (iii) the ginseng trading business of the Group has contributed revenue to the Group since its commencement in August 2022. Taking into account of the aforesaid, the Board is confident about the business prospect of the Ginseng Business.

Under the leadership of the Board, the existing management of the Group will continue to manage and operate the forestry management and ginseng businesses and the Group will continue to develop and grow its businesses. The core businesses of the Group going forward would be forestry management business and the Ginseng Business. However, the growth driver for the Group will be its Ginseng Business while the forestry management business will continue to provide stable revenue to Group.

LETTER FROM THE BOARD

Upon Completion, the Group will become free from financial distress and will therefore be able to deploy considerable financial resources to expand and grow its business over the next few years. In addition, with the introduction of the Investor as a Shareholder, it is expected that the experience and network of Ms. Huang in business management and the financial sector could help the Group to develop and manage its businesses. As set out below under the section headed “Letter from the Board – VI. Information of the Investor and parties acting in concert with it”, Ms. Huang is the chairman or founder of a number of companies that are engaged in various businesses. Given the substantial management experience of Ms. Huang and with the assistance of the existing management, the Company could leverage Ms. Huang’s network of acquaintances to seek development opportunities for the Group. As such, the Board believes that the Group would be able to continue to develop its businesses with experienced and capable staff and at the same time secure new customers to continue expanding the size of the business.

Taking account of the aforesaid, the Board is confident about the business prospect of the Group.

LETTER FROM THE BOARD

V. THE AUDIT QUALIFICATIONS

The Auditors have issued disclaimer of opinions on the consolidated financial statements of the Company for the year ended 31 December 2019, the eighteen months ended 30 June 2021 and the year ended 30 June 2022. The audit qualifications relate to (i) multiple uncertainties relating to going concern basis; and (ii) scope limitation regarding the plantation forest assets and the right-of-use assets of the Group. Set out below are the basis for the aforesaid disclaimers of opinion and the actions taken/to be taken by the management of the Company to address the audit qualifications:

Disclaimer of opinion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
1	<p>Multiple uncertainties relating to going concern basis</p> <p>The Group incurred net loss for the respective year/period. The Group's (i) total liabilities exceeded its total assets; and (ii) current liabilities exceeded its current assets.</p> <p>The Group's liabilities include promissory notes payable, corporate bonds payable and interests payable on these payables, which remained outstanding up to the date of approval of the relevant consolidated financial statements. These promissory notes and corporate bonds payables together with accrued interests payable have been overdue for settlement or due for settlement within the year/period after that date and are included in current liabilities in the consolidated statement of financial position.</p> <p>The aforementioned conditions indicate the existence of material multiple uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.</p> <p>The consolidated financial statements have been prepared by the Directors on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group, this may cast a significant doubt on the Group's ability to continue as a going concern.</p>	<ul style="list-style-type: none"> • The year ended 31 December 2019 • The eighteen months ended 30 June 2021 • The year ended 30 June 2022 	<ul style="list-style-type: none"> • The Funding Agreement was entered into among the Company, the Investor and the Joint Provisional Liquidators, pursuant to which the Investor agreed to grant a credit facility of up to HK\$26.0 million to the Company for the purpose of facilitating and/or supporting the restructuring of the Company, as working capital of the Group and any other purpose to be agreed by the Investor and the Joint Provisional Liquidators. The Company is in the course of implementing the Proposed Restructuring, which comprises, among others, the Subscription for a total subscription price of HK\$60.0 million, of which HK\$30.0 million will be applied for the distribution of the Creditors' Scheme Cash Consideration and the remaining balance (if any) after off-setting against the outstanding principal amount drawn and unpaid interest accrued under the Funding Agreement is expected to be used for the relevant cost for restructuring, general working capital and business development of the Group's forestry management and ginseng-related businesses. • Upon completion of the Creditors' Scheme, all the Claims of the Creditors against the Company, and liabilities of the Company will be compromised, discharged, waived and/or settled in full. The Directors expect that the net current liabilities position of the Company will be able to improve to a net current asset position upon completion of the Creditors' Scheme. In the event that the Group is in a net current liabilities position after completion of the Creditors' Scheme and/or requires additional working capital, the Investor undertakes that it will provide further funding to the Group as and when required.

LETTER FROM THE BOARD

Disclaimer of opinion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
			<ul style="list-style-type: none">• Prior to Completion, an application will be made to the Cayman Court for an order sanctioning the withdrawal or stay of the petition presented against the Company and the discharge of the Joint Provisional Liquidators in the Cayman Islands.• The Group has successfully obtained logging quotas for the calendar years of 2021, 2022 and 2023 and has completed sales of timber for the year ended 30 June 2022 and the year ending 30 June 2023. With the approved logging permits, the Group is able to resume operations for revenue generation in the forestry segment and accordingly, the Directors consider the forestry management business has resumed to normal and will bring in stable revenue to the Group. Further, in order to strengthen the business operation of the Group, the Company has strived to begun its plantation of ginseng in the Group's existing forests and has commenced the trading of ginseng in August 2022. Notwithstanding the limited track record of the Ginseng Business, the Directors are of the view that the new Ginseng Business, will enable the Group to expand its business portfolio, diversify its income stream and broaden its revenue base.• The Directors expect upon Completion and the withdrawal of the Petition, the Group's financial position will improve and the Group will have sufficient working capital for its requirement for at least the next 12 months from the date of Completion. Based on the aforesaid factors (including the action taken and to be taken), the Directors and the Auditors anticipate that this audit disclaimer will be removed for the year ending 30 June 2023.

LETTER FROM THE BOARD

Disclaimer of opinion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
2	<p>Scope limitation regarding the plantation forest assets and the right-of-use assets</p> <p>The Group's plantation forest assets are carried at fair value less cost to sell. In addition, included in right-of-use assets is leased land on which the Group's plantation forest assets are located. The fair value of the Group's plantation forest assets was estimated by an external valuer using the income approach, under which the projected future net cash inflows arising from the forest management and harvest, based on forecast of revenue from sales of timber logs and direct costs for the timber logs harvests, are discounted to present value.</p> <p>In view that the Auditors were unable to form an opinion as to whether the Group can operate as a going concern in the foreseeable future, as detailed above, the Auditors were unable to satisfy themselves that the income approach adopted for the fair value valuation of the Group's plantation forest assets and the bases and assumptions used for the valuation are reasonable and appropriate, including the ability of the Group to adhere the harvest forecasts, the quantity of timber logs to be harvested, future growth rates and discount rates adopted, and approvals to be obtained from the PRC government for timber logs harvest during the forecast periods. Accordingly, the Auditors were unable to assess whether the fair value less cost to sell of the Group's plantation forest assets is fairly stated and whether impairment loss is required to be made on the Group's leased land included in the right-of-use assets.</p> <p>Furthermore, as a result of the restrictions implemented by the PRC government to travel within the Mainland China as a result of the outbreak of COVID-19, the Auditors were unable to carry out site visits to the Group's plantation forest assets which are all located in Jiange County of the Sichuan Province of the PRC, and the external valuers also represented that they have not performed the site visits during the course of the valuation. Accordingly, the Auditors were unable to obtain sufficient appropriate audit evidence regarding the existence, quantities and conditions of these plantation forest assets used to arrive at their fair value valuation.</p>	<ul style="list-style-type: none"> • The eighteen months ended 30 June 2021 • The year ended 30 June 2022 	<ul style="list-style-type: none"> • Subject to the Completion, the Directors and the Auditors anticipate that the audit disclaimer in relation to the material uncertainties on the Group's ability to continue as a going concern will be removed in the consolidated financial statements of the Group for the year ending 30 June 2023 as aforementioned. • The fair value of the plantation forest assets (including the right-of-use assets of leased lands) of the Group has been projected, among others, based on the average of logging quantities fulfilled by the Group. With the approved logging permits, the Group is able to resume operations for revenue generation in the forestry segment and accordingly, the Directors are of the view that as the mobility restrictions and other control measures ease off they do not foresee there to be any obstacle for the Group in obtaining logging permits. • The Company will continue to engage the independent external valuer to perform valuation on the plantation forest assets (including the right-of-use assets of leased lands) of the Group for fair value assessment, as appropriate.

LETTER FROM THE BOARD

Disclaimer of opinion	Basis of disclaimer	Relevant financial year/period	Actions taken/to be taken
			<ul style="list-style-type: none">• According to the recent development in China's epidemic prevention policy, the PRC government has significantly relaxed the cross-border travel restriction and social distancing measures in the PRC. The Company sought to work closely with the Auditors and at its best endeavours to assist the Auditors in obtaining appropriate audit evidence regarding the existence, quantities and conditions of the plantation forest assets of the Group as at 30 June 2023.• Based on the aforesaid factors, the Directors and the Auditors anticipate, that upon (i) completion of the Proposed Restructuring, (ii) the audit disclaimer in relation to the material uncertainties on the Group's ability to continue as a going concern is being removed, and (iii) the Group is able to realise its business plan for the forestry management business for the year ending 30 June 2023, this audit disclaimer in relation to the plantation forest assets and the right-of-use assets will be removed for the year ending 30 June 2023.

Pursuant to Note 3 to Rule 2 of the Takeovers Code, the Board would like to draw the attention of the Independent Shareholders to the audit modifications as summarised above. Having considered the factors discussed in the table above, upon Completion and the realisation of the business plan of the Group for its forestry management business for the year ending 30 June 2023, and in the absence of any unforeseen circumstances, the Directors are confident that the Group is able to provide sufficient audit evidence to satisfy the Auditors' requirements for the audit of the consolidated financial statements of the Company for the year ending 30 June 2023. Accordingly, the Directors and the Auditors anticipate that the audit disclaimer qualifications will be removed for such financial year, hence will not affect the Group's financial results and operation and the Proposed Restructuring.

VI. INFORMATION OF THE INVESTOR AND PARTIES ACTING IN CONCERT WITH IT

The Investor is a company incorporated in Hong Kong with limited liability and is an investment holding company providing integrated financial services in the PRC. As at the Latest Practicable Date, the Investor is beneficially wholly-owned by Ms. Huang, who is also the sole director of the Investor.

LETTER FROM THE BOARD

Ms. Huang, aged 37, graduated from the Guangdong Institute of Commerce (now Guangdong University of Finance and Economics) with a bachelor's degree in Business Administration. She is currently the chairman of Zhonggangtong International Modern Service Industry Park (Shenzhen) Co., Limited* (中港通國際現代服務業產業園(深圳)有限公司) and the chairman of Zhonggangtong International Financial Services (Shenzhen) Co., Ltd.* (中港通國際金融服務(深圳)有限公司). Ms. Huang is also the founder of Guangdong Vision Media Co., Limited* (廣東省視商傳媒有限公司). Ms. Huang is currently pursuing a Master of Global Management (MGM) at ESC Clermont Graduate School of Management. Ms. Huang does not have any relevant experience in the forestry management business and the Ginseng Business.

Zhonggangtong International Modern Service Industry Park (Shenzhen) Co., Limited* (中港通國際現代服務業產業園(深圳)有限公司) is principally engaged in the business of providing management planning services for industrial parks, economic information consulting, investment consulting, corporate marketing planning, property leasing, property management, domestic trade, import and export of goods and technology.

Zhonggangtong International Financial Services (Shenzhen) Co., Ltd.* (中港通國際金融服務(深圳)有限公司) is principally engaged in the business of providing financial intermediary services, entrusted asset management, supply chain management, corporate management consulting, business information consulting, economic information consulting, equity investment and investment in the industrial and commercial sector.

Guangdong Vision Media Co., Limited* (廣東省視商傳媒有限公司) is principally engaged in cultural industry park projects, radio and television program production, large-scale event services, marketing planning services, corporate image planning services, cultural arts consulting services, large-scale event organization and planning services, internet merchandising and e-commerce information consulting.

The Investor has confirmed that, during the Relevant Period, none of the Investor, its ultimate beneficial owner and/or parties acting in concert or presumed to be acting in concert with any of them (i) owned or had control or direction over any voting rights and rights over any Shares or options, warrants or convertible securities in respect of the Shares or outstanding derivatives in respect of the relevant securities of the Company; (ii) had borrowed or lent any relevant securities of the Company; and (iii) had dealt for value in any Shares or convertible securities, warrants or options in respect of the Shares or derivatives in respect of the relevant securities of the Company.

Each of the Investor and its ultimate beneficial owner, Ms. Huang, is an Independent Third Party.

LETTER FROM THE BOARD

VII. INTENTION OF THE INVESTOR

As at the Latest Practicable Date, the Investor intended to continue the existing businesses of the Group and did not intend to introduce any major changes to the existing operation and businesses of the Group. Nevertheless, following the Completion, the Investor intends that the Company will continue to seek new business opportunities to improve its profitability and business prospects, enhance its future business development, and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise. As at the Latest Practicable Date, the Investor also did not intend to dispose of or redeploy of any of the assets of the Group, or to discontinue the employment of any existing employees of the Group other than in the ordinary course of business. The Investor has not identified any targets for development of other businesses nor conducted any discussions or negotiations for the acquisition of any new business or asset into or disposal of any existing business or asset of the Group as at the Latest Practicable Date.

VIII. PROPOSED CHANGE TO THE BOARD COMPOSITION

As at the Latest Practicable Date, the Board currently comprises five executive Directors, namely Professor Fei Phillip, Mr. Li Wenjun, Mr. Wang Yue, Ms. Hui Hing Connel and Mr. Lai Chi Yin Samuel; one non-executive Director, namely Mr. Gu Sotong; and four independent non-executive Directors, namely Mr. Liu Zhaoxiang, Ms. Wong Hoi Ying, Mr. Wang Yibin and Mr. Guo Zhonglong.

Pursuant to the terms of the Subscription Agreement, the Company agreed to deliver the undated written resignation letters of such Directors as designated by the Investor to the Investor and effective from the completion of the Subscription or, if later, the earliest date as permitted under the Takeovers Code. In addition, the Company agreed to appoint such person(s) as nominated by the Investor as Director(s) with effect from the completion of the Subscription or, if later, the earliest date as permitted under the Takeovers Code.

The Investor is in the process of finalising the list of suitable candidates with the right calibre (with the relevant experience in the forestry management business and/or the Ginseng Business) to become new Directors following completion of the Subscription. Further announcement(s) will be published by the Company in respect of the changes to the Board pursuant to the Takeovers Code and the Listing Rules as and when appropriate.

LETTER FROM THE BOARD

IX. SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purposes only, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation having become effective; and (iii) immediately after completion of the issue of the Subscription Share and Scheme Shares in full:

Shareholder	As at the Latest Practicable Date		Immediately after the Capital Reorganisation having become effective		Immediately after completion of the issue of the Subscription Shares and Scheme Shares in full	
	Shares	%	Shares	%	Shares	%
The Investor	-	-	-	-	466,000,000	65.06
Mr. Wang ^(Note 1)	3,197,023,920	29.00	31,970,239	29.00	31,970,239	4.46
Ms. Tian	790,000	0.01	7,900	0.01	7,900	0.00
Ms. Hui	10,000,000	0.09	100,000	0.09	100,000	0.01
Creditors ^(Note 2)	-	-	-	-	140,000,000 ^(Note 3)	19.55
Existing public Shareholders	<u>7,816,406,495</u>	<u>70.90</u>	<u>78,164,065</u>	<u>70.90</u>	<u>78,164,065</u>	<u>10.91</u>
Total	<u><u>11,024,220,415</u></u>	<u><u>100.00</u></u>	<u><u>110,242,204</u></u>	<u><u>100.00</u></u>	<u><u>716,242,204</u></u>	<u><u>100.00</u></u>

Notes:

- Mr. Wang directly holds 3,092,703,920 Shares and he is deemed to be interested in 104,320,000 Shares which are beneficially owned by his spouse under Part XV of the SFO.
- Save for Mr. Wang, Ms. Tian and Ms. Hui, none of the creditors of the Company and their ultimate beneficial owners are Shareholders.
- Some of the Scheme Shares will be held by Mr. Wang, Ms. Tian, Ms. Hui, the Director Creditors and the Former Director Creditors.
- Save for Mr. Wang and Ms. Hui, none of the other existing Directors is interested in the Shares.

As at the Latest Practicable Date, there is no outstanding option, warrant or other instrument convertible or exchangeable into Shares.

LETTER FROM THE BOARD

X. APPLICATION FOR LISTING

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

Subject to the granting of listing of, and permission to deal in, the New Shares, the Subscription Shares, and the Scheme Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, upon the Capital Reorganisation, the Subscription and the Creditors' Scheme becoming effective, the New Shares, the Subscription Shares, and the Scheme Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares, the Subscription Shares, and the Scheme Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the New Shares, the Subscription Shares and the Scheme Shares to be admitted into CCASS established and operated by HKSCC.

XI. LISTING RULES IMPLICATION

A. CONNECTED TRANSACTIONS

Based on the records available to the Company, the Company has certain director's remuneration owed to (i) Professor Fei Phillip, Mr. Li Wenjun, Mr. Wang, Ms. Hui, Mr. Lai Chi Yin Samuel, Mr. Liu Zhaoxiang, Ms. Wong Hoi Ying, Mr. Wang Yibin and Mr. Guo Zhonglong, respectively, each a Director; and (ii) Ms. Tian, Dr. Tse Kwok Sang, Mr. Pang Kin Lung and Mr. Ng Kwok Hung, respectively, each a former Director in the last 12 months preceding the date of the Restructuring Framework Agreement. Therefore, each of the Director Creditors and the Former Director Creditors is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Creditors' Scheme taking effect, each of the Director Creditors and the Former Director Creditors may also be a Creditor.

LETTER FROM THE BOARD

As at the Latest Practicable Date, based on the available books and records of the Company, (i) the approximate amount owed by the Company to the Director Creditors and the Former Director Creditors is set out hereinbelow, and (ii) for illustrative purpose and subject to adjudication by the Scheme Administrators, based on the total estimated indebtedness owed by the Company to the creditors as at the Latest Practicable Date, which is approximately HK\$550.0 million, under the Creditors' Scheme, each of these Director Creditors and the Former Director Creditors will receive:

	Amount owed by the Company as at the Latest Practicable Date	Settlement of indebtedness under the Creditors' Scheme			
		<i>HK\$ (rounded off to the nearest HK\$'000)</i>	<i>Scheme Cash Consideration (HK\$)</i>	<i>Number of Scheme Shares</i>	<i>% (as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares and assuming there is no other change in the issued share capital of the Company)</i>
Director Creditors					
Professor Fei Phillip	1,920,000	106,321	496,163	0.069	425,283
Mr. Li Wenjun	1,690,000	93,584	436,727	0.061	374,337
Mr. Wang	340,000	18,828	87,862	0.012	75,310
Ms. Hui	272,000	15,062	70,289	0.010	60,248
Mr. Lai Chi Yin Samuel	272,000	15,062	70,289	0.010	60,248
Mr. Liu Zhaoxiang	96,000	5,316	24,808	0.003	21,264
Ms. Wong Hoi Ying	40,000	2,233	10,422	0.001	8,933
Mr. Wang Yibin	81,000	4,467	20,845	0.003	17,867
Mr. Guo Zhonglong	81,000	4,467	20,845	0.003	17,867
Former Director Creditors					
Ms. Tian	538,000	29,781	138,979	0.019	119,125
Dr. Tse Kwok Sang	235,000	13,040	60,853	0.008	52,160
Mr. Pang Kin Lung	1,806,000	99,980	466,574	0.065	399,921
Mr. Ng Kwok Hung	1,806,000	99,980	466,574	0.065	399,921
Total	9,177,000	508,121	2,371,230	0.329	2,032,484

LETTER FROM THE BOARD

Accordingly, the Scheme Shares Issue to the Director Creditors and the Former Director Creditors under the Creditors' Scheme constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders by way of poll. The Director Creditors, the Former Director Creditors, and their respective associates shall abstain from voting in respect of the resolution(s) to approve the Creditors' Scheme.

Each of Professor Fei Phillip, Mr. Li Wenjun, Mr. Wang, Ms. Hui, Mr. Lai Chi Yin Samuel, Mr. Liu Zhaoxiang, Ms. Wong Hoi Ying, Mr. Wang Yibin and Mr. Guo Zhonglong has abstained from approving the relevant board resolutions on the Scheme Shares Issue to them under the Creditors' Scheme.

B. SPECIFIC MANDATE

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

C. DILUTION EFFECT OF THE SUBSCRIPTION AND THE SCHEME SHARES ISSUE, AND EXCEPTIONAL CIRCUMSTANCES

Pursuant to Rule 7.27B of the Listing Rules, a listed issuer may not undertake a rights issue, open offer or specific mandate placing that would result in a theoretical dilution effect of 25% or more, unless the Stock Exchange is satisfied that there are exceptional circumstances. On 3 December 2020 (Cayman Islands time), the Company was placed in provisional liquidation for restructuring purposes only by the Cayman Court and the Joint Provisional Liquidators were appointed. In light of (i) the liquidation status of the Company and the appointment of the Joint Provisional Liquidators; (ii) the liquidity shortage and heavily indebted financial position of the Company; and (iii) the prolonged suspension of the trading in the Shares on the Stock Exchange, it was not feasible or practicable for the Company to obtain any third party financing through debt or equity issuance nor was it possible for the Company to obtain any loans from banks or other financial institutions.

In view of the insolvent financial position and the provisional liquidation status of the Company as well as the prolonged suspension of the trading in the Shares on the Stock Exchange, the closing price of the Shares on the Last Trading Day does not reasonably reflect the existing condition of the Company and the financial position of the Company could be considered as an exceptional circumstance under Rule 7.27B. Besides, there are practical difficulties to issue the Subscription Shares and Scheme Shares without a substantial discount. Further, the Proposed Restructuring, the Subscription and the Creditors' Scheme will discharge all Admitted Claims against the Company and will facilitate the resumption of the Company when completed. Accordingly, the Directors consider it is fair and reasonable for the allotment and issue of the Subscription Shares and the Scheme Shares to result in a theoretical dilution effect of approximately 65.48%.

LETTER FROM THE BOARD

XII. TAKEOVERS CODE IMPLICATIONS

B. THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Investor, Ms. Huang and parties acting in concert with any of them did not hold, own, control or have direction over any Shares, outstanding options, warrants or any securities that are convertible into Shares or any derivatives in respect of the securities in the Company, or hold any relevant securities in the Company.

Immediately after completion of the Capital Reorganisation, the Subscription and the Scheme Shares Issue, the Investor will be interested in 466,000,000 New Shares, representing approximately 65.06% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no other change in the issued share capital of the Company).

Under Rule 26.1 of the Takeovers Code, the acquisition of 30% or more of the voting rights in the Company by the Investor as a result of the Subscription would trigger an obligation on the Investor to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Investor and its concert parties), unless the Whitewash Waiver is granted by the Executive.

An application has been made to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, the approval by at least 75% of the votes cast by the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver and the approval by more than 50% of the votes cast by the Independent Shareholders at the EGM by way of poll in respect of the transactions contemplated under the Restructuring Framework Agreement and the Subscription Agreement in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. (i) The Investor, Ms. Huang, their associates and parties acting in concert with any of them and (ii) Shareholders who are involved in or interested in the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver or the Special Deals (including the creditors of the Company, the Scheme Administrators, Mr. Wang, Ms. Tian and Ms. Hui, the Director Creditors and Former Director Creditors) will abstain from voting on the relevant resolution(s) at the EGM.

If the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Investor and parties acting in concert with it will hold more than 50% of the voting rights of the Company after completion of the Subscription. The Investor may further increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

LETTER FROM THE BOARD

C. THE SPECIAL DEALS

Based on the records available to the Company, as at the Latest Practicable Date, (i) Mr. Wang controls 3,197,023,920 Shares, representing approximately 29.0% of the issued share capital of the Company, (ii) Ms. Tian holds 790,000 Shares, representing approximately 0.01% of the issued share capital of the Company; and (iii) Ms. Hui holds 10,000,000 Shares, representing approximately 0.09% of the issued share capital of the Company. Based on the records available to the Company, the Company has certain director's remuneration owed to Mr. Wang, Ms. Tian and Ms. Hui respectively, therefore each of Mr. Wang, Ms. Tian and Ms. Hui is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Creditors' Scheme taking effect, Mr. Wang, Ms. Tian and Ms. Hui may also be a Creditor.

As at the Latest Practicable Date, based on the available books and records of the Company, the amount owed by the Company to Mr. Wang, Ms. Tian and Ms. Hui is approximately HK\$340,000, HK\$538,000 and HK\$272,000, respectively (rounded off to the nearest HK\$'000). These amounts are indicative and will be subject to the notices of claim filed in accordance with the terms of the Creditors' Scheme. For illustrative purpose, based on the total estimated indebtedness owed by the Company to the Creditors as at the Latest Practicable Date, which is approximately HK\$550.0 million, under the Creditors' Scheme (a) Mr. Wang shall receive (i) Creditors' Scheme Cash Consideration of approximately HK\$18,828, (ii) 87,862 Scheme Shares, representing approximately 0.012% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no other change in the issued share capital of the Company), and (iii) Promissory Notes in the principal amount of HK\$75,310; (b) Ms. Tian shall receive (i) Creditors' Scheme Cash Consideration of approximately HK\$29,781, (ii) 138,979 Scheme Shares, representing approximately 0.019% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no other change in the issued share capital of the Company), and (iii) Promissory Notes in the principal amount of HK\$119,125; and (c) Ms. Hui shall receive (i) Creditors' Scheme Cash Consideration of approximately HK\$15,062, (ii) 80,289 Scheme Shares, representing approximately 0.010% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no other change in the issued share capital of the Company), and (iii) Promissory Notes in the principal amount of HK\$60,248.

As the proposed settlement of the indebtedness to Mr. Wang, Ms. Tian and Ms. Hui under the Creditors' Scheme is not extended to all the other Shareholders, such settlement of indebtedness constitute special deals under Rule 25 of the Takeovers Code. As such, the Special Deals require consents of the Executive.

An application has been made to the Executive for the consents to proceed with the Special Deals under Rule 25 of the Takeovers Code. Such consents, if granted, will be subject to (a) the Independent Financial Adviser publicly stating in its opinion that the terms of the Special Deals are fair and reasonable; and (b) approval of the Special Deals by the Independent Shareholders at the EGM, in which (i) the Investor, Ms. Huang, their associates and parties acting in concert with any of them and (ii) Shareholders who are involved in or interested in the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver or the Special Deals (including the creditors of the Company, the Scheme Administrators, Mr. Wang, Ms. Tian and Ms. Hui, the Director Creditors and the Former Director Creditors) will be required to abstain from voting in respect of the resolution(s) to approve the Special Deals.

LETTER FROM THE BOARD

Save as disclosed above, as at the Latest Practicable Date, none of the creditors of the Company and their ultimate beneficial owners is a Shareholder.

XIII. INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date and during the Relevant Period, save for the Restructuring Framework Agreement, the Subscription Agreement and the Funding Agreement:

- (a) none of the Investor, Ms. Huang or parties acting in concert with any of them have dealt in any securities of the Company during the Relevant Period;
- (b) none of the Investor, Ms. Huang or parties acting in concert with any of them owns, holds, controls or has direction over any Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (c) none of the Investor, Ms. Huang or parties acting in concert with any of them will make any acquisitions or disposals of voting rights between the date of this circular and allotment and issue of the Subscription Shares and no such acquisition or disposal has been made in the Relevant Period;
- (d) none of the Investor, Ms. Huang or parties acting in concert with any of them has received any irrevocable commitment in relation to voting of the resolutions in respect of the transactions contemplated under the Restructuring Framework Agreement, the Subscription Agreement, the Creditors' Scheme, the Whitewash Waiver and the Special Deals at the EGM;
- (e) there is no outstanding derivative in respect of the securities of the Company which has been entered into by the Investor, Ms. Huang or parties acting in concert with any of them;
- (f) there is no arrangement (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities of the Company or the Investor which might be material to the transactions contemplated under the Restructuring Framework Agreement, the Subscription Agreement, the Creditors' Scheme, the Whitewash Waiver and the Special Deals;
- (g) there is no agreement or arrangement to which the Investor, Ms. Huang or parties acting in concert with any of them is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Restructuring Framework Agreement, the Subscription Agreement, the Whitewash Waiver and the Special Deals;
- (h) none of the Investor, Ms. Huang or parties acting in concert with any of them has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

LETTER FROM THE BOARD

- (i) none of the Investor, Ms. Huang or parties acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person during the Relevant Period;
- (j) save for the funding paid or payable under the Funding Agreement and the consideration paid or payable under the Subscription Agreement, there is no other consideration or compensation or benefit in whatever form paid or to be paid by the Investor, Ms. Huang or parties acting in concert with any of them to the Company in connection with the transactions contemplated under the Restructuring Framework Agreement and the Subscription Agreement;
- (k) there is no understanding, arrangement, agreement or special deal between the Investor, Ms. Huang or any person acting in concert with any of them on the one hand, and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the transactions contemplated under the Restructuring Framework Agreement and the Subscription Agreement;
- (l) save for the Special Deals, there is no understanding, arrangement or agreement or other special deal between (1) any Shareholder; and (2) either (i) the Investor, Ms. Huang and any parties acting in concert with any of them (if any); or (ii) the Company, its subsidiaries or associated companies;
- (m) the Company did not hold, control or have direction over any shares and any options, warrants, derivatives or convertible securities in respect of securities in the Investor and persons acting in concert with it and it has not dealt for value in any such securities of the Investor and persons acting in concert with it during the Relevant Period;
- (n) none of the Directors held, controlled or had direction over any shares and any options, warrants, derivatives or convertible securities in respect of securities in the Investor and persons acting in concert with it and none of them has dealt for value in any such securities of the Investor and persons acting in concert with it during the Relevant Period;
- (o) save for Mr. Wang, Ms. Tian and Ms. Hui whose respective shareholdings are set out in the section headed “Letter from the Board – IX. Shareholding Structure of the Company” in this circular, none of the Directors held, controlled or had direction over any shares and any options, warrants, derivatives or convertible securities in respect of securities in the Company. In addition, none of the Directors has dealt for value in any such securities of the Company during the Relevant Period;
- (p) no shareholding in the Company was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” in the Takeovers Code or an associate of the Company by virtue of class (2) of the definition of “associate” in the Takeovers Code but excluding exempt principal traders and exempt fund managers during the Relevant Period;

LETTER FROM THE BOARD

- (q) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code during the Relevant Period;
- (r) no shareholding in the Company was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company during the Relevant Period;
- (s) save for Mr. Wang, Ms. Tian and Ms. Hui, none of the Directors and their respective associates owned or controlled any shares and any options, warrants, derivatives or convertible securities in respect of securities in the Company. In addition, none of them has dealt for value in any such securities of the Company during the Relevant Period, therefore save for Mr. Wang, Ms. Tian and Ms. Hui who will abstain from voting at the EGM, none of the other Directors will vote for or against the resolutions to be proposed at the EGM to approve the Restructuring Framework Agreement, the Subscription Agreement, the Creditors' Scheme, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder;
- (t) there was no agreement, arrangement or understanding pursuant to which the Subscription Shares to be issued to the Investor or parties acting concert with it under the Subscription or may be issued to the Investor pursuant to the fulfilment of its obligations under the Subscription Agreement would be transferred, charged or pledged to any other persons;
- (u) no benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Proposed Restructuring, including the Subscription, the Creditors' Scheme, the Whitewash Waiver and the Special Deals;
- (v) neither the Company or any of the Directors has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (w) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Proposed Restructuring, including the Subscription, the Creditors' Scheme, the Whitewash Waiver and the Special Deals or otherwise connected with any of them; and
- (x) there was no material contracts which have been entered into by the Investor, Ms. Huang or any person acting in concert with any of them in which any Director has any a material personal interest.

XIV. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for the entering into of the Funding Agreement, the Restructuring Framework Agreement and the Subscription Agreement, the Company had not conducted any equity fund raising activities involving the issue of its equity securities in the 12 months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

XV. THE EGM

The notice of the EGM is set out on pages 123 to 128 of this circular. At the EGM, resolutions will be proposed to approve, among others, (i) the Restructuring Framework Agreement; (ii) the Capital Reorganisation; (iii) the Subscription; (iv) the Creditors' Scheme; (v) the Whitewash Waiver; and (vi) the Special Deals and the respective transactions contemplated thereunder. Voting on the resolutions at the EGM will be taken by way of poll.

(i) The Investor, Ms. Huang, their associates and parties acting in concert with any of them and (ii) Shareholders who are involved in or interested in the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver or the Special Deals (including the creditors of the Company, the Scheme Administrators, Mr. Wang, Ms. Tian and Ms. Hui, the Director Creditors and Former Director Creditors) will be required to abstain from voting on the resolutions to approve the Restructuring Framework Agreement, the Subscription, the Creditors' Scheme, the Whitewash Waiver and the Special Deals at the EGM.

As at Latest Practicable Date, the Investor, Ms. Huang and parties acting in concert with any of them are not interested in any Shares. (i) Mr. Wang and his associate in aggregate control or are entitled to exercise control over the voting rights in respect of approximately 29.0% of total Shares in issue; (ii) Ms. Tian controls the voting rights in respect of approximately 0.01% of total Shares in issue; and (iii) Ms. Hui controls the voting rights in respect of approximately 0.09% of total Shares in issue as at the Latest Practicable Date. Save for Mr. Wang, and his associate Ms. Tian and Ms. Hui, none of the other Shareholders and their respective associates have to abstain from voting on any resolution(s) to be proposed at the EGM. As such, Mr. Wang and his associate, Ms. Tian and Ms. Hui will abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the website of the Stock Exchange. Results of the poll voting will be published on the Company's website and the website of Stock Exchange after the EGM.

In order to be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time appointed for holding the EGM, excluding Saturdays, Sundays and public holidays in Hong Kong (i.e. 11:00 a.m. on Thursday, 23 March 2023), or any adjournment thereof. The completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or any adjournment thereof should he/she/it so wishes.

The register of members of the Company will be closed from Tuesday, 21 March to Monday, 27 March 2023, both days inclusive, during which period no transfer of shares will be registered for the purpose of determining who will be entitled to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM to be held on Monday, 27 March 2023, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Monday, 20 March 2023.

LETTER FROM THE BOARD

XVI. FORMATION OF THE TAKEOVERS CODE IBC AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Takeovers Code IBC, comprising the non-executive Director, namely Mr. Gu Sotong, who has no direct or indirect interest in the Proposed Restructuring, the Whitewash Waiver and the Special Deals, had established in accordance with the Takeovers Code to advise the Independent Shareholders on whether the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription Agreement; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders on how to vote.

As all the independent non-executive Directors are Director Creditors and may become Creditors under the Creditors' Scheme which would cause them to have a material interest in the Proposed Restructuring and the transactions contemplated thereunder, the independent non-executive Directors will not form part of the Takeovers Code IBC and no independent board committee under the Listing Rules will be formed pursuant to Rule 14A.42 of the Listing Rules.

China Tonghai Capital Limited has been appointed as the Independent Financial Adviser, with the approval of the Takeovers Code IBC, to advise the Takeovers Code IBC and the Independent Shareholders in accordance with the requirements under the Listing Rules and the Takeovers Code in this regard.

XVII. RECOMMENDATION

The Directors (excluding member of the Takeovers Code IBC whose views are set out in the letter from the Takeovers Code IBC) consider that the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription Agreement; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding member of the Takeovers Code IBC whose views are formed and set out in the letter from the Takeovers Code IBC) recommend the Shareholders to vote in favour of the ordinary resolutions and special resolutions (as the case may be) to be proposed at the EGM to approve the Proposed Restructuring, the Whitewash Waiver and the Special Deals.

XVIII. FURTHER INFORMATION

Your attention is drawn to the letter from the Takeovers Code IBC set out on pages 65 to 66 of this circular which contains its recommendation to the Independent Shareholders in relation to the Proposed Restructuring, the Whitewash Waiver and the Special Deals, and the letter from the Independent Financial Adviser set out on pages 67 to 106 of this circular which contains its advice to the Takeovers Code IBC and the Independent Shareholders in this regard.

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

LETTER FROM THE BOARD

XIX. CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 4 October 2021 and will remain suspended pending the fulfilment of all the resumption conditions imposed by the Stock Exchange.

The publication of this circular does not indicate any decision or conclusion from the Stock Exchange nor warrant any approval from the Stock Exchange on the resumption of trading in Shares on the Stock Exchange, nor indicate that the Exchange considers that the Company has met all the Resumption Guidance and comply with all the applicable Listing Rule requirements. Shareholders and potential investors of the Company should note that the transactions contemplated under the Proposed Restructuring, the Whitewash Waiver and the Special Deals are subject to certain conditions including but not limited to the resumption of trading in the Shares on the Stock Exchange which may or may not proceed.

Shareholders and potential investors of the Company should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their positions, they should consult their professional adviser(s).

Yours faithfully
By order of the Board
China Bozza Development Holdings Limited
Fei Phillip
Chairman and Executive Director

LETTER FROM THE TAKEOVERS CODE IBC

中國寶沙發展控股有限公司 China Bozza Development Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Provisional Liquidators Appointed)

(For Restructuring Purpose)

(Stock code: 1069)

3 March 2023

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RESTRUCTURING INVOLVING
(1) CAPITAL REORGANISATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) ISSUE OF SUBSCRIPTION SHARES TO THE INVESTOR
UNDER SPECIFIC MANDATE;
(4) SCHEME OF ARRANGEMENT INVOLVING CREDITORS' SCHEME
CASH CONSIDERATION, ISSUE OF SCHEME SHARES UNDER SPECIFIC
MANDATE AND PROMISSORY NOTES;
(5) APPLICATION FOR WHITEWASH WAIVER; AND
(6) SPECIAL DEALS

I refer to the circular of the Company dated 3 March 2023 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

I have been appointed by the Board as the member of the Takeovers Code IBC to advise the Independent Shareholders as to whether the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders on how to vote on the relevant resolutions. China Tonghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Takeovers Code IBC and the Independent Shareholders in such regard.

I wish to draw your attention to (i) the letter of advice from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation as set out on pages 67 to 106 of the Circular; (ii) the letter from the Board as set out on pages 12 to 64 of the Circular; and (iii) the additional information set out in the appendices to the Circular.

LETTER FROM THE TAKEOVERS CODE IBC

Having considered the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the advice given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by it in arriving at its advice, I am of the opinion that the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, I recommend the Independent Shareholders to vote in favour of the resolutions relating to (i) the Restructuring Framework Agreement; (ii) the Subscription; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals to be proposed at the EGM.

Yours faithfully,
Member of The Takeovers Code IBC
Mr. Gu Sotong
Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from China Tonghai Capital Limited, the Independent Financial Adviser to the Takeovers Code IBC and the Independent Shareholders in respect of the Proposed Restructuring, for the purpose of incorporation into the Circular.



3 March 2023

To the Takeovers Code IBC and the Independent Shareholders

Dear Sir/Madam,

PROPOSED RESTRUCTURING INVOLVING
(1) CAPITAL REORGANISATION;
(2) ISSUE OF SUBSCRIPTION SHARES TO THE INVESTOR
UNDER SPECIFIC MANDATE;
(3) SCHEME OF ARRANGEMENT INVOLVING CREDITORS' SCHEME
(CASH CONSIDERATION, ISSUE OF SCHEME SHARES UNDER SPECIFIC
MANDATE AND PROMISSORY NOTES);
(4) APPLICATION FOR WHITEWASH WAIVER;
AND
(5) SPECIAL DEALS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Takeovers Code IBC and the Independent Shareholders in respect of the Proposed Restructuring, details of which are set out in the Circular dated 3 March 2023 issued by the Company in relation to the Proposed Restructuring (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 30 December 2022, the Company and the Joint Provisional Liquidators entered into the Restructuring Framework Agreement with the Investor, pursuant to which the Company will implement the Proposed Restructuring which involves restructuring of the debts and liabilities, capital structure and share capital of the Company including (i) the Capital Reorganisation and the Change in Board Lot Size; (ii) the Subscription; (iii) the Creditors' Scheme involving (a) the Creditors' Scheme Cash Consideration; (b) the Scheme Shares Issue; and (c) the Promissory Notes Issue; (iv) the Whitewash Waiver; and (v) the Special Deals.

On the same date, the Investor (as subscriber), the Company (as issuer) and the Joint Provisional Liquidators entered into the Subscription Agreement, pursuant to which, the Investor, will subscribe the Subscription Shares to be issued by the Company at the Subscription Price for the purpose of the Proposed Restructuring.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The EGM will be convened and held for the purpose of considering and, if thought fit, approving, among others, (i) the Restructuring Framework Agreement and the transactions contemplated thereunder; (ii) the Capital Reorganisation; (iii) the Subscription Agreement; (iv) the Creditors' Scheme; (v) the Whitewash Waiver; and (vi) the Special Deals.

The Takeovers Code IBC comprising the non-executive Director in compliance with Rule 2.8 of the Takeovers Code has been formed to advise the Independent Shareholders, among other things, as to whether the terms of (i) the Restructuring Framework Agreement; (ii) the Subscription Agreement; (iii) the Creditors' Scheme; (iv) the Whitewash Waiver; and (v) the Special Deals, and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders on how to vote, taking into account our recommendation. As the Independent Financial Adviser, our role is to give an independent opinion to the Takeovers Code IBC and the Independent Shareholders in such regard.

OUR INDEPENDENCE

China Tonghai Capital Limited is not associated with the Company, the Investor, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. We do not have any relationship with or interests in the Company, the Investor or any of their respective ultimate beneficial owners which could reasonably be regarded as relevant to our independence. We have not acted as independent financial adviser to the other transactions of the Company in the last two years prior to the date of the Circular. Apart from normal professional fees paid or payable to us in connection with this engagement, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Investor, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give an independent advice to the Takeovers Code IBC and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (a) the information, facts and representations contained or referred to in the Circular; (b) the information, facts and representation supplied or provided by the Company, the Directors and the management of the Group; (c) the opinions expressed by and the representations of the Directors and the management of the Group; and (d) our review of relevant public information. We have assumed that all the information and facts provided and representations and beliefs, intentions and opinions expressed to us or contained or referred to in the Circular are true, accurate and complete in all respects as at the Latest Practicable Date and may be relied upon. We have also assumed that all statements contained and information, facts and representations made to us or referred to in the Circular were true at the time they were made and continue to be true up to the time of EGM and all statements of belief, intentions and opinions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information, representations, beliefs, opinions and intentions provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided to us and referred to in the Circular and that all information or facts provided or representations or beliefs, opinions or intentions provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects which have been made after due and careful enquiry at the time they were made and continued to be so until the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Shareholders will be informed by the Company and us as soon as possible if there is any material change to the information disclosed in the Circular pursuant to Rule 9.1 of the Takeovers Code, in which case we will consider whether it is necessary to revise our opinion and inform the Takeovers Code IBC and the Independent Shareholders accordingly.

We have reviewed (i) the Company's annual reports for the year ended 31 December 2019 and for the eighteen months ended 30 June 2021; (ii) the Company's annual results announcement for the year ended 30 June 2022; (iii) the Restructuring Framework Agreement; (iv) the Subscription Agreement; (v) the Funding Agreement; and (vi) announcements of the Company dated 31 December 2021, 27 June 2022, 7 October 2022 and 5 January 2023 and we consider that we have been reviewed sufficient information currently available to reach an informed view so as to provide a reasonable basis for our opinion regarding the Proposed Restructuring. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposed Restructuring, we have taken into account the following principal factors and reasons:

1. Background and financial information of the Group

(a) *Background information of the Group*

Principal businesses

The Group is principally engaged in forestry management (i.e. plantation, logging and sale of timber related products), ginseng-related business (i.e. plantation and sale of ginseng) and investment holding. The Group's plantation forests are all located in Sichuan Province, the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, according to the 14th Five-Year Plan (2021–2025), which was approved by the National People’s Congress on 11 March 2021, the PRC government sets out the blueprints for improving the quality and stability of the ecosystem and promoting the harmonious coexistence of mankind and nature, including to strengthen forests protection and restoration, which limits the number of permits and the annual logging quotas to be approved by the respective authorities. In particular, for Sichuan Province, according to the 14th Five-Year Plan, the annual logging quota permitted by the PRC government was approximately 158,716 cubic meters, which represented a decrease of approximately 36.6% as compared to the annual logging quota of approximately 250,460 cubic meters as set out in the 13th Five-Year Plan (2016-2020). Moreover, it is expected that the local government authority in Sichuan Province will continue to adopt environmental protection measures by approving logging activities mainly focusing on unhealthy trees/forests which usually come with a lower yield rate of timber as compared to those healthy or mature trees/forests. A yield rate of timber refers to the percentage of volume of usable timber per unit being logged. Generally, the volume of usable timber that can be extracted from unhealthy trees/forests is lower than that from healthy or mature trees/forests and therefore lower the yield rate. As disclosed in the Letter from the Board, such government policies, if adopted, may limit the growth of the Group’s forestry management business notwithstanding that there is no change to the pre-requisite requirements for the Group to obtain the logging quotas. In particular, the Company expects that the environmental protection policies/measures promulgated by the PRC government will result in a decrease in the Group’s logging yield rate from approximately 66% prior to 2021 to approximately 40% since 2021. The amount of first batch logging permits for the calendar year of 2023 with logging quantity of 10,305 cubic meters in aggregate has been fixed. Due to the aforesaid annual logging quota system, we consider that the actual logging quantity of the Group will be continue to hinge on the annual logging quotas granted to the Group to a great extent in the future.

As stated in the Letter from the Board, due to the outbreak of the COVID-19 pandemic in the PRC in 2020, the PRC government imposed stringent precautionary measures such as social distancing and mandatory quarantine restrictions, which caused administrative difficulties for local government authorities in granting logging permits. Hence, the Group was unable to obtain logging permits for the calendar year of 2020 and was unable to conduct logging operations throughout the eighteen months ended 30 June 2021. In July 2021, the Group has obtained logging permits for the calendar year of 2021 with logging quantity of 6,003.3 cubic meters in aggregate. All of the aforesaid approved quantity has been sold and has contributed revenue to the Group for the financial year ended 30 June 2022. Further in November 2022, the Group has obtained the logging permits for the calendar year of 2022 with logging quantity of 16,648 cubic meters in aggregate. The Group has completed the sales of all the approved quantity for 2022 and has contributed logging revenue to the Group for the year ending 30 June 2023. In December 2022, the Group has obtained first batch logging permits for the calendar year of 2023 with logging quantity of 10,305 cubic meters in aggregate. Such logging quota is expected to contribute further revenue to the Group for the second-half of the financial year ending 30 June 2023. With the approved logging permits, the Group is able to resume operations for revenue generation in the forestry segment and accordingly, the Directors consider the forestry management business has resumed to normal with the resumption of logging activities.

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The Group has been engaging in the forestry management business since 2013 and has not experienced any difficulty in obtaining logging permits except for 2020. The Directors are of the opinion that mobility restrictions and other control measures will likely ease off as and when the COVID-19 pandemic subsides, and hence do not foresee there to be any obstacle for the Group in obtaining logging permits. We understand that without the approved logging permits, the Group will not be able to start operations for revenue generation in the forestry segment. Given that (i) the Group has obtained logging permits since 2013 other than for 2020; (ii) it was unable to obtain logging permits in 2020 due to the outbreak of the COVID-19 pandemic in the PRC and the PRC government imposed stringent precautionary measures which caused administrative difficulties of the local government authorities in granting logging permits as stated above; (iii) the Group obtained logging permits after the 14th Five-Year Plan (2021–2025), being July 2021, November 2022 and December 2022; and (iv) the Directors do not foresee there to be any obstacle for the Group in obtaining logging permit as stated above, we have no reason to doubt that the Group could not obtain the logging permits after the COVID-19 pandemic subsides barring unforeseen circumstances. With the logging permits, the Group would generate revenue from its forestry management business.

As stated in the Letter from the Board, the Group commenced ginseng trading business in August 2022 by purchasing aged ginseng from its supplier. It was stated that since the suspension of trading of the Shares, the Company resolutely exhausted all means to continue with and to strengthen the business operation of the Group. To fully utilise the forest lands of the Group and to maximise Shareholders' return, the Group has begun the plantation of ginseng in the Group's existing forest lands. The Group has completed the first phrase of ginseng seeding in December 2022 according to its ginseng plantation plan of approximately 6 million pieces on the designated 50 Chinese Mu forest land in the Senbo Forest which takes approximately one year for the ginseng to be harvested and sold to the customers. The Group expected to harvest the first batch of one-year ginseng in November 2023 and sale to customers thereafter. The ginseng business will enable the Group to broaden its revenue base. Under the leadership of the Board, the existing management of the Group will continue to manage and operate the forestry management and ginseng business, and the Group will continue to develop and grow its businesses.

Suspension of trading of the Shares

Trading in the Shares on the Stock Exchange has been suspended since 4 October 2021 and will remain suspended pending the fulfilment of the Resumption Guidance. References are made to the announcements of the Company dated 31 December 2021 and 27 June 2022. The Stock Exchange has imposed on the Company the following Resumption Guidance:

- (i) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (ii) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules;

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- (iii) have winding up petition against the Company at the Grand Court of the Cayman Islands withdrawn or dismissed and the Joint Provisional Liquidators discharged;
- (iv) inform the market of all material information for the Shareholders and investors to appraise the Company's position;
- (v) a minimum of three independent non-executive Directors under Rule 3.10(1) of the Listing Rules;
- (vi) at least one of the independent non-executive Directors to have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules; and
- (vii) a minimum of three members in the audit committee, with at least one member being an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, and the audit committee chaired by an independent non-executive Director under Rule 3.21 of the Listing Rules.

The Stock Exchange further indicated that it may modify or supplement the Resumption Guidance if the Company's situation changes. As stated in the Company's announcement dated 5 January 2023, the Company has fulfilled resumption conditions (v) to (vii) above. On 22 February 2023, the Company submitted the Resumption Proposal to the Stock Exchange and explained that the Company would have substantially implemented the steps that will lead to the resumption of trading in accordance with the Resumption Guidance by 3 April 2023, with the limited exception of certain procedural steps to be taken with respect to the Capital Reorganisation and the Creditors' Scheme. The Company thus requested that the resumption deadline be extended to 14 July 2023. In the event that the Stock Exchange does not consent to the extension of the resumption deadline to 14 July 2023 and the Company fails to satisfy all of the resumption guidance imposed by the Stock Exchange by 3 April 2023, the Listing Division of the Stock Exchange may recommend the Listing Committee to proceed with the cancellation of the Company's listing status at its discretion.

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(b) Financial performance

The following table sets out selective information of the consolidated statements of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 (“FY2019”) as extracted from the annual report 2019, for the eighteen months ended 30 June 2021 (“18M2020/21”) as extracted from the annual report for 18M2020/21 and for the year ended 30 June 2022 (“FY2022”) as extracted from the results announcement of the Company:

	FY2022 (Audited) <i>RMB'000</i>	18M2020/21 (Audited) <i>RMB'000</i> (restated)	18M2020/21 (Audited) <i>RMB'000</i>	FY2019 (Audited) <i>RMB'000</i> (restated)
Continuing operations				
Revenue	6,756	–	25,648	47,911
Cost of sales	<u>(6,756)</u>	<u>–</u>	<u>(23,556)</u>	<u>(19,442)</u>
Gross profit	–	–	2,092	28,469
Investment and other income	147	3,601	3,755	2,443
Other gains/(losses), net	12,396	(484,173)	(490,880)	(203,622)
Selling and distribution expenses	(45)	(685)	(816)	(196)
Administrative expenses	(11,662)	(31,476)	(32,630)	(21,605)
Finance costs	<u>(21,219)</u>	<u>(33,783)</u>	<u>(33,783)</u>	<u>(23,004)</u>
Loss before tax	(20,383)	(546,516)	(552,262)	(217,515)
Income tax expense	–	–	–	–
Loss for the year/period from continuing operations	<u>(20,383)</u>	<u>(546,516)</u>	<u>(552,262)</u>	<u>(217,515)</u>
Discontinued operations				
Profit/(loss) for the year/period from discontinued operations	<u>1,483</u>	<u>(7,114)</u>	<u>(1,368)</u>	<u>(122,969)</u>
Loss for the period/year	<u><u>(18,900)</u></u>	<u><u>(553,630)</u></u>	<u><u>(553,630)</u></u>	<u><u>(340,484)</u></u>

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The following table sets out breakdown of the Group's total revenue by business segment for the year/period as indicated:

	FY2022 (Audited) RMB'000	18M2020/21 (Audited) RMB'000 (restated)	FY2019 (Audited) RMB'000 (restated)
Revenue from sales of goods (Note)	6,756	–	36,826
Interest income from money lending business	–	–	6,343
Sales and installation of container houses	833	25,188	7,564
Sales return from sales and installation of container houses	(3,535)	–	–
Income from provision of services in relation to management and leasing of container houses	–	–	3,083
Rental income from container houses	–	460	438
Total revenue from continuing operations and discontinued operations	4,054	25,648	54,254

Note: Revenue from sales of goods refers to sales generated from the forestry business segment which includes plantation, logging and sale of timber related products.

18M2020/21 compared to FY2019

The Group's revenue for FY2019 was mainly attributable to the revenue from the forestry business of approximately RMB36.8 million. The Group harvested timber logs of approximately 14,730 cubic metres for FY2019. The Group's revenue from container house business was approximately RMB11.1 million for FY2019. The Group also received interest income approximately RMB6.3 million from the money lending business engaged by its wholly-owned subsidiary for FY2019.

As disclosed in the annual report for 18M2020/2021, due to the change in business strategy of the Group and the under-performed financial results of the container houses business and money lending business, the Group has decided to suspend these business operations. The container houses business has been ceased since June 2022. The money lending business has been ceased since September 2020 after the money lender's licence expired on 26 September 2020.

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The Group's revenue for 18M2020/21 was approximately RMB25.6 million, representing a decrease of approximately RMB22.3 million or approximately 46.5%, compared to the revenue of approximately RMB47.9 million for FY2019. As shown in the above table, the Group's revenue for 18M2020/21 was mainly attributable to the revenue from the container houses business of the Group. According to annual report for 18M2020/21, due to the outbreak of COVID-19 in the PRC causing administrative difficulties for the local government authorities, the Group was unable to obtain the logging permit for the calendar year of 2020 from the National Forestry and Grassland Administration. Hence, the Group did not conduct logging operations throughout 18M2020/21 and did not consume forest resources.

The Group recorded a loss of approximately RMB553.6 million for 18M2020/21, representing an increase of approximately RMB213.1 million as compared to that for FY2019. The substantial increase in loss for 18M2020/21 was mainly due to (i) the decrease in gross profit of approximately RMB26.4 million which was mainly attributable to the decrease in revenue as discussed above; (ii) the increase in other losses of approximately RMB287.3 million which was mainly attributable to (a) the increase in net loss on change in fair value less costs to sell of plantation forest assets of approximately RMB433.5 million. The fair value of the Group's plantation forest assets as at 30 June 2021 was estimated by an external valuer using the income approach based on the cash flow forecast prepared by the management of the Company. The decrease in fair value was mainly due to the change in business environment of the forestry business in light of the then government policies in relation to the environmental protection, the cash flow forecast was prepared in a more prudent and conservative approach throughout the forecast period as compared to the valuation as at 31 December 2019, in terms of, among others, projection in logging activities, yield rate of logging and selling prices; and (b) partially offset by decrease in impairment loss recognised in respect of trade receivables of approximately RMB147.2 million; (iii) the increase in administrative expenses of approximately RMB11.0 million was mainly attributable to the consultancy fees for negotiating with creditors and restructuring; and (iv) the increase in finance costs of approximately RMB10.8 million mainly consisted of interests on the promissory notes and corporate bonds.

FY2022 compared to 18M2020/2021

The Group's revenue from continuing operation for FY2022 was approximately RMB6.8 million from the forestry business. The Group's revenue from discontinued operations for FY2022 was approximately RMB(2.7) million from the sales return from sales and installation of container houses, represented a decrease of approximately RMB28.3 million, as compared to the revenue from discontinued operations of approximately RMB25.6 million from container houses business for 18M2020/2021.

The Group recorded a loss of approximately RMB18.9 million for FY2022, representing a decrease of approximately RMB534.7 million as compared to 18M2020/2021. The substantial decrease in loss for FY2022 was mainly due to the net gain on change in fair value less costs to sell of plantation forest assets of approximately RMB12.5 million for FY2022 whereas net loss on change in fair value less costs to sale of plantation forest assets of approximately RMB484.4 million for 18M2020/21.

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(c) Financial position

The following table sets out the consolidated statement of financial position of the Group as at 31 December 2019 as extracted from the annual report 2019, 30 June 2021 as extracted from the annual report for 18M2020/21 and 30 June 2022 as extracted from the results announcement of the Company:

	30 June 2022 (Audited) RMB'000	30 June 2021 (Audited) RMB'000	31 December 2019 (Audited) RMB'000
<i>Non-current assets</i>			
Property, plant and equipment	28	95	1,011
Right-of-use assets	44,633	46,221	55,208
Plantation forest assets	35,910	30,140	514,500
Deferred tax assets	–	–	250
	<u>80,571</u>	<u>76,456</u>	<u>570,969</u>
<i>Current assets</i>			
Inventories	–	–	1,190
Trade and other receivables	5,532	6,352	8,457
Deposits and prepayments	6,308	2,279	4,709
Bank balances and cash	1,106	1,819	3,181
	<u>12,946</u>	<u>10,450</u>	<u>17,537</u>
<i>Current liabilities</i>			
Trade and other payables	78,059	57,350	22,904
Promissory notes payable	53,429	52,027	52,567
Corporate bonds payable	216,203	197,271	98,015
Lease liabilities	–	133	3,214
Income tax payable	120	257	266
	<u>347,811</u>	<u>307,038</u>	<u>176,966</u>
<i>Non-current liabilities</i>			
Corporate bonds payable	52,341	57,187	155,568
Lease liabilities	–	–	3,735
	<u>52,341</u>	<u>57,187</u>	<u>159,303</u>
<i>Capital and reserves</i>			
Share capital	19,016	19,016	19,016
Reserves	(325,651)	(296,335)	233,221
	<u>(306,635)</u>	<u>(277,319)</u>	<u>252,237</u>
(Total deficit on equity)/total equity	<u>(306,635)</u>	<u>(277,319)</u>	<u>252,237</u>

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As at 31 December 2019, the Group had total assets of approximately RMB588.5 million, consisting mainly plantation forest assets and right-of-use assets and total liabilities of approximately RMB336.3 million consisting mainly corporate bond payable, promissory notes payable and trade and other payables. The Group had net asset value of approximately RMB252.2 million as at 31 December 2019.

The Group's total assets decreased from approximately RMB588.5 million as at 31 December 2019 to approximately RMB86.9 million as at 30 June 2021 mainly due to changes in fair value less costs to sell of plantation forest assets for 18M2020/21. According to the annual report 2021, the Group's plantation forest assets are carried at fair value less costs to sell. The fair value of the Group's plantation forest assets at 30 June 2021 was estimated by an external valuer using the income approach, under which the projected future net cash inflows arising from the forest management and harvest, based on forecast of revenue from sales of timber logs and direct costs for the timber logs harvests, are discounted to present value. The Group's total liabilities of approximately RMB364.2 million consisted of mainly corporate bond payable, promissory notes payable and trade and other payables as at 30 June 2021. As a result, the Group had a total deficit on equity of approximately RMB277.3 million as at 30 June 2021.

The Group's total assets increased from approximately RMB86.9 million as at 30 June 2021 to approximately RMB93.5 million as at 30 June 2022 mainly due to changes in fair value less costs to sell of plantation forest assets and increase in deposits and prepayments for FY2022. The Group's total liabilities increased from approximately RMB364.2 million as at 30 June 2021 to approximately RMB400.2 million was mainly due to the increase in trade and other payables and corporate bond payable as at 30 June 2022. As a result, the Group had a total deficit on equity of approximately RMB306.6 million as at 30 June 2022.

In addition, according to Note 3 to Rule 2 of the Takeovers Code, we would like to draw the attention to the Independent Shareholders that Auditors have issued disclaimers of opinion on the consolidated financial statements of the Company for FY2019, 18M2020/21 and FY2022. As stated in the Circular, such disclaimers of opinion include (i) multiple uncertainties relating to going concern basis; and (ii) scope limitation regarding the plantation forest assets and the right-of-use assets of the Group. For detailed information of each of the basis of disclaimers of opinion and the actions taken/to be taken by the management of the Company to address the audit qualifications, please refer to the paragraphs headed "Letter from the Board – V. The Audit Qualifications" in the Circular.

As stated in the Letter from the Board, having considered the factors discussed in the table headed "Letter from the Board – V. The Audit Qualifications" in the Circular, upon Completion and the realisation of the business plan of the Group for its forestry management business for the year ending 30 June 2023, and in the absence of any unforeseen circumstances, the Directors are confident that the Group is able to provide sufficient audit evidence to satisfy the Auditors' requirements for the audit of the consolidated financial statements of the Company for the year ending 30 June 2023. Accordingly, the Directors and the Auditors anticipate that the audit disclaimer qualification will be removed for such financial year, hence will not affect the Group's financial results and operation and the Proposed Restructuring.

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2. Reasons for and benefits of the entering into of the Restructuring Framework Agreement and the Subscription Agreement

According to the Letter from the Board, the Proposed Restructuring, along with the Funding Agreement, forms a vital part of the resumption plan of the Company as it provides the Group with the necessary financing to resolve the debts of the Company by the implementation of the Creditors' Scheme.

As stated in the Letter from the Board, in view of the above and considering the liquidity shortage and financial condition of the Group and the willingness of the Investor to finance the Group in order to relieve the indebtedness of the Company and to support the business operations and expansion of the Group, the Joint Provisional Liquidators, the executive Directors and the independent non-executive Directors consider that the entering into of the Restructuring Framework Agreement and the Subscription Agreement will facilitate the debt restructuring of the Company and to satisfy the Resumption Guidance set out by the Stock Exchange. With the introduction of the Investor as a Shareholder, it is expected that the experience and network of Ms. Huang as the sole shareholder and sole director of the Investor in business management and the financial sector could help the Group to develop and manage its business. Having considered the factors above, the Joint Provisional Liquidators, the Directors (excluding the Takeovers Code IBC whose view is expressed and set forth in the letter from the Takeovers Code IBC having considered our advice) consider that the terms of the Restructuring Framework Agreement and the Subscription Agreement are on normal commercial terms that are fair and reasonable and the entering into of the Restructuring Framework Agreement and the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

After taking into consideration of the following:

- (i) the indicative total estimated indebtedness owed by the Company to its Creditors was approximately HK\$550.0 million as at the Latest Practicable Date as detailed in the section headed "6. The Creditors' Scheme" below;
- (ii) the consolidated net liabilities of the Group of approximately HK\$306.6 million as at 30 June 2022, which indicates that the Group is in financial distress;
- (iii) if the Company is being wound up, it is highly likely that the Shares held by the Independent Shareholders will become worthless given the aforesaid net liabilities position of the Group;
- (iv) the Proposed Restructuring will facilitate the debt restructuring of the Company to discharge all of its indebtedness and, thus, save the Company from going into liquidation;
- (v) the Proposed Restructuring may eventually lead to the resumption of trading of the Shares if Completion takes place;

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- (vi) after discussing with the Company and taking into consideration of (i) and (ii) above and the trading of the Shares has been suspended, we concur with the view of the Company that the Restructuring Framework Agreement together with the Subscription Agreement is the only viable restructuring proposal currently available;
- (vii) the Company is facing an imminent deadline for satisfaction of all of the Resumption Guidance, being 3 April 2023. The Company has requested that the resumption deadline be extended to 14 July 2023. In the event that the Stock Exchange does not consent to the extension of the resumption deadline to 14 July 2023 and the Company fails to satisfy all of the Resumption Guidance imposed by the Stock Exchange by 3 April 2023, the Shares would be delisted from the Stock Exchange; and
- (viii) If the Proposed Restructuring does not proceed, it is highly unlikely that another restructuring proposal, if any, could be concluded before the aforesaid deadline,

we consider that the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole. Based on our analysis and view as set out in the sections below, we consider that the terms of the Proposed Restructuring are fair and reasonable so far as the Independent Shareholders are concerned.

3. The Restructuring Framework Agreement

Set out below are principal terms of the Restructuring Framework Agreement:

Date

30 December 2022

Parties

- (i) the Company;
- (ii) the Investor; and
- (iii) the Joint Provisional Liquidators.

Subject matter

Pursuant to the Restructuring Framework Agreement, the restructuring comprises, among other things, the following:

- (i) The Capital Reorganisation, details of which are set out in the section headed “4. The Capital Reorganisation” below;
- (ii) The Subscription, details of which are set out in the section headed “5. The Subscription” below; and
- (iii) The Creditors’ Scheme, details of which are set out in the section headed “6. The Creditors’ Scheme” below.

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Conditions precedent for Completion

Completion shall be conditional upon the following conditions precedent being fulfilled on or before the Long Stop Date:

- (i) the signing of all Restructuring Documents by all the parties thereunder as may be required to be entered into before Completion;
- (ii) the Creditors' Scheme becoming effective;
- (iii) the passing of the necessary resolutions by the Independent Shareholders at the EGM in accordance with the requirements of the Takeovers Code and the Listing Rules approving:
 - (a) the Capital Reorganisation;
 - (b) the Restructuring Framework Agreement and the transactions contemplated therein under;
 - (c) the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate to issue the Subscription Shares);
 - (d) the Creditors' Scheme;
 - (e) the grant of the Specific Mandate to issue the Scheme Shares;
 - (f) the Whitewash Waiver and the Special Deals; and
 - (g) and any other necessary decisions to carry out transactions made under the Restructuring Framework Agreement,
and not having been revoked or vitiated;
- (iv) the Executive having granted the Whitewash Waiver and consented to the Special Deals and all the conditions attached thereto having been satisfied and such approvals not having been subsequently revoked or withdrawn;
- (v) the listing of and permission to deal in all of the New Shares, the Subscription Shares and the Scheme Shares, having been granted by the Listing Committee of the Stock Exchange (either unconditionally or subject to conditions) and such permission not having been subsequently revoked or withdrawn;

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- (vi) the Stock Exchange having conditionally or unconditionally approved or decided to allow the Company to proceed with the resumption of the trading in the Shares (or the New Shares) on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with the restoration of public float, if applicable) or waived by the Stock Exchange;
- (vii) an office copy of an order of the Hong Kong Court sanctioning the Creditors' Scheme pursuant to the Companies Ordinance having been delivered to the Registrar of Companies in Hong Kong for registration;
- (viii) an application having been made to the Cayman Court for an order sanctioning the withdrawal or stay of the petition presented against the Company and the discharge of the Joint Provisional Liquidators in the Cayman Islands;
- (ix) all necessary governmental, regulatory and corporate authorisations, approvals, consents and/or waivers for the entering into of the Restructuring Framework Agreement and the performance of obligations thereunder having been obtained and effective; and
- (x) the completion of the Capital Reorganisation and the Subscription.

As at the Latest Practicable Date, save for condition (i) above, none of the conditions above had been fulfilled. None of the conditions above can be waived by any party to the Restructuring Framework Agreement.

Termination of the Restructuring Framework Agreement

The Restructuring Framework Agreement shall be terminated automatically if on or before the Long Stop Date:

- (i) an order has been made by the Hong Kong Court and/or the Cayman Court to wind-up the Company;
- (ii) the listing of the Shares has been cancelled by the Stock Exchange;
- (iii) the conditions set out under the paragraph headed "Conditions precedent for Completion" above are not satisfied on or before the Long Stop Date; or
- (iv) any government authority issues, promulgates or enforces any law, regulation, rule, policy, order or notice that prohibits the completion of the Proposed Restructuring; or the government authority provides amended opinions or additional conditions in relation to the Proposed Restructuring which the parties to the Restructuring Framework Agreement cannot accept, or the parties cannot within 30 days or a reasonable period of time as agreed by them reach a written consent to amend or supplement the Restructuring Framework Agreement pursuant to the aforementioned amended opinions or additional conditions raised by the government authority.

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Other than the aforesaid automatic termination clause, the Investor, the Joint Provisional Liquidators and/or the Company can terminate the Restructuring Framework Agreement under certain circumstances, details of which are set out in the Letter from the Board.

If the Restructuring Framework Agreement is terminated by the Investor or terminated automatically, (i) the Creditors' Scheme shall terminate and all the Scheme Claims shall be deemed to have revived and the Creditors will be entitled to pursue against the Company in respect of such Scheme Claims as if the Creditors' Scheme had never been effective and binding provided that credit be given to any distribution made under the Creditors' Scheme; and (ii) any amount of the Scheme Funds remaining in the Scheme Trust Account, after deduction of all the Restructuring Costs incurred, shall be transferred to the Investor as soon as practicable following the termination and the Investor shall be entitled to demand the repayment of all amount provided by it to the Company under the Funding Agreement together with the interest accrued thereon pursuant to the terms of the Funding Agreement.

Based on the analysis as set out in the sections headed "4. The Capital Reorganisation", "5. The Subscription" and "6. The Creditors' Scheme" below, we consider that the terms of the Restructuring Framework Agreement are fair and reasonable.

4. The Capital Reorganisation

Pursuant to the Restructuring Framework Agreement, the Company proposes to implement, subject to the approval by the Shareholders, the Capital Reorganisation. The Capital Reorganisation will comprise:

- (i) the Share Consolidation – the consolidation of every 100 issued Shares of HK\$0.002 each into one Consolidated Share of HK\$0.20 each;
- (ii) the Capital Reduction – upon the Share Consolidation becoming effective, the par value of each Consolidated Share will be reduced from HK\$0.20 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.19 on each Consolidated Share;
- (iii) the Authorised Share Capital Diminution – to diminish the authorised but unissued share capital by cancelling all the existing authorised but unissued shares (which shall include the authorised but unissued share capital arising from the Capital Reduction);
- (iv) the Authorised Share Capital Increase – upon the Capital Reduction and the Authorised Share Capital Diminution becoming effective, the Company's authorised share capital will be increased from HK\$1,102,422 divided into 110,242,204 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 New Shares of HK\$0.01 each by creation of 9,889,757,796 New Shares; and

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- (v) the Share Premium Cancellation – the entire amount standing to the credit of the share premium account of the Company as at the effective date of the Capital Reorganisation will be cancelled and credited to the contribution surplus reserve account of the Company and be applied to set off against the accumulated losses of the Company as at the effective date of the Capital Reorganisation, and the balance of any such credit remaining after offsetting such accumulated losses (if any) shall be transferred to the Company’s distributable reserve and used for such purposes as the Board may deem fit in accordance with all applicable laws and the memorandum and articles of association of the Company.

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

Effects of the Capital Reorganisation

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company, before and after completion of the Capital Reorganisation:

	Immediately before the Capital Reorganisation	Immediately after the Capital Reorganisation
Nominal value	HK\$0.002 per Share	HK\$0.01 per New Share
Authorised share capital	HK\$100,000,000	HK\$100,000,000
Number of authorised shares	50,000,000,000 Shares	10,000,000,000 New Shares
Number of issued and paid-up shares	11,024,220,415	110,242,204

Conditions precedent of the Capital Reorganisation

The implementation of the Capital Reorganisation shall be conditional upon:

- (i) the passing of the necessary resolutions by the Shareholders by way of poll at the EGM to approve the Capital Reorganisation;
- (ii) the completion of the necessary registration procedures and the obtaining of all necessary approvals from the Cayman Court, regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation, if any; and
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the New Shares in issue following the Capital Reorganisation taking effect, and such approval has not been revoked.

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Expected effective date of the Capital Reorganisation

The Capital Reorganisation shall become effective when the conditions mentioned above are fulfilled. Upon the approval of the Capital Reorganisation by the Shareholders at the EGM, the legal advisers to the Company (as to Cayman Islands law) will apply to the Cayman Court for hearing date(s) to approve the Capital Reorganisation as soon as practicable. Further announcement(s) will be made to inform the Shareholders of the progress of the matter, including the proposed timetable, and the arrangements of the free exchange of the New Share certificates for the existing Share certificates, as and when appropriate.

The Capital Reorganisation is for facilitating the Proposed Restructuring. We understand that other than the relevant expenses incurred, the implementation of the Capital Reorganisation will not, by itself, alter the underlying assets, liabilities, businesses, operations, management or financial position of the Company and the Group or the rights and the proportionate interests of the Shareholders in the Company. Furthermore, the Capital Reorganisation will not involve in any diminution of any liability in respect of any unpaid capital of the Company or the return of capital or cash to the Shareholders. As such, we consider that the terms of the Capital Reorganisation are fair and reasonable.

5. The Subscription

(a) Principal terms of the Subscription Agreement

The Subscription

Pursuant to the Subscription Agreement, the Investor will subscribe for 466,000,000 Subscription Shares at the price of approximately HK\$0.1288 per Subscription Share for an aggregate subscription price of HK\$60.0 million, which shall be satisfied (i) firstly, by offsetting the outstanding amount (including principal and unpaid interest accrued thereon up to the date of completion of the Subscription (if any)) drawn down from the credit facility provided under the Funding Agreement as at the completion date of the Subscription on a dollar-to-dollar basis for a maximum of HK\$29,999,999; and (ii) secondly, the remainder of which (at least HK\$30,000,000) shall be settled by way of cash to the Company.

The total number of the Subscription Shares to be allotted and issued under the Subscription represents:

- (i) approximately 80.87% of the issued shares of the Company upon the completion of the Capital Reorganisation as enlarged by the allotment and issue of the Subscription Shares; and
- (ii) approximately 65.06% of the issued shares of the Company upon the completion of the Capital Reorganisation as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares.

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As at the Latest Practicable Date, out of the HK\$26 million credit facility under the Funding Agreement, approximately HK\$15.0 million had been drawn down by the Company and the amount of outstanding interests accrued under the Funding Agreement was approximately HK\$0.17 million. In the event that the Subscription does not take place on or before the Long Stop Date or the Restructuring Framework Agreement has been terminated pursuant to the terms therein, the Company shall remain liable to all outstanding amounts under the Funding Agreement. Any outstanding amount under the Funding Agreement which has not been off-set against the subscription money for the Subscription Shares shall remain liable by the Company to the Investor.

Conditions precedent of the Subscription

Completion of the Subscription shall be conditional upon:

- (i) an office copy of an order of the Hong Kong Court sanctioning the Creditors' Scheme pursuant to the Companies Ordinance having been delivered to the Registrar of Companies in Hong Kong for registration;
- (ii) the completion of the Capital Reorganisation;
- (iii) the Company having obtained either conditional approval or approval-in-principle from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Scheme Shares on the Stock Exchange (and such approval has not been revoked);
- (iv) the passing of the necessary resolutions by the Independent Shareholders at the EGM to approve the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder respectively (including the Capital Reorganisation, the Subscription, the Creditors' Scheme, the Whitewash Waiver and the Special Deals);
- (v) the Executive having granted the Whitewash Waiver and consented to the Special Deals and all the conditions attached thereto having been satisfied and such approvals not having been subsequently revoked or withdrawn;
- (vi) the Stock Exchange having conditionally or unconditionally approved or decided to allow the Company to proceed with the resumption of the trading in the Shares (or the New Shares) on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with the restoration of public float, if applicable) or waived by the Stock Exchange; and
- (vii) all other necessary waivers, consents and approval including but not limited to those from the Stock Exchange and any other relevant government or regulatory authorities, which are required (if any) for the implementation of the Proposed Restructuring and all transactions contemplated thereunder having been obtained.

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As at the Latest Practicable Date, none of the conditions above had been fulfilled. None of the conditions above can be waived.

(b) Use of proceeds

The gross proceeds from the Subscription are expected to amount to HK\$60.0 million, of which HK\$30.0 million will be applied for the distribution of the Creditors' Scheme Cash Consideration and the remaining balance (if any) after off-setting against the outstanding principal amount drawn and unpaid interest accrued under the Funding Agreement is expected to be used for the relevant cost for restructuring, general working capital and business development of the Group's forestry management and ginseng-related businesses.

The proportion of the outstanding amount under the Funding Agreement against which the consideration of the Subscription will be set off shall depend on the actual amounts drawn down therefrom. As at the Latest Practicable Date, out of the HK\$26.0 million credit facility under the Funding Agreement, approximately HK\$15.0 million had been drawn down by the Company and the amount of outstanding interests accrued under the Funding Agreement was approximately HK\$0.17 million. Assuming that HK\$15.17 million of the consideration of the Subscription is set-off against the outstanding amount under the Funding Agreement and HK\$44.83 million of the consideration of the Subscription is settled by way of cash, the Company is expected to receive net proceeds of approximately HK\$44.83 million from the Subscription after the deduction of the relevant expenses incidental to the Subscription.

Assuming that HK\$29,999,999 of the consideration of the Subscription is set-off against the outstanding amount (including principal and unpaid interest accrued) under the Funding Agreement and HK\$30.0 million of the consideration of the Subscription is settled by way of cash, the Company is expected to receive net proceeds of approximately HK\$29.9 million from the Subscription after the deduction of the relevant expenses incidental to the Subscription.

Following completion of the Subscription, the outstanding balance of the Loan drawn down by the Company together with the interest thereon under the Funding Agreement will immediately be due and payable by the Company. As at the Latest Practicable Date, the outstanding balance of the Loan together with the interest thereon was approximately HK\$15.17 million. We are advised that further drawdowns will be made in relation to the Proposed Restructuring and business operation of the Group. The set-off arrangement allows the Company to settle the outstanding balance of the Loan together with the interest thereon on a dollar-on-dollar basis on the due date. We noted that out of the five Comparable Transactions as listed in the section headed "5(c). Evaluation of the Subscription Price – ii. Comparison with comparable transactions" below, China U-Ton Future Space Industrial Group Holdings Limited proposed to set-off subscription proceeds against restructuring expenses advanced by its investors on a dollar-for-dollar basis. After taking into consideration of the above, we are of the view that the terms of the set-off arrangement are fair and reasonable and the set-off arrangement is in the interests of the Company and the Shareholders as a whole.

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(c) Evaluation of the Subscription Price

As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Investor with reference to (i) the financial position of the Group; (ii) the recent market conditions; (iii) the fact that trading in the Shares on the Stock Exchange has been suspended since 4 October 2021 and the Proposed Restructuring is the only viable resumption proposal to rescue the Company to avert the delisting of the Shares on the Stock Exchange; and (iv) the substantial funding to be provided by the Investor for the Company to proceed with the restructuring plan.

i. Comparison of the Subscription Price to closing prices and net liabilities value

The Subscription Price of approximately HK\$0.1288 per Subscription Share under the Subscription represents:

- (i) a discount of approximately 87.12% to the theoretical closing price of HK\$1.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.010 per Share as quoted on the Stock Exchange on the Last Trading Day (i.e. HK\$0.010 times 100);
- (ii) a discount of approximately 87.62% to the theoretical average closing price of HK\$1.040 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0104 as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 87.73% to the theoretical average closing price of HK\$1.050 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0105 as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately HK\$3.2440 over the theoretical audited consolidated net liabilities of the Company as at 30 June 2022 (as disclosed in the annual results announcement of the Company for the financial year ended 30 June 2022) of approximately RMB2.781 per New Share (equivalent to approximately HK\$3.115 per New Share) as adjusted for the effect of the Capital Reorganisation.

The Subscription Price represents a significant discount to the closing prices of the Shares prior to the suspension of trading of the Shares and a further analysis in this regard is set out in the sub-section headed "(ii) Comparison with comparable transactions" below.

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As shown above, the Subscription Price represents a substantial premium over the Group's net liability value per New Share as at 30 June 2022 as adjusted for the effect of the Capital Reorganisation. The net liability value is extracted from the latest published annual results announcement, which reflects the current financial position of the Group after the suspension of trading of the Shares. Accordingly, we consider that the Subscription Price is fair and reasonable in this regard.

ii. Comparison with comparable transactions

For the purpose of providing the Independent Shareholders with a general reference for companies listed on the Stock Exchange engaged in similar transaction as those as the Proposed Restructuring, we have selected companies listed on the Main Board of the Stock Exchange, the shares of which were in prolonged suspension, provisional liquidators were appointed and the proposed restructuring which involved, among other things, subscription and/or placing of new shares, debt restructuring and application for the Whitewash Waiver and the relevant circular was issued between 1 February 2022 and the Latest Practicable Date, being an approximate one year period. As only two comparable transactions were identified, we extended our review period to about four years from 1 February 2019 to the Latest Practicable Date, to cover more comparable transactions.

We have identified an exhaustive list of five companies which met the aforesaid criteria (the "**Comparable Transactions**"). We note that the restructuring proposal of the Comparable Transactions, the structure and terms thereof, including but not limited to, (i) business size, financial performance and financial position; (ii) the subscription price and amount and the use of proceeds; and (iii) the background of the transaction, are different from the Company. Nevertheless, we consider that the Comparable Transactions that were approved by the respective independent shareholders of the companies provide a general reference to the Independent Shareholders in respect of the range of discount of subscription price to closing price on the last trading day prior to the date of the respective restructuring agreements.

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Name of company (Stock code)	Market capitalisation as at as date of suspension of trading of the shares <i>(HK\$ million)</i>	Principal businesses as at date of suspension of trading of the shares	Date of suspension of trading of the shares	Date of circular	Discount of subscription price to closing price on the last trading day prior to the date of restructuring agreement <i>Approximate %</i>	Maximum dilution of the public shareholders <i>Approximate %</i>
China U-Ton Future Space Industrial Group Holdings Limited (6168)	460.5	<ul style="list-style-type: none"> (i) Provision of design, deployment and maintenance of optical fibers services and related communication networks services in the PRC; (ii) environmentally intelligent technical products and services in the PRC; and (iii) provision of money lending services in Hong Kong. 	5 May 2021	2 December 2022	97.1	90.0
China Wood International Holding Co., Limited (1822)	22.3	<ul style="list-style-type: none"> (i) Sale and distribution of furniture wood, manufacturing and sales of antique style wood furniture and imported timber flooring processing businesses; and (ii) car rental business in the PRC. 	22 October 2021	5 August 2022	32.3	90.1

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Name of company (Stock code)	Market capitalisation as at as date of suspension of trading of the shares <i>(HK\$ million)</i>	Principal businesses as at date of suspension of trading of the shares	Date of suspension of trading of the shares	Date of circular	Discount of subscription price to closing price on the last trading day prior to the date of restructuring agreement <i>Approximate %</i>	Maximum dilution of the public shareholders <i>Approximate %</i>
C&D Newin Paper & Pulp Corporation Limited (731) <i>(Note 1)</i> (formerly known as "Samson Paper Holdings Limited")	416.5	<ul style="list-style-type: none"> (i) Paper manufacturing business; (ii) paper trading business including sale of paper and cardboard, office supplies and consumables and supplies for paper manufacturing; (iii) fast moving consumer goods business; (iv) property investment and development business; and (v) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services. 	2 July 2020	31 December 2021	96.7	91.9
Arta Techfin Corporation Limited (279) <i>(Note 1)</i> (formerly known as "Freeman Fintech Corporation Limited")	168.1	<ul style="list-style-type: none"> (i) the provision of securities and futures brokerage services, placing, underwriting and margin financing services; and (ii) the provision of insurance brokerage and financial planning services. 	28 February 2020	26 May 2021	From 81.5 to 82.1 (mid-point 81.8) <i>(Note 2)</i>	91.2

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Name of company (Stock code)	Market capitalisation as at as date of suspension of trading of the shares <i>(HK\$ million)</i>	Principal businesses as at date of suspension of trading of the shares	Date of suspension of trading of the shares	Date of circular	Discount of subscription price to closing price on the last trading day prior to the date of restructuring agreement <i>Approximate %</i>	Maximum dilution of the public shareholders <i>Approximate %</i>
Da Yu Financial Holdings Limited (1073) <i>(Note 1)</i> (formerly known as “China Agrotech Holdings Limited”)	245.4	(i) trading of fertilizers, pesticides and other agricultural and non-agricultural resources products; (ii) manufacturing and selling of pesticides and fertilizers; (iii) the provision of plant protection technical services; (iv) trading of non-agricultural resources products; and (v) nursing, planting and sales of landscaping seedlings in the PRC.	18 September 2014	27 April 2019	78.8	91.2
				Average	77.3	90.9
				Maximum	97.1	91.9
				Minimum	32.3	90.0
The Company			4 October 2021	3 March 2023	87.1	84.6

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Notes:

1. C&D Newin Paper & Pulp Corporation Limited (formerly known as “Samson Paper Holdings Limited”), Arta Techfin Corporation Limited (formerly known as “Freeman Fintech Corporation Limited”) and Da Yu Financial Holdings Limited (formerly known as “China Agrotech Holdings Limited”) have completed the restructuring and resumed trading of their respective shares on the Stock Exchange.
2. According to the circular of Arta Techfin Corporation Limited (formerly known as “Freeman Fintech Corporation Limited”) dated 26 May 2021, the subscription price to be finalised fell within a range. The mid-point of the discount of approximately 81.8% is used for comparison purpose.

As show in the above table, the discount of the subscription prices of the Comparable Transactions to their respective closing prices on the last trading day prior to the date of the relevant restructuring agreements falls within a range of approximately 32.3% and approximately 97.1%, with an average of 77.3%.

As stated in the Letter from the Board, as the Group has recorded audited net losses since the financial year ended 31 December 2012 up to and including the financial year ended 30 June 2022 and is heavily in debt, the Directors are of the view that a discounted Subscription Price is inevitable in this large-scale fundraising exercise. Further, a discounted issue price is not uncommon among companies involving creditors’ scheme or debt restructuring. In light of the fact that the Investor is willing to provide fresh money to the Company during its hard time to maintain its operation and pursue the Proposed Restructuring, and to support the future operation of the Group after the restructuring despite the uncertainty surrounding the future performance of the Group with reference to its existing business condition, the Directors (excluding the Takeovers Code IBC whose view is expressed and set forth in the letter from the Takeovers Code IBC having considered our advice) consider that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company is in dire financial difficulties and imminent funding need. In addition, the Subscription forms part and parcel of the Proposed Restructuring. Based on the above Comparable Transactions analysis, we consider that a heavily discounted Subscription Price under current circumstances is inevitable. Other than China Wood International Holding Co., Limited, the discount of subscription price to closing price on the last trading day prior to the date of the restructuring agreement fell within a range of 78.8% to 97.1%, thus we consider that the Comparable Transactions can provide a general reference for the discount for similar transactions. The discount of the Subscription Price to closing price on the last trading day prior to the date of the Restructuring Framework Agreement of approximately 87.1% falls within the range of the Comparable Transactions. Based on the aforesaid, we consider that the Subscription Price is fair and reasonable in this regard.

As stated in the section headed “7. Dilution effect of the allotment and issue of the Subscription Shares and the Scheme Shares” below, we consider that the dilution of the existing public Shareholders’ interests in the Company after completion of the Capital Reorganisation and the issue of the Subscription Shares and the Scheme Shares is acceptable. As such, we consider that terms of the Subscription Agreement are fair and reasonable.

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6. The Creditors' Scheme

As at the Latest Practicable Date, based on the available books and records of the Company, the total estimated indebtedness, owed by the Company to its Creditors was approximately HK\$550.0 million. Although this indebtedness figure is indicative and will be subject to the notices of claim filed in accordance with the terms of the Creditors' Scheme, the final determination by the Scheme Administrators and (if applicable) adjudication under the Creditors' Scheme, the final indebtedness figure is not expected to exceed HK\$600.0 million and the Company will make an announcement as soon as the final indebtedness figure becomes available which is expected to be after the implementation of the Creditors' Scheme.

Subject to the Sanction Order on the Creditors' Scheme by the Hong Kong Court, and the Creditors' Scheme having become effective, the Creditors' Scheme will become legally binding on the Company and its Creditors upon filing of the Sanction Order of the Hong Kong Court with the Company Registry in Hong Kong.

(a) Principal terms of the Creditors' Scheme

The Creditors' Scheme will involve (i) the Creditors' Scheme Cash Consideration; (ii) the Scheme Shares Issue; and (iii) the Promissory Notes Issue, details of which are set out below.

Creditors' Scheme Cash Consideration

Upon the Creditors' Scheme becoming effective and after the adjudication for the Admitted Claims is completed, HK\$30.0 million of the consideration of the Subscription will be utilised to be distributed to the Creditors with Admitted Claims on a pro-rata basis for their Admitted Claim. The distribution of the Creditors' Scheme Cash Consideration will be conducted in accordance with the terms of the Creditors' Scheme.

Scheme Shares Issue

Under the Creditors' Scheme, the Company will also implement the Scheme Shares Issue, under which the Company will allot and issue 140,000,000 New Shares at the issue price of HK\$0.55 per Scheme Share to the Scheme Administrators or the Scheme Company for the benefit of the Creditors with Admitted Claims on a pro-rata basis for their Admitted Claims.

The Admitted Claims will be subject to the notices of claim submitted by the Creditors and adjudication to be conducted by the Scheme Administrators after the fulfilment of all conditions precedent and the implementation of the Creditors' Scheme. At this stage, the amount of the Admitted Claims is yet to be determined.

The 140,000,000 Scheme Shares will represent approximately 19.55% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Scheme Shares and after adjusted for the effect of the Capital Reorganisation).

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Promissory Notes Issue

The Creditors' Scheme further envisages that the Company will implement the Promissory Notes Issue, under which the Company will issue Promissory Notes in the aggregate principal amount of HK\$120.0 million, to be secured by the charge of all forest lands owned by the Group which are located at (i) Muma Town of Jiange County of Sichuan Province, (ii) Zhengxing Town of Jiange County of Sichuan Province, (iii) Yixing Town of Jiange County of Sichuan Province, (iv) Longyuanzhen, Houshixiang and Dianzixiang town of Jiange County of Sichuan Province; (v) Kaifeng Town, Yingshui village, Guangping village, Zheba village, Jiange County of the Sichuan Province, or secured by the charge of the shares in the company(ies) that owns those forest lands, to the Scheme Administrators or the Scheme Company for the benefit of the Creditors on a pro-rata basis for their Admitted Claims. The Promissory Notes will have a maturity of five years and carry interest payable annually in arrears at the following rates: nil for the first year, 2% per annum for the second year, 3% per annum for the third year; 4% per annum for the fourth year, and 6% per annum for the fifth year. The principal of the Promissory Notes will be repaid on the maturity date.

Conditions precedent to the Creditors' Scheme

The Creditors' Scheme shall become effective upon fulfilment of the following conditions precedent:

- (i) over 50% in number of the Creditors, representing at least 75% in value of the Creditors, present and voting in person (or through electronic means, if applicable) or by proxy at the Creditors' Scheme meeting, voting in favour of the Creditors' Scheme;
- (ii) the Hong Kong Court sanctions the Creditors' Scheme and a copy of the order of the Hong Kong Court is delivered to the Registrar of Companies in Hong Kong for registration;
- (iii) the Company having obtained either conditional approval or approval-in-principle from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Scheme Shares on the Stock Exchange (and such approval has not been revoked);
- (iv) the passing of the necessary resolutions by (i) at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) at least 50% of the Independent Shareholders at the EGM by way of poll in respect of (a) the Capital Reorganisation; (b) the Subscription; (c) the Creditors' Scheme (including the issue and allotment of the Scheme Shares); (d) the Special Deals and the transactions contemplated thereunder;
- (v) the Subscription Agreement having become unconditional;

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- (vi) the Restructuring Framework Agreement having become unconditional (save for the conditions (ii), (vi), (viii) and (x) set out under the paragraph hereinabove headed “Conditions precedent for Completion”); and
- (vii) the Capital Reorganisation having become effective.

All the conditions precedent to the Creditors’ Scheme are not capable of being waived. As at the Latest Practicable Date, none of the conditions above had been fulfilled.

Subject to the approval of the Creditors, the Shareholders, the Hong Kong Court and relevant regulators, and upon completion of the Creditors’ Scheme, all the claims of the Creditors against the Company, and liabilities of the Company will be compromised, discharged, waived and/or settled in full. The Creditors’ Scheme will become legally binding on the Company and the Creditors upon fulfilment of the conditions set out in the paragraph headed “Conditions precedent to the Creditors’ Scheme” above and upon the filing of the order of the Hong Kong Court with Registrar of Companies in Hong Kong. As at the Latest Practicable Date, the Creditors’ Scheme had not come into effect.

(b) *Evaluation of the issue price of the Scheme Shares*

According to the Letter from the Board, the issue price of the Scheme Shares of HK\$0.55 per Scheme Share was determined with reference to the prevailing market conditions, situation and financial position of the Company and recovery rate of approximately 41.3% as at the Latest Practicable Date to be approved by the Creditors. The issue price of the Scheme Shares represents:

- (i) a discount of approximately 45.0% to the theoretical closing price of HK\$1.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.010 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 47.12% to the theoretical average closing price of HK\$1.040 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0104 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 47.62% to the theoretical average closing price of HK\$1.050 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK\$0.0105 for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and
- (iv) a premium of approximately HK\$3.6652 over the theoretical audited consolidated net liabilities of the Company as at 30 June 2022 (as disclosed in the annual results announcement of the Company for the financial year ended 30 June 2022) of approximately RMB2.781 per New Share (equivalent to approximately HK\$3.115 per New Share) as adjusted for the effect of the Capital Reorganisation.

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The issue price of the Scheme Shares is HK\$0.55 per Scheme Share whereas the Subscription Price is approximately HK\$0.1288 per Subscription Shares. According to the Letter from the Board, the difference in the issue price of the Scheme Shares and the Subscription Shares is due to the vastly different nature and background leading up to the issue of the Scheme Shares and the Subscription Shares. The Scheme Shares are issued as part of the compromise arrangement between the Company and the Creditors for indebtedness incurred by the Company which involved: (i) the allotment and issue of Scheme Shares to the Creditors; (ii) the payment of the Creditors' Scheme Cash Consideration; and (iii) the issue of the Promissory Notes. On the other hand, the Subscription Shares are issued to the Investor to provide new money to the Company for the restructuring and future operations of the Group which the Investor has to bear significant risks on the success of the Proposed Restructuring and the resumption of trading in the Shares on the Stock Exchange.

We noted that out of the five Comparable Transactions as listed in the section headed "5(c). Evaluation of the Subscription Price – ii. Comparison with comparable transactions", China U-Ton Future Space Industrial Group Holdings Limited, China Wood International Holding Co., Limited, C&D Newin Paper & Pulp Corporation Limited (formerly known as "Samson Paper Holdings Limited") and Arta Techfin Corporation Limited ("formerly known as Freeman Fintech Corporation Limited") proposed to issue new shares under the respective creditors schemes. China Wood International Holding Co., Limited proposed to issue scheme shares at HK\$1.8 per new share which was higher than the subscription price of HK\$0.044 per new share. China U-Ton Future Space Industrial Group Holdings Limited, C&D Newin Paper & Pulp Corporation Limited (formerly known as "Samson Paper Holdings Limited") and Arta Techfin Corporation Limited ("formerly known as Freeman Fintech Corporation Limited") proposed to issue scheme shares at the same price as the subscription/placing price.

Given the vastly different nature and background leading up to the issue of the Scheme Shares and the Subscriptions Shares and the risks borne by the Investor, we consider that it is reasonable that the issue price of the Scheme Shares is more than the Subscription Price. The dilution of the shareholding interests of the existing public Shareholders is considered acceptable as set out in the section headed "7. Dilution effect of the allotment and issue of the Subscription Shares and the Scheme Shares" below. Thus, we consider that the terms of the Scheme Shares Issue are fair and reasonable.

(c) Evaluation of the Promissory Notes Issue

As part of the Creditors' Scheme, the Company will issue the Promissory Notes in the aggregate principal amount of HK\$120.0 million, to be secured by the charge of all forest lands owned by the Group which are located at (i) Muma Town of Jiange County of Sichuan Province, (ii) Zhengxing Town of Jiange County of Sichuan Province, (iii) Yixing Town of Jiange County of Sichuan Province, (iv) Longyuanzhen, Houshixiang and Dianzixiang town of Jiange County of Sichuan Province; (v) Kaifeng Town, Yingshui village, Guangping village, Zheba village, Jiange County of the Sichuan Province, or secured by the charge of the shares in the company(ies) that owns those forest lands, to the Scheme Administrators or the Scheme Company for the benefit of the Creditors on a pro-rata basis for their Admitted Claims. The Promissory Notes will have a maturity of five years and carry interest payable annually in arrears at the following rates: nil for the first year, 2% per annum for the second year, 3% per annum for the third year; 4% per annum for the fourth year, and 6% per annum for the fifth year. The principal of the Promissory Notes will be repaid on the maturity date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, in considering the settlement method of the Admitted Claims under the Creditors' Scheme, the Board has considered alternative settlement methods including the issue of convertible bonds. In light of the dilution effect of the Scheme Shares Issue to the existing Shareholders and to the Investor, the Board is of the view that it would not be desirable to settle the Admitted Claims by issue of convertible bonds as it would further dilute the shareholding interests of the existing public Shareholders. On the other hand, the Promissory Notes Issue would not cause immediate cash outflow pressure on the Group and could reduce the burden to the Company's financial resources. The asset pledge arrangement under the Promissory Notes Issue is offered to provide security to the Creditors in light of the previous financial performance of the Group in order to gain Creditors' support of the Creditors' Scheme which is critical to the rescue of the Company. Upon issue of the Promissory Notes, the Creditors will not own any of the forest lands or shares.

We note that none of the Comparable Transactions involved proposed issue of the promissory notes. In order to assess fairness and reasonableness of the terms of the Promissory Notes, promissory notes issue announced by companies listed on the Stock Exchange from 1 January 2022 to the Latest Practicable Date were selected, being an approximate one year period up to and including the Latest Practicable Date. We have identified the following exhaustive list of eight companies (the "**Promissory Notes Transactions**") which meet the aforesaid criteria. We note that (i) none of the Promissory Notes Transactions was under creditors' scheme; (ii) the structure of each of the Promissory Notes Transactions, including but not limited to, (a) issue size, securities and maturity; (b) the issuer's financial performance and financial position; and (c) the use of proceeds; and (iii) the background of the transaction, is different from the Company. However, we consider that the Promissory Notes Transactions provide a general reference for the terms of the recent issuance of promissory notes by listed issuers.

Name of company (Stock code)	Date of announcement	Issue size	Use of proceeds	Security arrangement	Maturity	Interest rate (per annum)
Sheng Yuan Holdings Limited (851)	30 November 2022	US\$10 million	N/A	N/A	23 April 2024 (i.e. less than 2 years)	7.4% (Note)
ICO Group Limited (1460)	10 November 2022	HK\$20.5 million	Settlement of matured promissory note	N/A	36 months from the date of issue	2%
Central Wealth Group Holdings Limited (139)	6 October 2022	HK\$54 million	Acquisition of equity interest in a target company	N/A	2 years from the date of issue of the promissory note	3%
Sky Light Holdings Limited (3882)	23 September 2022	First tranche promissory note: HK\$49.2 million	Acquisition of equity interest in a target company	N/A	The day falling on the second anniversary of the date of issuance of the first tranche promissory note	Nil
		Second tranche promissory note: HK\$45.0 million		N/A	The day falling on the first anniversary of the date of issuance of the second tranche promissory note	Nil

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Name of company (Stock code)	Date of announcement	Issue size	Use of proceeds	Security arrangement	Maturity	Interest rate (per annum)
Legendary Group Limited (8195)	16 August 2022	Promissory notes in six tranches with aggregate amount: HK\$12.4 million	Acquisition of equity interest in a target company	N/A	3 years from the date of issue of the promissory notes	5%
Smart Globe Holdings Limited (1481)	5 August 2022	First tranche promissory note: HK\$67.9 million	Acquisition of equity interest in a target company	N/A	The day falling on the second anniversary of the date of issuance of the first tranche promissory note	Nil
		Second tranche promissory note: HK\$88.1 million		N/A	The day falling on the first anniversary of the date of issuance of the second tranche promissory note	Nil
First Pacific Company Limited (142)	4 July 2022	IRD3,224 billion (HK\$1.7 billion equivalent)	Acquisition of equity interest in a target company	(i) security over sale shares of the target company; (ii) letter of undertaking of a subsidiary of the purchaser; and (iii) the agreement by the purchaser to enter into a sale and purchase and transfer of shares agreement with the seller to transfer all the rights and title to the sale shares back to the Seller in the event that the Purchaser fails to pay the consideration balance by the maturity date of the promissory note	20 December 2022 (i.e. less than six months)	Nil

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Name of company (Stock code)	Date of announcement	Issue size	Use of proceeds	Security arrangement	Maturity	Interest rate (per annum)
China Healthwise Holdings Limited (348)	10 June 2022	HK\$15 million	Acquisition of equity interest in a target company	N/A	The third anniversary date	9%
The Company (1069)	30 December 2022				5 years	First year – Nil Second year – 2% Third year – 3% Fourth year – 4% Fifth year – 6%

Note: According to the circular of Sheng Yuan Holdings Limited dated 30 November 2022, the fixed interest amounted to US\$740,000 is payable on a semi-annual basis. The interest rate (per annum) was not provided in such circular. For the purpose of calculation the interest rate (per annum) for comparison purpose, it is calculated by 2 times the semi-annual fixed interest, divided by the principal amount of US\$20,000,000.

The maturity of the Promissory Notes Transactions ranging from less than six months to three years whereas the Promissory Notes will have a maturity of five years. We consider that the Promissory Notes Transactions announced in the about one-year period prior to the Latest Practicable Date provide a general reference for the interest rate of promissory notes issued under the recent interest rate environment. The interest of the Promissory Notes will be paid at progressive rates ranging from nil to 6% per annum as shown in the above table. The amount of interest to be paid under the terms of the Promissory Notes is equivalent to that at a simple interest rate of 3% per annum during the term of the Promissory Notes disregard time value of money. As shown in the above table, five Promissory Notes Transactions were zero coupon notes and the remaining five Promissory Notes Transactions carried interest at a rate of 2% to 9% per annum. The Promissory Notes will be secured by the charge of all forest lands owned by the Group or the shares in the company(ies) that own(s) those forest lands which constitute a material part of the revenue-generating assets for the purpose of securing the Group's payment obligations under the Promissory Notes. Based on the results announcement for FY2022, the fair value of the forest lands owned by the Group to be charged as security for the Promissory Notes amounted to approximately RMB80.5 million as at 30 June 2022, representing approximately 86.1% of the Group's total assets as at 30 June 2022. The Creditors' Scheme is part and parcel of the Proposed Restructuring to rescue the Company. It is noted that one of the Promissory Notes Transactions involved a security arrangement and the transaction did not involve a creditors' scheme. We understand that the Creditors' Scheme (including the Promissory Notes Issue) was determined having taking into consideration of, among other things, (i) the financial resources available to the Group to settle the debts of the Company in view of the Group's internal resources, and the proceeds of the Funding Agreement and the Subscription; (ii) the dilution effect to the Scheme Share Issue to the existing Shareholders and to the Investor; and (iii) the overall recovery rate to the Creditors. The asset pledge arrangement under the Promissory Notes Issue is offered to provide security to the Creditors in light of the previous financial performance of the Group in order to gain Creditors' support of the Creditors' Scheme which is critical to the rescue of the Company. Upon issue of the Promissory Notes, the Creditors will not own any of the forest lands or shares. Thus, we consider that the Promissory Notes Issue (including the security arrangement) is acceptable. Based on the aforesaid, we consider that the terms of the Promissory Notes are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are of the view that it is necessary for the Company to implement measures to repay or restructure its outstanding indebtedness given its financial difficulties. Upon completion of the Creditors' Scheme, all Admitted Claims will be released and discharged and the financial position of the Group will be improved. Based on the above analysis, we consider that the terms of the Creditors' Scheme are fair and reasonable.

7. Dilution effect of the allotment and issue of the Subscription Shares and the Scheme Shares

For illustrative purposes only, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation having become effective; and (iii) immediately after completion of the issue of the Subscription Share and the Scheme Shares in full:

Shareholder	As at the Latest Practicable Date		Immediately after the Capital Reorganisation having become effective		Immediately after completion of the issue of the Subscription Shares and the Scheme Shares in full	
	Shares	%	Shares	%	Shares	%
The Investor	–	–	–	–	466,000,000	65.06
Mr. Wang (Note 1)	3,197,023,920	29.00	31,970,239	29.00	31,970,239	4.46
Ms. Tian	790,000	0.01	7,900	0.01	7,900	0.00
Ms. Hui	10,000,000	0.09	100,000	0.09	100,000	0.01
Creditors (Note 2)	–	–	–	–	140,000,000	19.55
					<i>(Note 3)</i>	
Existing public Shareholders	<u>7,816,406,495</u>	<u>70.90</u>	<u>78,164,065</u>	<u>70.90</u>	<u>78,164,065</u>	<u>10.91</u>
Total	<u><u>11,024,220,415</u></u>	<u><u>100.00</u></u>	<u><u>110,242,204</u></u>	<u><u>100.00</u></u>	<u><u>716,242,204</u></u>	<u><u>100.00</u></u>

Notes:

- Mr. Wang directly holds 3,092,703,920 Shares and he is deemed to be interested in 104,320,000 Shares which are beneficially owned by his spouse under Part XV of the SFO.
- Save for Mr. Wang, Ms. Tian and Ms. Hui, none of the creditors of the Company and their ultimate beneficial owners are Shareholders.
- Some of the Scheme Shares will be held by Mr. Wang, Ms. Tian, Ms. Hui, the Director Creditors and the Former Director Creditors.

As a result of the issue of the Subscription Shares and the Scheme Shares, the Investor and the Creditors will hold approximately 65.06% and 19.55% of the enlarged issued share capital of the Company after completion of the Capital Reorganisation and the issue of the Subscription Shares and the Scheme Shares, respectively. Consequently, the shareholding interests of the existing public Shareholders will be substantially diluted from approximately 70.9% to approximately 10.91%, representing a dilution of approximately 84.6%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that it is reasonable for an investor to make it a prerequisite for injection of new equity into a company in serious financial difficulty to obtain control over it. Furthermore, the issue of the Scheme Shares is one of the settlement means under the Creditors' Scheme for the purpose of discharging all Admitted Claims against the Company. The resultant dilution of the existing public Shareholders' interest by approximately 84.6% is below the range of the maximum dilution of the respective public shareholders of the Comparable Transactions of approximately 90.0% to 91.9% as shown in the table in the section headed "5(c). Evaluation of the Subscription Price – ii. Comparison with comparable transactions" above. As such, we are of the view that the dilution of the existing public Shareholders' interests in the Company is acceptable.

8. The Whitewash Waiver

As at the Latest Practicable Date, the Investor, Ms. Huang and parties acting in concert with any of them were not interested in any Shares. Immediately after completion of the Capital Reorganisation, the Subscription and the issue of the Scheme Shares, the Investor will be interested in 466,000,000 New Shares, representing approximately 65.06% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares (assuming there is no other change in the issued share capital of the Company). As such, the Investor would be required to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Investor and its concert parties), unless the Whitewash Waiver is granted by the Executive.

In this regard, the Investor has made an application to the Executive for the Whitewash Waiver to relieve them from its obligation to make a mandatory general offer as a result of the acquisition of Subscription Shares. The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, the Whitewash Waiver and the transactions contemplated under the Restructuring Agreement being separately approved by at least 75% and more than 50% of the votes cast by the Independent Shareholders at the EGM by way of poll in respect of the transactions contemplated under the Restructuring Framework Agreement and the Subscription Agreement, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. (i) the Investor, Ms. Huang, their associates and parties acting in concert with any of them and (ii) Shareholders who are involved in or interested in the Restructuring Framework Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver or the Special Deals (including the creditors of the Company, the Scheme Administrators, Mr. Wang, Ms. Tian and Ms. Hui, the Director Creditors and Former Director Creditors) will abstain from voting on the relevant resolution(s).

Completion of the Proposed Restructuring is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders. If the Whitewash Waiver is not approved by the Independent Shareholders, the Restructuring Framework Agreement and the Subscription Agreement will terminate forthwith.

Having considered that (i) the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Restructuring Framework Agreement and the Subscription Agreement are fair and reasonable; and (iii) the approval of the Whitewash Waiver by the Independent Shareholders is a non-waivable condition precedent for the Completion, we are of the view that the grant of the Whitewash Waiver is fair and reasonable as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

9. Special Deals and connected transactions

As at the Latest Practicable Date, based on the available books and records of the Company, (i) the approximate amount owed by the Company to the Director Creditors and the Former Director Creditors is set out herein below, and (ii) for illustrative purpose and subject to adjudication by the Scheme Administrators, based on the total estimated indebtedness owed by the Company to the creditors as at the Latest Practicable Date, which was approximately HK\$550.0 million, under the Creditors' Scheme, each of these Director Creditors and the Former Director Creditors will receive:

	Amount owed by the Company as at the Latest Practicable Date	Settlement of indebtedness under the Creditors' Scheme			
		Scheme Cash Consideration (HK\$)	Number of Scheme Shares	% (as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares and assuming there is no other change in the issued share capital of the Company)	Promissory Notes (HK\$)
HK\$ (rounded off to the nearest HK\$'000)					
Director Creditors					
Professor Fei Phillip	1,920,000	106,321	496,163	0.069	425,283
Mr. Li Wenjun	1,690,000	93,584	436,727	0.061	374,337
Mr. Wang	340,000	18,828	87,862	0.012	75,310
Ms. Hui	272,000	15,062	70,289	0.010	60,248
Mr. Lai Chi Yin					
Samuel	272,000	15,062	70,289	0.010	60,248
Mr. Liu Zhaoxiang	96,000	5,316	24,808	0.003	21,264
Ms. Wong Hoi Ying	40,000	2,233	10,422	0.001	8,933
Mr. Wang Yibin	81,000	4,467	20,845	0.003	17,867
Mr. Guo Zhonglong	81,000	4,467	20,845	0.003	17,867
Former Director Creditors					
Ms. Tian	538,000	29,781	138,979	0.019	119,125
Dr. Tse Kwok Sang	235,000	13,040	60,853	0.008	52,160
Mr. Pang Kin Lung	1,806,000	99,980	466,574	0.065	399,921
Mr. Ng Kwok Hung	1,806,000	99,980	466,574	0.065	399,921
Total	9,177,000	508,121	2,371,230	0.329	2,032,484

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) *Special Deals*

Based on the records available to the Company, the Company has certain director's remuneration owed to Mr. Wang, Ms. Tian and Ms. Hui, respectively, therefore each of Mr. Wang, Ms. Tian and Ms. Hui is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Creditors' Scheme taking effect, Mr. Wang, Ms. Tian and Ms. Hui may also be a Creditor. Save for Mr. Wang, Ms. Tian and Ms. Hui, none of the creditors of the Company and their ultimate beneficial owners are Shareholders.

As the proposed settlement of the indebtedness to Mr. Wang, Ms. Tian and Ms. Hui under the Creditors' Scheme is not extended to all the other Shareholders, such settlement of indebtedness constitute special deals under Rule 25 of the Takeovers Code. As such, the Special Deals requires consent of the Executive. An application has been made to the Executive for the consent to proceed with the Special Deals under Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating in its opinion to the Independent Shareholders that the respective terms of the Special Deals are fair and reasonable; and (ii) approval of the Special Deals by the Independent Shareholders at the EGM, in which Mr. Wang, Ms. Tian and Ms. Hui and their respective associates and parties acting in concert with any of them who is a Shareholder will be required to abstain from voting in respect of the resolution to approve the Special Deals.

(b) *Connected transactions*

Based on the records available to the Company, the Company has certain director's remuneration owed to (i) Professor Fei Phillip, Mr. Li Wenjun, Mr. Wang, Ms. Hui, Mr. Lai Chi Yin Samuel, Mr. Liu Zhaoxiang, Ms. Wong Hoi Ying, Mr. Wang Yibin and Mr. Guo Zhonglong, respectively, each a Director; and (ii) Ms. Tian, Dr. Tse Kwok Sang, Mr. Pang Kin Lung and Mr. Ng Kwok Hung, respectively, each a former Director in the last 12 months preceding the date of the Restructuring Framework Agreement. Therefore, each of the Director Creditors and the Former Director Creditors is a creditor of the Company, and subject to adjudication by the Scheme Administrators upon the Creditors' Scheme taking effect, each of the Director Creditors and the Former Director Creditors may also be a Creditor. Accordingly, the Scheme Shares Issue to the Director Creditors and the Former Director Creditors under the Creditors' Scheme constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders by way of poll. The Director Creditors, the Former Director Creditors, and their respective associates shall abstain from voting in respect of the resolution(s) to approve the Creditors' Scheme.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that (i) the Company has certain director's remuneration owed to each of the Director Creditors and the Former Director Creditors and the settlement (including the Scheme Share Issue) under the Creditors' Scheme will only be made in their capacity of being Creditors; (ii) the settlement to each of the Director Creditors and the Former Director Creditors will be made in accordance with the terms of the Creditors' Scheme which apply equally to all other Creditors; (iii) we consider that terms of the Creditors' Scheme are fair and reasonable and the Proposed Restructuring is in the interests of the Company and the Shareholders as a whole; and (iv) the settlement to be made to Mr. Wang, Ms. Tian and Ms. Hui under the Creditors' Scheme is, by their nature, not capable of being extended to the other Shareholders that are not Creditors, we consider that (i) the terms of the Special Deals are fair and reasonable; and (ii) the terms of the Scheme Share Issue to the Director Creditors and the Former Director Creditors are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the Scheme Share Issue to the Director Creditors and the Former Director Creditors is in the interests of the Company and the Shareholders as a whole.

10. Information on the Investor

The Investor is a company incorporated in Hong Kong with limited liability and is an investment holding company providing integrated financial services in the PRC. As at the Latest Practicable Date, the Investor was beneficially wholly-owned by Ms. Huang, who was also the sole director of the Investor.

Ms. Huang, aged 37, graduated from the Guangdong Institute of Commerce (now Guangdong University of Finance and Economics) with a bachelor's degree in Business Administration. She is currently the chairman of Zhonggangtong International Modern Service Industry Park (Shenzhen) Co., Limited* (中港通國際現代服務業產業園(深圳)有限公司) and the chairman of Zhonggangtong International Financial Services (Shenzhen) Co., Ltd.* (中港通國際金融服務(深圳)有限公司). Ms. Huang is also the founder of Guangdong Vision Media Co., Limited* (廣東省視商傳媒有限公司). Ms. Huang is currently pursuing a Master of Global Management (MGM) at ESC Clermont Graduate School of Management.

Zhonggangtong International Modern Service Industry Park (Shenzhen) Co., Limited* (中港通國際現代服務業產業園(深圳)有限公司) is principally engaged in the business of providing management planning services for industrial parks, economic information consulting, investment consulting, corporate marketing planning, property leasing, property management, domestic trade, import and export of goods and technology.

Zhonggangtong International Financial Services (Shenzhen) Co., Ltd.* (中港通國際金融服務(深圳)有限公司) is principally engaged in the business of providing financial intermediary services, entrusted asset management, supply chain management, corporate management consulting, business information consulting, economic information consulting, equity investment and investment in the industrial and commercial sector.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Guangdong Vision Media Co., Limited* (廣東省視商傳媒有限公司) is principally engaged in cultural industry park projects, radio and television program production, large-scale event services, marketing planning services, corporate image planning services, cultural arts consulting services, large-scale event organization and planning services, internet merchandising and e-commerce information consulting.

According to the Letter from the Board, each of the Investor and its ultimate beneficial owner, Ms. Huang, is an Independent Third Party.

Based on Ms. Huang's information set out above, we noted that Ms. Huang is the chairman or founder of a number of companies that are engaged in various businesses. Ms. Huang does not have any relevant experience in the forestry management business and the ginseng business. As stated in the Letter from the Board, the existing management of the Group will continue to manage the businesses. Based on the aforesaid, we consider that Ms. Huang has substantial management experience and could manage the business of the Group with the assistance of the existing management. In addition, the Company could leverage her network of acquaintances to seek development opportunities for the Group.

11. Intention of the Investor

As at the Latest Practicable Date, the Investor intended to continue the existing businesses of the Group and did not intend to introduce any major changes to the existing operation and businesses of the Group. Nevertheless, following the Completion, the Investor intends that the Company will continue to seek new business opportunities to improve its profitability and business prospects, enhance its future business development, and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise. As at the Latest Practicable Date, the Investor also did not intend to dispose of or redeploy of any of the assets of the Group, or to discontinue the employment of any existing employees of the Group other than in the ordinary course of business. The Investor had not identified any targets for development of other businesses nor conducted any discussions or negotiations for the acquisition of any new business or asset into or disposal of any existing business or asset of the Group as at the Latest Practicable Date.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we consider that (i) the terms of each of the Restructuring Framework Agreement (including the Capital Reorganisation, the Subscription and the Creditors' Scheme), the Subscription Agreement and the Special Deals as well as the grant of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) though the Scheme Shares Issue is not in the ordinary and usual course of business of the Group, the terms of the Scheme Shares Issue to the Director Creditors and the Former Director Creditors under the Creditors' Scheme are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the Scheme Shares Issue to the Director Creditors and the Former Director Creditors is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Takeovers Code IBC to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Restructuring Framework Agreement, the Capital Reorganisation, the Subscription Agreement, the Creditors' Scheme, the Whitewash Waiver and the Special Deals to be proposed at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Shareholders should note that Completion is conditional upon, among other things, the approval of the resolutions to be proposed at the EGM in respect of the Restructuring Framework Agreement, the Capital Reorganisation, the Subscription Agreement, the Creditors' Scheme, the Whitewash Waiver and the Special Deals. If any of the resolutions to be proposed at the EGM is not approved, the Proposed Restructuring will not proceed.

Yours faithfully,
For and on behalf of
China Tonghai Capital Limited
Noelle Hung
Managing Director

Ms. Noelle Hung is a Managing Director of China Tonghai Capital Limited and is licensed under the SFO as a Responsible Officer to carry out, among others, Type 6 (advising on corporate finance) regulated activity and has over 20 years of experience in corporate finance.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group, together with significant accounting policies and the accompanying notes to the consolidated financial statements for the year ended 31 December 2019, eighteen months ended 30 June 2021 and the year ended 30 June 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.caflc.co).

Annual report for the year ended 31 December 2019 (pages 64 to 156):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0514/2020051401367.pdf>

Annual report for the eighteen months ended 30 June 2021 (pages 61 to 168):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0221/2023022100025.pdf>

Annual results for the year ended 30 June 2022 (pages 2 to 22):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0228/2023022801520.pdf>

2. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results of the Group for the year ended 31 December 2019, eighteen months ended 30 June 2021 and the year ended 30 June 2022 as extracted from the relevant annual reports or results announcement.

	For the year ended 31 December 2019 RMB'000 (audited)	For the eighteen months ended 30 June 2021 RMB'000 (audited)	For the year ended 30 June 2022 RMB'000 (audited)
Continuing operations			
Revenue	47,911	25,648	6,756
Loss before taxation	(217,515)	(552,262)	(20,383)
Income tax expense	–	–	–
Loss for the year/period from continuing operations	(217,515)	(552,262)	(20,383)

	For the year ended 31 December 2019 RMB'000 (audited)	For the eighteen months ended 30 June 2021 RMB'000 (audited)	For the year ended 30 June 2022 RMB'000 (audited)
Discontinued operation			
Profit/(loss) for the year/period from discontinued operation	(122,969)	(1,368)	1,483
Loss for the year/period	(340,484)	(553,630)	(18,900)
Profit/(loss) for the year/period attributable to owners of the Company:			
Continuing operations	(217,515)	(552,262)	(20,383)
Discontinued operations	(122,969)	(1,368)	1,483
Loss for the year/period attributable to non-controlling interests	–	–	–
Total comprehensive expenses for the year/period attributable to the owners of the Company			
Continuing operations	(225,414)	(528,188)	(30,799)
Discontinued operation	(122,969)	(1,368)	1,483
Total comprehensive expenses for the year/period attributable to non-controlling interests	–	–	–
Dividends distributed to owners	–	–	–
Dividend per Share (<i>HK cents</i>)	–	–	–
Loss per Share from continuing operations			
Basic (<i>RMB cents</i>)	(1.97)	(5.01)	(0.18)
Diluted (<i>RMB cents</i>)	N/A	N/A	N/A
Loss per Share from continuing and discontinued operations			
Basic (<i>RMB cents</i>)	(3.09)	(5.02)	(0.17)
Diluted (<i>RMB cents</i>)	N/A	N/A	N/A

	As at 31 December 2019	As at 30 June 2021	As at 30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Non-current assets	570,969	76,456	80,571
Current assets	17,537	10,450	12,946
Total assets	588,506	86,906	93,517
Non-current liabilities	159,303	57,187	52,341
Current liabilities	176,966	307,038	347,811
Total liabilities	336,269	364,225	400,152
Net current liabilities	(159,429)	(296,588)	(334,865)
Net assets/(liabilities)	252,237	(277,319)	(306,635)
Total equity/(deficit on equity) attributable to owners of the Company	252,237	(277,319)	(306,635)

Save as disclosed above and in the section headed “Letter from the Board – V. The Audit Qualifications” in this circular, there were no material items of income or expense for each of the year ended 31 December 2019, eighteen months ended 30 June 2021 and the year ended 30 June 2022.

3. INDEBTEDNESS STATEMENT

The Group

As at the close of business on 30 November 2022, being the latest practicable date for the purpose of this indebtedness statements prior to the printing of this circular, the Group had outstanding indebtedness of approximately RMB323,110,000. The indebtedness of the Group comprises the following:

	As at 30 November 2022
	<i>RMB'000</i>
	(unaudited)
(i) Amounts due to former directors	1,137
(ii) Promissory notes payable	53,429
(iii) Corporate bonds payable	268,544
	<hr/>
	323,110
	<hr/> <hr/>

(i) Amounts due to former directors

All the amounts due to former directors were unsecured, interest free and repayable on demand.

(ii) Promissory notes payable

The Company issued two 5% coupon rate per annum two-year promissory notes with principal amounts of HK\$23,800,000 and HK\$34,100,000 on 6 June 2017 and 15 August 2018 respectively, which was unsecured and non-guaranteed. The promissory note has amortized value of approximately RMB53,429,000 as at 30 November 2022.

(iii) Corporate bonds payable

The Company issued 47 corporate bonds with coupon rates ranging from 4% to 10% per annum with various maturity dates in the with aggregate principal amounts of approximately HK\$279,769,000, which was unsecured and non-guaranteed. The corporate bonds have amortised value of approximately RMB268,544,000 as at 30 November 2022.

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 30 November 2022, the Group did not have any (i) debt securities issued and outstanding, authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured; (ii) other borrowings or indebtedness in the nature of borrowing; (iii) mortgages and charges; and (iv) any contingent liabilities or guarantees.

4. MATERIAL CHANGE

As at the Latest Practicable Date, save for the following:

- (i) the Proposed Restructuring;
- (ii) As disclosed in the section headed “Letter from the Board – IV. Information of the Group” in this circular in respect of the business operations, prospect and future plan of the Group, among other things, the following:
 - (a) In particular, for Sichuan Province, according to the 14th Five-Year Plan, the annual logging quota permitted by the PRC government was approximately 158,716 cubic meters, which represented a decrease of approximately 36.6% as compared to the annual logging quota of approximately 250,460 cubic meters as set out in the 13th Five-Year Plan (2016–2020). Moreover, it is expected that going forward, the local government authority in Sichuan Province will continue to adopt environmental protection measures by approving logging activities mainly focusing on unhealthy trees/forests which usually come with a lower yield rate of timber as compared to those healthy or mature trees/forests. Such government policies, if adopted, may limit the growth of the Group’s forestry management business notwithstanding that there is no change to the pre-requisite requirements for the Group to obtain the logging quotas. In particular, the Company expects that the environmental protection policies/measures promulgated by the PRC government will result in a decrease in the Group’s logging yield rate from approximately 66% prior to 2021 to approximately 40% since 2021.

The amount of logging quotas that the Group expects to obtain in the calendar years 2023 (second batch), 2024 and 2025 will be similar to that for the calendar year of 2022 since the logging quotas for the calendar year of 2022 were obtained after the 14th Five-Year Plan was promulgated and that the overall logging quota for Sichuan Province for 2021-2025 has been fixed. The aforesaid trend is disclosed as this represents the impacts of the 14th Five-Year Plan on the Group.
 - (b) Due to the resurgence of the COVID-19 pandemic in 2022, the PRC Government has imposed more stringent precautionary measures, such as social distancing and partial lockdown in Sichuan. Hence, the issuing of the logging permits of the Group has been delayed. In November 2022, the Group successfully obtained the logging permits for the calendar year of 2022 with logging quantity of 16,648.0 cubic meters in aggregate. As at the Latest Practicable Date, the Group had completed the sales of all the approved quantity for 2022 and has contributed logging revenue to the Group for the year ending 30 June 2023.
 - (c) In order to activate the forestry management business of the Group, the management of the Group has further negotiated with the National Forestry and Grassland Administration and had obtained extra logging quotas in December 2022 for the calendar year of 2023. The logging quantity amounted to approximately 10,305.0 cubic meters in aggregate. Such logging quota is expected to contribute further revenue to the Group for the second-half of the financial year ending 30 June 2023.

- (d) Since August 2022, the Group has engaged in the ginseng trading business. It is the intention of the Group that it will gradually decrease the purchases of aged ginseng from third-party suppliers when it has self-grown sufficient inventory of aged ginseng on its own. The core businesses of the Group going forward would be forestry management business and the Ginseng Business. However, the growth driver for the Group will be its Ginseng Business while the forestry management business will continue to provide stable revenue to Group.
- (e) The Group plans to assign an aggregate of 200 Chinese Mu forest land for ginseng plantation where 120,000 pieces of ginseng can be planted in one Chinese Mu of forest land. This means the Group can plant at most 24 million pieces of ginseng on its designated forest lands. In addition, the type of ginseng grown by the Group can be planted under-forest.
- (f) In December 2022, the Group has completed the first phrase of ginseng seeding according to its ginseng plantation plan of approximately 6 million pieces on the designated 50 Chinese Mu forest land in the Senbo Forest. According to the plan of the Group, the first batch of one-year ginseng is expected to be harvested in November 2023 and can be sold to customers thereafter.

Please refer to the aforementioned section for details.

- (iii) Other than the aforesaid commencement of the ginseng trading business as stated in (ii) (d) above, based on the unaudited consolidated management accounts of the Group for the six months ended 31 December 2022, the following changes in the financial position of the Group:
 - a substantial increase in cash and cash equivalents as at 31 December 2022 as compared to 30 June 2022, mainly due to cash injection by the Investor under the Funding Arrangement and settlement of receivables between 1 July 2022 to 31 December 2022; and
 - a substantial increase in trade payables as at 31 December 2022 as compared to 30 June 2022, mainly due to payables for the ginseng planting related raw materials.
- (iv) As disclosed in the section headed “Letter from the Board – V. The Audit Qualifications” in this circular, in the event that the Group is in a net current liabilities position after completion of the Creditors’ Scheme and/or requires additional working capital, the Investor undertakes that it will provide further funding to the Group as and when required.

the Directors confirm that there had been no other material change in the financial or trading position or outlook of the Group since 30 June 2022 (being the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

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

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Investor and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the sole director of the Investor) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the Investor accepts full responsibility for the accuracy of the information contained in this circular (other than those relating to the Group) and confirms, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICE

The Takeovers Code requires information on the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) the last business day immediately preceding the date of the Announcement; and (iii) the Latest Practicable Date. Trading in the Shares has been suspended since 4 October 2021 and therefore no closing prices of the Shares were recorded since then. The closing price of the Shares on the Last Trading Day was HK\$0.010 per Share.

3. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE SECURITIES

Share capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation becoming effective (assuming that there are no other changes in the share capital of the Company from the Latest Practicable Date up to effective date of the Capital Reorganisation); (iii) immediately after completion of the issue of the Subscription Shares and the Scheme Shares in full (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the completion of the issue of the Subscription Shares and the Scheme Shares) are as follows:

(i) Share capital as at the Latest Practicable Date:

<i>Authorised</i>		<i>HK\$</i>
<u>50,000,000,000</u>	Shares	<u>100,000,000.00</u>
<i>Issued and fully paid or credited as fully paid</i>		<i>HK\$</i>
<u>11,024,220,415</u>	Shares	<u>22,048,440.83</u>

(ii) Share capital immediately after the Capital Reorganisation becoming effective (assuming that there are no other changes in the share capital of the Company from the Latest Practicable Date up to effective date of the Capital Reorganisation):

<i>Authorised</i>		<i>HK\$</i>
<u>10,000,000,000</u>	New Shares	<u>100,000,000</u>
<i>Issued and fully paid or credited as fully paid</i>		<i>HK\$</i>
<u>110,242,204</u>	New Shares	<u>1,102,422.04</u>

(iii) Share capital immediately after completion of the issue of the Subscription Shares and the Scheme Shares in full (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the completion of the issue of the Subscription Shares and the Scheme Shares):

<i>Authorised</i>		<i>HK\$</i>
<u>10,000,000,000</u>	New Shares	<u>100,000,000</u>
<i>Issued and fully paid or credited as fully paid</i>		<i>HK\$</i>
110,242,204	New Shares as at the Latest Practicable Date	1,102,422.04
466,000,000	Subscription Shares to be issued	4,660,000.00
<u>140,000,000</u>	Scheme Shares to be issued	<u>1,400,000.00</u>
<u>716,242,204</u>	New Shares upon completion of the Subscription and the Scheme Shares Issue	<u>7,162,422.04</u>

All of the Subscription Shares and Scheme Shares to be issued will rank pari passu in all respects with all the New Shares in issue as at the date of allotment and issue of the Subscription Shares and Scheme Shares in accordance with the Company's memorandum and articles of association and will have the same voting, dividend, return of share capital and other rights attached or accruing thereto as from the date of allotment and issue of the Subscription Shares and Scheme Shares. The Subscription Shares and Scheme Shares to be issued will be listed on the Stock Exchange.

The Company will apply to the Stock Exchange for the listing of and permission to deal in the Subscription Shares and Scheme Shares. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the New Shares, the Subscription Shares, the Scheme Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Since 30 June 2022 (being the date on which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or securities convertible into or exchangeable Shares.

There is no arrangement under which future dividends are/will be waived or agreed to be waived.

4. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors, the substantial Shareholders, nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

5. SERVICE CONTRACTS

On 30 June 2022, Mr. Huang Wenhong resigned as an independent non-executive Director with effect from 30 June 2022 due to his other business engagements requiring more of time. On the same day, (i) Ms. Wong Hoi Ying was appointed as an independent non-executive Director and the chairman of the audit committee of the Company (the “**Audit Committee**”), (ii) Mr. Wang Yibin was appointed as an independent non-executive Director, the chairman of the remuneration committee of the Company and a member of each of the Audit Committee and the nomination committee of the Company and (iii) Mr. Guo Zhonglong has been appointed as an independent non-executive Director and a member of the Audit Committee with effect from 30 June 2022. Each of Ms. Wong Hoi Ying, Mr. Wang Yibin and Mr. Guo Zhonglong entered into a contract of appointment with the Company for a term of one year (i.e. ending on 29 June 2023). The annual remuneration of (i) Ms. Wong Hoi Ying, (ii) Mr. Wang Yibin, and (iii) Mr. Guo Zhonglong are (i) HK\$120,000, (ii) HK\$240,000, and (iii) HK\$240,000 respectively. Each of Ms. Wong Hoi Ying, Mr. Wang Yibin, and Mr. Guo Zhonglong are also entitled to receive annual or semi-annual bonuses and/or other compensation payments in accordance with the remuneration policy approved by the remuneration committee of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which (i) are not determinable by the employer within one year without payment of compensation (other than statutory compensation); (ii) (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the Announcement; (iii) are continuous contracts with a notice period of 12 months or more; or (iv) are fixed term contracts with more than 12 months to run irrespective of the notice period.

6. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement (i.e. 30 December 2022) and up to and including the Latest Practicable Date, the following contracts which are not in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, have been entered into by the Group and/or are material:

- (a) the funding agreement dated 27 November 2020 (“**Silver Bright Funding Agreement**”) entered into by the Company as borrower and Silver Bright Limited (“**Silver Bright**”) as lender in relation to the provision of funding of up to US\$1.0 million for the purpose of facilitating and/or supporting the restructuring of the Group;

- (b) the deed of assignment dated 17 March 2021 entered into by the Company, Silver Bright and Flair Leap International Limited (“**Flair Leap**”) whereby Silver Bright transferred all/part of its rights and obligations under the Silver Bright Funding Agreement to Flair Leap;
- (c) the funding agreement dated 24 November 2021 entered into by the Company as borrower and Standing Success Limited (“**Standing Success**”) as lender in relation to the provision of investment and funding of a total sum up to HK\$60.0 million by Standing Success to the Company for the purposes of the restructuring plan and providing operational supporting to the then existing container house business of the Company;
- (d) the memorandum of understanding dated 24 November 2021 entered into by the Company and Standing Success for the subscription of new Shares by Standing Success to document their intention to negotiate the formulation of a restructuring plan and the subscription of Shares, including the subscription price payable and the number of Shares to be allotted and issued;
- (e) the funding agreement dated 14 April 2022 (“**CHKCG Funding Agreement**”) entered into by the Company as borrower and China Hong Kong Connect Group Co., Limited (“**CHKCG**”) as lender in relation to the provision of investment and funding of a total sum up to HK\$60.0 million by CHKCG to the Company for the purposes of facilitating and/or supporting the restructuring of the Company;
- (f) the termination agreement dated 23 August 2022 entered into by the Company and CHKCG in relation to the termination of the CHKCG Funding Agreement;
- (g) the Funding Agreement;
- (h) the Restructuring Framework Agreement; and
- (i) the Subscription Agreement.

7. DISCLOSURE OF INTERESTS

(I) Director's and chief executive's interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions, of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by Directors or (iv) required to be disclosed under the Takeovers Code were as follows:

Interests in the Shares and underlying Shares of the Company

Name	Capacity	Long position/ Short position	Number of ordinary shares	Percentage of issued share capital
Mr. Wang ^(Note)	Beneficial owner and interest of spouse	Long position	3,197,023,920	29.00
Ms. Hui	Beneficial owner	Long position	10,000,000	0.09

Note:

1. Mr. Wang directly holds 3,092,703,920 Shares and he is deemed to be interested in 104,320,000 Shares which are beneficially owned by his spouse under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by Directors or (iv) required to be disclosed under the Takeovers Code.

(II) Substantial shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as was known to the Directors, no other person (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, were, directly or indirectly, interested in 10% or more of the issued share capital of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any option in respect of such capital:

8. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 30 June 2022 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENT

Save for the settlement of indebtedness to the Director Creditors under the Creditors' Scheme (details of which are set out in the section headed "Letter from the Board – XI. Listing Rules Implication – A. Connected Transactions" in this circular) which would cause them to have a material interest in the Proposed Restructuring and the transactions contemplated thereunder, as at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

10. LITIGATION**(a) Winding-up Petition**

On 15 May 2020, the Company received a petition (the "**Hong Kong Petition**") from a holder of the bonds issued by the Company (the "**Petitioner**") in the matter of the Companies (Winding Up and Miscellaneous Provision) Ordinance (Chapter 32 of the Laws of Hong Kong) filed in the High Court The Hong Kong Special Administrative Region (the "**High Court**") under Companies Winding-up Proceedings No. 182 for an order that the Company be wound up by the High Court on the ground that the Company failed to settle the outstanding principal of the bonds and the accrued interest amounted to approximately HK10,159,000. Upon the joint application of the Petitioner and the Company to withdraw the Hong Kong Petition by way of consent summons, an order was made by the High Court on 4 October 2021 that, among others, the Hong Kong Petition against the Company was dismissed. As such, the proceedings under the Hong Kong Petition have not been proceeded as at the Latest Practicable Date.

(b) Claims

On 7 August 2020, the landlord of the Company's office (the "**Landlord**") filed a writ of summons against the Company in respect of the claim for outstanding rent, air-conditioning charges, service charges, rates and interest (the "**Claim**"). On 23 October 2020, the Court made a final judgment and ordered the Company to pay the Landlord (i) the Claim of HK\$596,766; (ii) rent, air-conditioning charges, service charges, rates and interest from 1 September 2020 to the date of delivery of vacant possession of the premises; (iii) damages to be assessed; and (iv) costs of this action to be determined. On 6 November 2020, the Company vacated the said premises and the premises have been taken over by the Landlord. The outstanding amount owed to the Landlord by the Company as at 30 June 2022 was approximately HK\$1,219,000.

As of the Latest Practicable Date, the outstanding amount of HK\$1,219,000 were provided and included in other payables as at 30 June 2022.

(c) Debt Restructuring

To facilitate the debt restructuring of the Company, Professor Fei Phillip, the chairman of the Board, has filed a winding up petition against the Company at the Cayman Court and the Company has also made an application to the Cayman Court for an application for the appointment of the Joint Provisional Liquidators, with the hearing held at the Cayman Court on 3 December 2020 (Cayman Islands time). At the hearing, an order in favour of the Company was granted and Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, and Mr. Martin Trott of R&H Restructuring (Cayman) Ltd. were appointed as the Joint Provisional Liquidators (for restructuring purposes) on a light touch approach for restructuring purposes. The order provides that for so long as the Joint Provisional Liquidators are appointed to the Company, no suit, action or other proceeding, including criminal proceedings, shall be proceeded with or commenced against the Company except with the leave of the Cayman Court and subject to such terms as the Cayman Court may impose.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially or adversely affect the operations of the Company and no litigation, arbitration or claim which would materially or adversely affect the operations of the Company was known to the Directors to be pending or threatened by or against any member of the Group.

11. EXPERTS AND CONSENTS

The following sets out the qualifications of the expert who has given their opinions or advice or statements as contained in this circular:

Name	Qualification
China Tonghai Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or references to its name in the form and context in which they respective appear.

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

As at the Latest Practicable Date, the expert did not have any direct or indirect interests in any assets which have been, since 30 June 2022 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

12. MISCELLANEOUS

- (a) The registered office of the Company is at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108 Cayman Islands, and the principal place of business in Hong Kong of the Company is at Unit 12, 12/F., Tower A, New Mandarin Plaza, No. 14 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (b) The company secretary of the Company is Mr. Chan Ngai Fan, who is a member of the Hong Kong Institute of Certified Public Accountants (Practising) and an associate member of the Hong Kong Chartered Governance Institute.
- (c) The registered address of the Investor is Room 502C, 5/F, Ho King Commercial Centre, 2-16 Fa Yuen Street, Mong Kok, Kowloon, Hong Kong.
- (d) The sole director and shareholder of the Investor is Ms. Huang, whose address is at No. 23-3, New Village, Shi Tian Guan District, Kwai Tan Town, Huilai County, Guangdong Province, PRC (中國廣東省惠來縣葵潭鎮石田管區新村23號之3).

- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (f) The financial adviser to the Company is Lego Corporate Finance Limited and its registered office is situated at Room 1601, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong.
- (g) The Independent Financial Adviser is China Tonghai Capital Limited and its registered office is situated at 15/F, China Building, 29 Queen's Road Central, Hong Kong.

13. DOCUMENTS ON DISPLAY

Copies of the following documents will be available on the websites of the Company (www.caflc.co), the Stock Exchange (www.hkexnews.hk) and the SFC (www.sfc.hk) between the period from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the articles of association of the Investor;
- (c) the letter from the Board, the text of which is set out on pages 12 to 64 of this circular;
- (d) the letter from the Takeovers Code IBC, the text of which is set out on pages 65 to 66 of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 67 to 106 of this circular;
- (f) the annual report of the Company for the financial year ended 31 December 2019;
- (g) the annual report of the Company for the eighteen months ended 30 June 2021;
- (h) the annual results announcement of the Company for the financial year ended 30 June 2022;
- (i) the written consents referred to in the paragraph headed "11. Experts and consents" in this appendix;
- (j) the service contracts referred to in the paragraph headed "5. Service contracts" in this appendix;
- (k) the material contracts as referred to in the paragraph headed "6. Material contracts" in this appendix; and
- (l) this circular.

NOTICE OF THE EGM

中國寶沙發展控股有限公司
China Bozza Development Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Provisional Liquidators Appointed)

(For Restructuring Purpose)

(Stock code: 1069)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China Bozza Development Holdings Limited (the “**Company**”) will be held at 22/F, World Wide House, 19 Des Voeux Road Central, Central, Hong Kong at 11:00 a.m. on Monday, 27 March 2023 for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company (unless otherwise indicated, capitalised terms used in this notice have the same meanings as those defined in the circular of the Company dated 3 March 2023 (the “**Circular**”)):

ORDINARY RESOLUTION

1. “**THAT**

- (a) the conditional restructuring framework agreement dated 30 December 2022 (the “**Restructuring Framework Agreement**”) (a copy of which is produced to the EGM marked “A” and signed by the Chairman of the EGM for the purpose of identification) and entered into amongst the Company, the Joint Provisional Liquidators, and the Investor, in relation to the restructuring of the debts and liabilities, capital structure and share capital of the Company and which comprise (i) the Capital Reorganisation and the Change in Board Lot Size; (ii) the Subscription; (iii) the Creditors’ Scheme involving (a) the Creditors’ Scheme Cash Consideration; (b) the Scheme Shares Issue; and (c) the Promissory Notes Issue; (iv) the Whitewash Waiver; and (v) the Special Deals and the transactions contemplated thereunder (the “**Proposed Restructuring**”) be and are hereby approved, confirmed and ratified; and
- (b) any Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Restructuring Framework Agreement and the transactions contemplated thereunder.”

NOTICE OF THE EGM

ORDINARY RESOLUTION

2. “**THAT** subject to and conditional upon, (i) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the New Shares upon the Capital Reorganisation becoming effective, and (ii) the compliance with the relevant procedures and requirements under the applicable laws of the Cayman Islands and the Listing Rules to effect the Capital Reorganisation, with effect from the second business day immediately following the date on which this resolution is passed or the above conditions are fulfilled (whichever is later):
- (a) every 100 issued and unissued Shares with a par value of HK\$0.002 each be consolidated into one Consolidated Share of par value of HK\$0.20 each, and such Consolidated Share(s) shall be identical and rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the memorandum and articles of association of the Company (the “**Share Consolidation**”); and
 - (b) all fractional New Shares resulting from the Share Consolidation will be disregarded and will not be issued to the shareholders of the Company but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company in such manner and on such terms as the Director may think fit.”

SPECIAL RESOLUTION

3. “**THAT** subject to and conditional upon, (i) the Share Consolidation becoming effective; (ii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the New Shares upon the Capital Reorganisation becoming effective; (iii) the Cayman Court granting an order confirming the Capital Reduction (as defined below); (iv) the compliance with any conditions which the Cayman Court may impose in relation to the Capital Reduction (as defined below); (v) the registration by the Registrar of Companies in the Cayman Islands of a copy of the order of the Cayman Court confirming the Capital Reduction (as defined below) and the minute approved by the Cayman Court containing the particulars required under the Cayman Companies Act with respect to the Capital Reduction (as defined below); (vi) the compliance with the relevant procedures and requirements under the applicable laws of the Cayman Islands and the Listing Rules to effect the Capital Reorganisation; and (vii) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reduction (as defined below), with effect from the date on which the above conditions are fulfilled (the “**Second Effective Date**”), the issued share capital of the Company be reduced (the “**Capital Reduction**”) by cancelling the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the par value of each Consolidated Share will be reduced from HK\$0.20 each to HK\$0.01 each.”

NOTICE OF THE EGM

ORDINARY RESOLUTIONS

4. **“THAT** subject to and conditional upon the Share Consolidation and Capital Reduction becoming effective,
- (a) all the authorised but unissued share capital of the Company (which shall include the authorised but unissued share capital arising from the Capital Reduction) be diminished (the **“Authorised Share Capital Diminution”**);
 - (b) forthwith upon the Authorised Share Capital Diminution taking effect, the authorised share capital of the Company will be increased to HK\$100,000,000 by the creation of such number of additional New Shares as shall be sufficient to increase the share capital of the Company to HK\$100,000,000 divided into 10,000,000,000 New Shares;
 - (c) the entire amount standing to the credit of the share premium account of the Company as at the Second Effective Date shall be cancelled and credited to the contribution surplus reserve account of the Company and be applied towards offsetting the accumulated loss of the Company as at the Second Effective Date and the balance (if any) will be transferred to a distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the memorandum and articles of association of the Company and all applicable laws and rules (including the Listing Rules) and all actions in relation thereto be approved, ratified and confirmed; and
 - (d) any Director be and is hereby authorised to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Capital Reorganisation.”
5. **“THAT**
- (a) the conditional subscription agreement dated 30 December 2022 (the **“Subscription Agreement”**) (a copy of which is produced to the EGM marked “B” and signed by the Chairman of the EGM for the purpose of identification) and entered into between the Company as issuer, the Investor as subscriber, and the Joint Provisional Liquidators in relation to the subscription for 466,000,000 New Shares (the **“Subscription Shares”**) at the Subscription Price of approximately HK\$0.1288 per Subscription Share and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
 - (b) subject to the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the Subscription Shares, the Directors be and are hereby granted a specific mandate for the allotment and issue of the Subscription Shares in accordance with the terms of the Subscription Agreement; and

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- (c) any Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Subscription Agreement and the transactions contemplated thereunder.”
6. **“THAT** subject to and conditional upon, among others, the applicable laws of the Cayman Islands and Hong Kong and the directions and sanctions of the Cayman Court and the Hong Kong Court, and to all the other resolutions set out in this notice being passed:
- (a) the Creditors’ Scheme material particulars whereof are disclosed in the scheme of arrangement document of the Company despatched to the Creditors (details of the major terms of the scheme of arrangement are set out in the section headed “Letter from the Board – II. The Proposed Restructuring – E. The Creditors’ Scheme” in the Circular), which are to be proposed and effected as a scheme under Part 13 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), be and are hereby approved, confirmed and ratified, subject to any modification thereof or addition thereof approved or imposed by the Hong Kong Court (if any);
- (b) the proposed payment of HK\$30,000,000 in cash to the Creditors on a pro-rata basis in accordance with the terms of the Creditors’ Scheme, funded from the net proceeds of the issue of the Subscription Shares under Resolution no. 5 hereof be and is hereby approved;
- (c) the proposed allotment and issue of 140,000,000 New Shares (the “**Scheme Shares**”) at the issue price of HK\$0.55 per Scheme Share on a pro-rata basis in accordance with the terms of the Creditors’ Scheme be and is hereby approved;
- (d) the proposed issue of promissory notes in the aggregate principal amount of HK\$120,000,000 million (details of the major terms of the promissory notes are set out in the section headed “Letter from the Board – II. The Proposed Restructuring – E. The Creditors’ Scheme” in the Circular) on a pro-rata basis in accordance with the terms of the Creditors’ Scheme be and is hereby approved;
- (e) subject to the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the Scheme Shares, the Directors be and are hereby granted a specific mandate for the allotment and issue of the Scheme Shares in accordance with the terms of the Creditors’ Scheme; and
- (f) any one Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he/she considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Creditors’ Scheme and the transactions contemplated thereunder.”

NOTICE OF THE EGM

SPECIAL RESOLUTION

7. **“THAT**
- (a) the terms of the waiver (the **“Whitewash Waiver”**) granted or to be granted by the Executive to the Investor pursuant to Note 1 on the dispensations from Rule 26 of the Takeovers Code from an obligation to make a general mandatory offer to the Shareholders in respect of all the Shares and the securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it as a result of the subscription of the Subscription Shares under the Subscription Agreement be and are hereby approved, confirmed and ratified; and
 - (b) any Director be and is hereby authorised to do all such things and acts and execute all documents (whether under common seal or not) which he considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Whitewash Waiver and the transactions contemplated thereunder.”

ORDINARY RESOLUTION

8. **“THAT** the proposed settlement of the indebtedness (the **“Special Deals”**) to Mr. Wang Yue, Ms. Tian Guangmei and Ms. Hui Hing Conniel under the Creditors’ Scheme as out in the Circular under the section headed “Letter from the Board – XII. Takeovers Code Implications – B. The Special Deals”, which constitute special deals under Rule 25 of the Takeovers Code, be and are hereby approved, confirmed and ratified.”

By Order of the Board
China Bozza Development Holdings Limited
Fei Phillip
Chairman and Executive Director

Hong Kong, 3 March 2023

NOTICE OF THE EGM

Registered Office:

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

Principal place of business in Hong Kong:

Unit 12, 12/F., Tower A
New Mandarin Plaza
No. 14 Science Museum Road
Tsim Sha Tsui, Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use of the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the EGM, excluding Saturdays, Sundays and public holidays in Hong Kong (i.e. 11:00 a.m. on Thursday, 23 March 2023), or any adjournment thereof.
4. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
5. The register of members of the Company will be closed from Tuesday, 21 March 2023 to Monday, 27 March 2023 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the meeting, all transfers of Shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 March 2023.
6. Members are advised to read the Circular which contains information concerning the resolutions to be proposed in the EGM.
7. References to time and dates in this notice are to Hong Kong time and dates.
8. The voting at the EGM shall be taken by way of poll.