
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 a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

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

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This Circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or any securities of the Company.

Da Sen Holdings Group Limited

大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1580)

**(I) PROPOSED DEBT RESTRUCTURING INVOLVING, INTER ALIA,
(A) THE SCHEME; AND
(B) PROPOSED OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY FIVE (5) EXISTING SHARES
HELD ON THE RECORD DATE;
(II) CHANGE IN BOARD LOT SIZE;
AND
(III) NOTICE OF EGM**

Financial Adviser to the Company



Independent Financial Adviser to
the Independent Board Committee and Independent Shareholders

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
泓博資本有限公司

Capitalised terms used in this cover page have the same meanings as defined in this Circular.

A letter from the Board is set out on pages 10 to 34 of this Circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Open Offer is set out on pages 35 and 36 of this Circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer is set out on pages 37 and 62 of this Circular.

A notice convening the EGM to be held at Room 2703, 27th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong, on Friday, 10 June 2022 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this Circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). 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 (as the case may be) should you so wish and in such case, the form of proxy shall be deemed to be revoked. The Open Offer will proceed on a non-underwritten basis. The Shares will be dealt in on an ex-entitlement basis from Tuesday, 14 June 2022. If the conditions referred to in that section are not fulfilled, the Open Offer will not proceed.

PRECAUTIONARY MEASURES FOR PHYSICAL ATTENDANCE AT THE EGM

To safeguard the health and safety of Shareholders and to prevent and control the spreading of the coronavirus disease 2019 (COVID-19), the following precautionary measures will be implemented at the EGM of the Company:

1. Compulsory temperature screening/checks;
2. Submission of Health and Travel Declaration Form;
3. Wearing of surgical face mask;
4. No provision of refreshments or drinks; and
5. No provision of corporate gifts.

Attendees who do not comply with the precautionary measures referred to in (1) to (5) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

20 May 2022

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DEFINITIONS

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

“Announcements”	announcements of the Company dated 30 November 2020, 8 January 2021, 18 May 2021, 1 September 2021, 28 October 2021, 11 January 2022, 14 February 2022 and 29 April 2022
“Application Form(s)”	the form(s) of application to be issued to the Qualifying Shareholders to apply for the Offer Shares for their assured entitlement under the Open Offer in the agreed form
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“Bonds”	all the unsecured and interest-bearing bonds in registered form issued by the Company prior to the Scheme becoming effective
“business day”	a day (other than a Saturday, Sunday or public holiday or a day on which a tropical cyclone warning typhoon No. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9: 00 a.m. to 5: 00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Cash Advance”	the cash advance in the maximum aggregate amount of HK\$5.5 million (or such other amount as may be agreed by the parties in writing) made or to be made by the Substantial Shareholder and Mr. Chai pursuant to (i) the cash advance agreement dated 30 November 2020 and the cash advance agreement dated 18 October 2021 entered into between the Company and the Substantial Shareholder and (ii) the cash advance agreement dated 30 November 2020 and the cash advance agreement dated 18 October 2021 entered into between the Company and Mr. Chai, respectively
“Cash Consideration”	the cash consideration to be distributed to the Scheme Creditors in accordance with the terms of the Scheme in the aggregate amount of HK\$15.2 million, which shall be funded by the Open Offer
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	this circular

DEFINITIONS

“Company”	Da Sen Holdings Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange (Stock code: 1580)
“Concert Group”	the Controlling Shareholder Concert Group (excluding Mr. Ke Mingcai, whose Shares are currently held by a receiver)
“Concert Party Agreement”	an agreement dated 3 March 2016 entered into among Mr. Ke Mingcai, Mr. Cai Jinxu, Mr. Wang Songmao, Mr. Lin Qingxiong, Mr. Wu Shican and Ms. Wu Haiyan, pursuant to which they have agreed on certain arrangements pertaining to their shareholdings in the Company. Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in the Company’s prospectus dated 7 December 2016
“Consenting Creditors”	Scheme Creditors who have executed or otherwise acceded to the restructuring support agreement in relation to the Scheme on or before 27 October 2021
“Consent Fee Shares”	up to 16,398,159 additional new Shares to be issued and allotted under the General Mandate to Consenting Creditors pursuant to the terms of the restructuring support agreement in relation to the Scheme
“Controlling Shareholder Concert Group”	Mr. Ke Mingcai and persons acting in concert with him pursuant to the Concert Party Agreement, including, as at the Latest Practicable Date, Mr. Cai Jinxu, Mr. Wang Songmao, Mr. Lin Qingxiong, Mr. Wu Shican and Ms. Wu Haiyan
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and, if thought fit, approving the Proposed Restructuring and the transactions contemplated thereunder, including but not limited to, the Scheme and the Open Offer
“excess application form(s)”	the excess application form(s) to be issued to the Qualifying Shareholders, pursuant to which the Qualifying Shareholders may apply for the Offer Shares in excess of their assured entitlement under the Open Offer in the agreed form
“Gearing Ratio”	the percentage of the Group’s interest-bearing borrowings divided by the Group’s total equity

DEFINITIONS

“General Mandate”	the general mandate, which was granted to the Directors pursuant to an ordinary resolution passed at the Company’s annual general meeting on 25 June 2021, to issue up to 194,880,000 new Shares, representing 20% of the total issued share capital of the Company at the date of grant
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“High Court”	the High Court of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	the independent committee of the Board comprising Ms. Lo Yuk Yee, Mr. Tso Siu Lun Alan and Mr. Kwok Yiu Tong Henry, established to give recommendations to the Independent Shareholders on the Open Offer
“Independent Financial Adviser”	Rainbow Capital (HK) Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Open Offer
“Independent Shareholders”	Shareholders other than (i) the Controlling Shareholder Concert Group and (ii) other shareholders who are interested or involved in the Scheme and the Open Offer and are required to abstain from voting at the EGM under the Listing Rules
“Independent Third Party(ies)”	third party(ies) independent of the Company and not connected with the Company and its connected persons and independent of and not acting in concert with the Substantial Shareholder, the Concert Group and Mr. Chai and parties acting in concert with any of them
“Irrevocable Undertaking(s)”	letters of irrevocable undertaking executed by the Substantial Shareholder, the Concert Group and Mr. Chai in favour of the Company, the principal terms of which are disclosed in the section headed “The Irrevocable Undertakings” in this Circular
“Last Trading Day”	1 September 2021, being the last trading day of the Shares prior to the release of the Company’s announcement dated 1 September 2021

DEFINITIONS

“Latest Practicable Date”	17 May 2022, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained in this Circular prior to its publication
“Latest Time for Acceptance”	4:00 p.m. on Friday, 8 July 2022, being the last date for acceptance of and payment for the Offer Shares
“Listing Rules”	the Rules Exchange Governing the Listing of Securities on the Stock Exchange
“Maximum Consent Fee”	5.0% of the aggregate principal amount and interests accrued up to 31 December 2020 on the Bonds held by the relevant Consenting Creditors
“Mr. Chai”	Mr. Chai Kaw Sing, an executive Director
“Non-Qualifying Shareholder(s)”	such Overseas Shareholders to whom the Company and the Board (having made relevant and necessary enquiries) consider it necessary or expedient not to offer the Offer Shares to them on account of any legal or regulatory restrictions or special formalities in such places
“Offer Price”	HK\$0.04 per Offer Share
“Offer Shares”	584,640,000 new Shares to be issued and allotted to the Qualifying Shareholders pursuant to the Open Offer at the Offer Price
“Open Offer”	the issue of the Offer Shares on the basis of three (3) Offer Shares for every five (5) Shares held on the Record Date by the Qualifying Shareholders
“Overseas Letter”	a letter from the Company to the Non-Qualifying Shareholders explaining the circumstances in which the Non-Qualifying Shareholders are not permitted to participate in the Open Offer
“Overseas Shareholder(s)”	the Shareholders with registered addresses as shown in the register of members of the Company on the Record Date which are outside of Hong Kong
“PRC”	the People’s Republic of China, which, for the purpose of this Circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Restructuring”	the proposed debt restructuring of the Group involving, among other things, the Scheme and the Open Offer

DEFINITIONS

“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus, the Application Form(s) and the excess application form(s) in relation to the Open Offer
“Prospectus Posting Date”	Thursday, 23 June 2022 or such other date as may be announced by the Company for the despatch of the Prospectus Documents to the Qualifying Shareholders and the Prospectus, for information only, to the Non-Qualifying Shareholders, to the extent legally and practically permissible
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Wednesday, 22 June 2022, the record date for ascertaining entitlements to the Application Form and the excess application forms
“Registrar”	Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Restructuring Costs”	all costs and expenses incurred by the Company in and about the finalization and/or implementation of the various elements of the restructuring of the liabilities of the Group as to be described in the scheme documents of the Scheme
“Scheme”	the proposed scheme of arrangement to be made between the Company and the Scheme Creditors pursuant to Sections 666 to 675 of the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) with, or subject to, any modification, addition or conditions approved or imposed by the High Court
“Scheme Administrators”	Mr. Chan King Wai Leonard and Ms. So Kit Yee Anita of Ernst & Young Transactions Limited, being the Scheme administrators pursuant to the Scheme and are Independent Third Parties
“Scheme Claim(s)”	any claim(s) against the Company arising directly or indirectly out of, in relation to and/or in connection with each or any of the Bonds
“Scheme Company”	a company newly incorporated or to be incorporated, held and controlled by the Scheme Administrators for the purpose of the Scheme
“Scheme Consideration”	collectively, the Cash Consideration and the Scheme Shares

DEFINITIONS

“Scheme Creditors”	collectively all the creditors of the Company who have a claim against the Company in relation to the Bonds as at the date on which the Scheme becomes effective (for the avoidance of doubt, shall not include the Substantial Shareholder and Mr. Chai in respect of the Cash Advance and parties with claims relating to the Restructuring Costs)
“Scheme Meeting”	the meeting of the Scheme Creditors as convened at the direction of the High Court for the purpose of considering and, if thought fit, approving the Scheme, and any adjournment thereof
“Scheme Shares”	49,194,476 new Shares to be allotted and issued pursuant to the Scheme under the General Mandate
“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)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	Mr. Wong Tseng Hon, who is a substantial shareholder (has the meaning ascribed to it under the Listing Rules) of the Company and the legal and beneficial owner of 221,405,000 Shares, representing approximately 22.72% of the entire issued share capital of the Company as at the Latest Practicable Date
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“%”	per cent

For the purpose of this Circular, unless the context otherwise requires, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1 to HK\$1.2. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in RMB or HK\$ have been, could have been or may be converted at such or any other rate or at all.

EXPECTED TIMETABLE

The expected timetable for the Scheme, Open Offer, the change in board lot size and the associated trading arrangement set out below are indicative only and it has been prepared on the assumption that all the conditions set out under the paragraph headed “Conditions precedent to the Scheme” and “Conditions of the Open Offer” in this Circular will be fulfilled. All times stated in this Circular refer to Hong Kong time and dates stated for events in the following expected timetable are indicative only and may be extended or varied.

The expected timetable for the Scheme, the Open Offer, the change in board lot size and the associated trading arrangement are as follows:

Hong Kong time

Latest time for registration of Shares to qualify for attendance and voting at the EGM	4:30 p.m. on Monday, 6 June 2022
Closure of register of members of the Company to determine the qualification for attendance and voting at the EGM	Tuesday, 7 June 2022 to Friday, 10 June 2022 (both dates inclusive)
Latest time for lodging proxy forms for the EGM	3 p.m. on Wednesday, 8 June 2022
Record date for attending and voting at the EGM	Friday, 10 June 2022
Time and date of the EGM	3 p.m. on Friday, 10 June 2022
Announcement of result of EGM	Friday, 10 June 2022
Re-opening of the register of members of the Company	Monday, 13 June 2022
Last day of dealings in Shares on a cum-entitlement basis of the Open Offer	Monday, 13 June 2022
First day of dealings in Shares on an ex-entitlement basis of the Open Offer	Tuesday, 14 June 2022

EXPECTED TIMETABLE

Hong Kong time

Latest time for lodging transfers of the Shares in order for the transferees to qualify for the Open Offer	4:30 p.m. on Wednesday, 15 June 2022
Register of members of the Company closes	Thursday, 16 June 2022 to Wednesday, 22 June 2022 (both dates inclusive)
Record date for the Open Offer	Wednesday, 22 June 2022
Re-opening of the register of members of the Company	Thursday, 23 June 2022
Despatch of Prospectus Documents (in the case of the Non-Qualifying Shareholders, the Prospectus with the Overseas Letter only)	Thursday, 23 June 2022
Latest time for application and payment for the Offer Shares	4:00 p.m. on Friday, 8 July 2022
Announcement of the results of the Open Offer	Friday, 15 July 2022
Despatch of certificates for the fully-paid Offer Shares and refund cheques	Monday, 18 July 2022
First day of dealings in the fully-paid Offer Shares	Tuesday, 19 July 2022
Last day for trading of Shares in board lots of 5,000 Shares each on the original counter	Tuesday, 26 July 2022
Effective date of the change in board lot size from 5,000 Shares to 30,000 Shares each	Wednesday, 27 July 2022

EXPECTED TIMETABLE

Effect of bad weather on the latest time for acceptance

The Latest Time for Acceptance will be postponed if there is:

- (i) a tropical cyclone warning signal number 8 or above; or
- (ii) a black rainstorm warning;

in force in Hong Kong at any local time between 9:00 a.m. and 4:00 p.m. on Friday, 8 July 2022, the Latest Time for Acceptance will be postponed to 4:00 p.m. on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on Friday, 8 July 2022, the dates mentioned in the above section headed “Expected Timetable” in this Circular may be affected. An announcement will be made by the Company in such event.

LETTER FROM THE BOARD

Da Sen Holdings Group Limited

大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1580)

Executive Directors:

Mr. Chai Kaw Sing

Mr. Wong Ben

Mr. Zhang Ayang *(duties suspended)*

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Non-executive Director:

Mr. Sun Yongtao

Principal Place of Business in Hong Kong:

Room 2703, 27th Floor

K. Wah Centre

No. 191 Java Road

North Point

Hong Kong

Independent non-executive Directors:

Ms. Lo Yuk Yee

Mr. Tso Siu Lun Alan

Mr. Kwok Yiu Tong Henry

20 May 2022

To the Shareholders:

Dear Sirs or Madams,

**(I) PROPOSED DEBT RESTRUCTURING INVOLVING, INTER ALIA,
(A) THE SCHEME; AND
(B) PROPOSED OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY FIVE (5) EXISTING SHARES HELD
ON THE RECORD DATE;
(II) CHANGE IN BOARD LOT SIZE;
AND
(III) NOTICE OF EGM**

PROPOSED DEBT RESTRUCTURING

References are made to the Company's Announcements in relation to, among other things, the Open Offer and the Scheme.

LETTER FROM THE BOARD

As disclosed in the Announcements, the Board, having considered the latest financial position of the Group, resolved to implement a debt restructuring plan and implement the Open Offer to fund the implementation of the Scheme. It is envisaged that the Company will restructure its debts by way of implementing the Scheme and upon the Scheme having become effective, the Scheme Creditors would be entitled to receive the Scheme Consideration comprising the Cash Consideration and the Scheme Shares on a pro rata basis based on the amounts of their claims admitted by the Scheme Administrators under the Scheme. The Scheme will be funded by the proceeds from the Open Offer.

THE SCHEME

As part of the Proposed Restructuring, the Group intends to restructure its debts by way of implementing the Scheme. The Scheme, being a scheme of arrangement, is an arrangement entered into between a company and its creditors or any class of its creditors under Sections 670, 671, 673 and 674 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). A creditors' scheme of arrangement, such as the one proposed here, is frequently used as a means of implementing a financial restructuring and as an alternative to the commencement of a formal liquidation or other insolvency proceedings in order to maximize recoveries to creditors. The Scheme will affect the rights of the Company and the Scheme Creditors. In accordance with the laws of Hong Kong, the Scheme will become legally binding on the Company and the Scheme Creditors, including those Scheme Creditors who vote against the Scheme and those who do not vote, if:

- (i) the approval for the Scheme having been obtained from the requisite majority in number representing at least 75% in value of the Scheme Creditors who, either in person or by proxy, attend and vote at the Scheme Meeting to be convened pursuant to the directions of the High Court;
- (ii) the Scheme being sanctioned by the High Court; and
- (iii) the High Court order sanctioning the Scheme being filed or registered (as the case may be) with the Registrar of Companies in Hong Kong.

The Scheme will be implemented in accordance with the terms as approved by the High Court and the Scheme Creditors to compromise all the Company's liabilities relating to the Bonds and the Scheme Creditors comprised of all the holders of the Bonds. As at 30 April 2022, the Company has total indebtedness of approximately RMB77 million, of which approximately RMB35 million relates to the Bonds. The Bonds were issued between May 2017 and November 2019 with maturity dates range from May 2019 to February 2025 and the overdue principal amount of the Bonds is approximately HK\$10.5 million as at the Latest Practicable Date. As the Company failed to repay outstanding balance of the Bonds at maturity and/or make coupon payments under the Bonds, all the Bonds could therefore be immediately due and payable in full in accordance with the terms under the Bonds. The Company's indebtedness under the Scheme therefore amounts to RMB35 million. This figure is indicative only and will be subject to final determination by the Scheme Administrators and (if applicable) adjudication under the Scheme. On 9 December 2021, the Scheme was approved by the requisite majorities of the Scheme Creditors at the Scheme Meeting and was subsequently sanctioned without modification by the High Court at the sanction hearing held on 11 January 2022.

LETTER FROM THE BOARD

Upon the Scheme becoming effective, the Scheme Administrators will take steps to adjudicate the Scheme Claims and to distribute the Cash Consideration and Scheme Shares to the Scheme Creditors on a pro rata basis based on the amounts of their admitted claims under the Scheme. Accordingly, all Scheme Claims against the Company shall be released and discharged in full by virtue of the implementation of the Scheme.

As at the Latest Practicable Date, all existing Scheme Creditors (for the avoidance of doubt, shall not include the Substantial Shareholder and Mr. Chai in respect of the Cash Advance and parties with claims relating to the Restructuring Costs) are Independent Third Parties. As far as the Company is aware, no Scheme Creditors (for the avoidance of doubt, shall not include the Substantial Shareholder and Mr. Chai in respect of the Cash Advance and parties with claims relating to the Restructuring Costs) held any Shares as at the Latest Practicable Date.

The Scheme Creditors (for the avoidance of doubt, shall not include the Substantial Shareholder and Mr. Chai in respect of the Cash Advance and parties with claims relating to the Restructuring Costs) shall receive the Scheme Consideration comprising the following:

- (i) Cash Consideration in the aggregate amount of HK\$15.2 million which shall be funded by the net proceeds from the Open Offer to be distributed amongst the Scheme Creditors on the basis of the relative proportion of their respective admitted claims as compared to the total admitted claims under the Scheme (which shall be subject to the determination and adjudication by the Scheme Administrators); and
- (ii) Scheme Shares comprising 49,194,476 new Shares to be distributed amongst the Scheme Creditors on the basis of the relative proportion of their respective admitted claims as compared to the total admitted claims under the Scheme (which shall be subject to the determination and adjudication by the Scheme Administrators), disregarding fractions, credited as fully paid.

As part of the Scheme, the Company will also issue and allot up to 16,398,159 additional new Shares under the General Mandate to Scheme Creditors, who enter into the restructuring support agreement in relation to the Scheme on or before 27 October 2021 and undertook to vote for the Scheme, on a pro rata basis based on their claims as admitted by the Scheme Administrators. The maximum value of the Consent Fee Shares that the Consenting Creditors may receive amounted to approximately 5% of the aggregate principal amount and interests accrued up to 31 December 2020 on the Bonds held by the relevant Consenting Creditors (i.e. the Maximum Consent Fee). Only Scheme Creditors who entered into the restructuring support agreement on or before 27 October 2021 and voted for the Scheme on 9 December 2021 will be eligible to receive their respective entitlement of the Consent Fee Shares.

The Scheme Shares represents approximately 5.05% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 3.03% of the issued share capital of the Company as enlarged by the issuance of the Scheme Shares, Consent Fee Shares and Offer Shares (assuming all Offer Shares are subscribed by the Qualifying Shareholders).

LETTER FROM THE BOARD

The Consent Fee Shares represents approximately 1.68% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 1.01% of the issued share capital of the Company as enlarged by the issuance of the Scheme Shares, Consent Fee Shares and Offer Shares (assuming all Offer Shares are subscribed by the Qualifying Shareholders).

The Scheme Shares and Consent Fee Shares will be rounded down to the nearest whole number. No fractional Scheme Shares and Consent Fee Shares will be issued.

Based on the information currently available and in the absence of unforeseen circumstances and subject to the total amount of proofs of debt finally admitted for Scheme Consideration purposes, the Cash Consideration, Scheme Shares and Consent Fee Shares will be issued for the settlement of approximately 40%, 15% and 5% of the total Bond indebtedness of the Scheme Creditors respectively. All the Bonds indebtedness of the Scheme Creditors shall be released and discharged in full by virtue of the implementation of the Scheme.

The Scheme Shares and the Consent Fee Shares will be allotted and issued by the Company pursuant to the General Mandate. It is expected that no less than six Scheme Creditors will be eligible for the Scheme Shares and the Consent Fee Shares. The issuance of Scheme Shares and Consent Fee Shares are inter-conditional and both are conditional upon the completion of the Open Offer and the Scheme becoming effective. As at the Latest Practicable Date, no Shares have been allotted and issued pursuant to the General Mandate. Accordingly, the General Mandate is sufficient for the issuance of the Scheme Shares and Consent Fee Shares and the issuance of the Scheme Shares and the Consent Fee Shares will not be subjected to the approval of the Shareholders.

The issue price is HK\$0.118 per Scheme Share and per Consent Fee Share. The issue price represents: (i) a discount of 15.71% to the closing price of HK\$0.140 per Share as at the Latest Practicable Date; (ii) no discount or premium to the closing price of HK\$0.118 per Share as quoted on the Stock Exchange on 1 November 2021; (iii) a premium of approximately 1.72% over the average closing price of approximately HK\$0.116 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including 1 November 2021, being the last trading day of the Shares prior to the latest practicable date to the printing of the scheme document distributed to the Scheme Creditors; (iv) a premium of approximately 3.51% over the closing price per Share of HK\$0.114 as at 14 February 2022; and (v) no discount or premium to the average closing price of approximately HK\$0.118 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including 14 February 2022, being the date of publication of the announcement in relation to the issuance of Scheme Shares and Consent Fee Shares.

The issue price of the Scheme Shares and the Consent Fee Shares was arrived at with reference to the closing price of the last thirty (30) consecutive trading days up to and including the latest practicable date to the printing of the scheme document and the trading volume of the Shares. The Directors consider that the terms and conditions for the issuance of the Scheme Shares and the Consent Fee Shares (including the issue price) are fair and reasonable and are in the interests of the Company, the Shareholders and the Scheme Creditors as a whole. Based on the estimated expenses for the issuance of the Scheme Shares and Consent Fee Shares, the net issue price is approximately HK\$0.118 per Scheme Share and per Consent Fee Share.

LETTER FROM THE BOARD

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 Scheme Shares and the Consent Fee Shares. The Scheme Shares and the Consent Fee Shares will rank *pari passu* in all respects with the Shares then in issue as at the date of the issue.

Conditions precedent to the Scheme

The Scheme shall become effective subject to the fulfilment of the following conditions precedent:

- (i) the approval for the Scheme having been obtained from the requisite majority in number representing at least 75% in value of the claims of Scheme Creditors who, either in person or by proxy, attend and vote at the scheme meeting which has been convened on 9 December 2021 with the leave of the High Court;
- (ii) the Scheme being sanctioned by the High Court;
- (iii) the passing of the necessary resolution(s) by the Independent Shareholders (other than those Shareholders who are required to abstain from voting on all or any of the resolutions under the Listing Rules) by way of poll at the EGM to be convened and held to approve the Proposed Restructuring as required under the Listing Rules;
- (iv) the High Court orders sanctioning the Scheme being filed or registered (as the case may be) with the relevant Registrar of Companies in Hong Kong; and
- (v) the Open Offer having been completed and funds for the Cash Consideration being deposited to the Scheme Company pursuant to the terms of the Scheme.

None of the conditions of the Scheme as set out above can be waived. As at the Latest Practicable Date, save for conditions (i) and (ii) above, none of the above conditions have been fulfilled. It is expected that condition (iv) will be fulfilled on or before the date of the EGM (i.e. 10 June 2022).

PROPOSED OPEN OFFER

On 8 January 2021, the Company proposed to raise approximately HK\$29.2 million (before expenses) by way of an Open Offer on the basis of one (1) Offer Share for every two (2) existing Shares in order to fund the implementation of the Scheme. Having considered (i) the estimated funding requirements for the implementation of the Proposed Restructuring; (ii) the prevailing market prices of the Shares; (iii) the attractiveness of the Open Offer to the Shareholders; (iv) compliance of public float requirement under the Listing Rules upon completion of the Open Offer; (v) the Group's financial position; (vi) the prevailing financial market conditions and economic outlook; and (vii) the reasons and benefits of the Open Offer, details of which are disclosed in the section headed "Reasons for the Proposed Restructuring and Intended use of proceeds from the Open Offer" in this Circular, and with a view to minimise the creation of fractional entitlement under the Open Offer, the Board has examined various subscription ratios and resolved to adjust the terms of the Open Offer which will now be implemented on the basis of three (3) Offer Shares for every five (5) Shares held on the Record Date by the Qualifying Shareholders at the Offer Price of HK\$0.04 per Offer Share on 1 September 2021. The Board is of the view that the adjustment is necessary to ensure the Open Offer remains attractive to the Shareholders which would be in the best interest of the Shareholders.

LETTER FROM THE BOARD

The Board noted that the closing price of the Shares during the period from 1 September 2020 (i.e. one year prior to the Last Trading Day) up to the Last Trading Day ranged from a minimum of HK\$0.107 per Share on 9 July 2021 to a maximum of HK\$0.30 per Share on 2 September 2020 and the Shares had been trading at a discount to the consolidated net asset value per Share attributable to the Shareholders in the recent year (please refer to the analysis in the section headed “Share price performance and trading liquidity under the prevailing market conditions” below). Taking into account that each Qualifying Shareholder will be given an equal opportunity to participate in the Company’s future development by subscribing for his/her/its assured entitlements under the Open Offer on the same offer terms and the analysis set out in the section headed “The Offer Price”, the Board considered that the significant discount of the Offer Price to the market price of the Shares and the subscription ratio are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Issue Statistics

Basis of the Open Offer:	Three (3) Offer Shares for every five (5) existing Shares held on the Record Date
Number of Shares in issue as at the Latest Practicable Date:	974,400,000 Shares
Offer Price:	HK\$0.04 per Offer Share
Number of Offer Shares:	584,640,000 Offer Shares
Funds to be raised before expenses:	HK\$23.4 million
Total number of Shares upon completion of the Open Offer:	1,559,040,000 Shares

Assuming there is no change to the issued share capital of the Company from the Latest Practicable Date up to the Record Date, 584,640,000 Offer Shares represent (a) 60.0% of the Company’s issued share capital as at the Latest Practicable Date; and (b) 37.5% of the Company’s issued share capital as enlarged by the issuance of the Offer Shares. As at the Latest Practicable Date, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

The Open Offer will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Offer Shares and the level of subscription of the excess Offer Shares. The Qualifying Shareholders are entitled to apply for any Offer Shares in excess of their own assured allotments. In the event that the Open Offer is not fully subscribed, any Offer Shares not taken up by the Qualifying Shareholders will not be issued by the Company and the size of the Open Offer will be reduced accordingly.

LETTER FROM THE BOARD

The gross proceeds of the Open Offer (before expenses) are approximately HK\$23.4 million and net proceeds of the Open Offer (after expenses) are estimated to be approximately HK\$23.2 million. It is expected that the proceeds from the Open Offer in the sum of approximately HK\$20.0 million will be the Cash Consideration to pay for the implementation of the Scheme and its associated costs, and the balance of approximately HK\$3.2 million shall be retained as the general working capital of the Company after the completion of the Open Offer.

The Irrevocable Undertakings

To facilitate the implementation of the Open Offer under the Proposed Restructuring, on 1 September 2021, the Substantial Shareholder, the Concert Group and Mr. Chai, an executive Director, each provided, an Irrevocable Undertaking to the Company.

The Substantial Shareholder has irrevocably undertaken to the Company that he will accept or procure the acceptance of the Offer Shares to be provisionally allotted to him under the Open Offer of 132,843,000 Offer Shares (being all of the assured entitlement of the Substantial Shareholder under the Open Offer based on the existing shareholding structure of the Company, assuming that there will not be any change to the shareholding structure from the Latest Practicable Date up to and including the Record Date) and will ensure that 221,405,000 Shares will remain legally and beneficially owned by him at the close of business on the Record Date. The Irrevocable Undertaking by the Substantial Shareholder is conditional on the proposed implementation of the Open Offer being approved by the Independent Shareholders at the EGM.

The Concert Group has irrevocably undertaken to the Company that it will accept or procure the acceptance of the Offer Shares to be provisionally allotted to it under the Open Offer of 40,441,800 Offer Shares (being all of the assured entitlement of the Concert Group under the Open Offer based on the existing shareholding structure of the Company, assuming that there will not be any change to the shareholding structure from the date of this Circular up to and including the Record Date) and will ensure that 67,403,000 Shares will remain legally and beneficially owned by them at the close of business on the Record Date. The Irrevocable Undertaking by the Concert Group is conditional on the proposed implementation of the Open Offer being approved by the Independent Shareholders at the EGM.

Pursuant to the Irrevocable Undertaking, Mr. Chai has irrevocably undertaken to the Company that he will accept or procure the acceptance of the Offer Shares to be provisionally allotted to him and his spouse under the Open Offer of 44,100,000 Offer Shares (being all the assured entitlement of Mr. Chai and his spouse under the Open Offer based on the existing shareholding structure of the Company, assuming that there will not be any change to the shareholding structure from the Latest Practicable Date up to and including the Record Date) and will ensure that 73,500,000 Shares will remain legally and beneficially owned by Mr. Chai and his spouse at the close of business on the Record Date. Mr. Chai has also irrevocably undertaken to apply, by way of excess application, up to a maximum of 162,615,200 additional Offer Shares. The Irrevocable Undertaking by Mr. Chai is conditional on the proposed implementation of the Open Offer being approved by the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

Save as disclosed above and as at the Latest Practicable Date, the Company has not received any information or irrevocable undertaking from any other substantial Shareholder (as defined under the Listing Rules) of the Company of any intention in relation to the Offer Shares to be provisionally allotted to that substantial Shareholder under the Open Offer.

The Offer Price

The Offer Price is HK\$0.04 per Offer Share, payable in full upon acceptance of the relevant assured allotment of the Offer Shares and, where applicable, application for excess Offer Shares under the Open Offer. The net Offer Price per Offer Share (after deducting the relevant expenses) will be approximately HK\$0.04.

The Offer Price of HK\$0.04 per Offer Share represents:

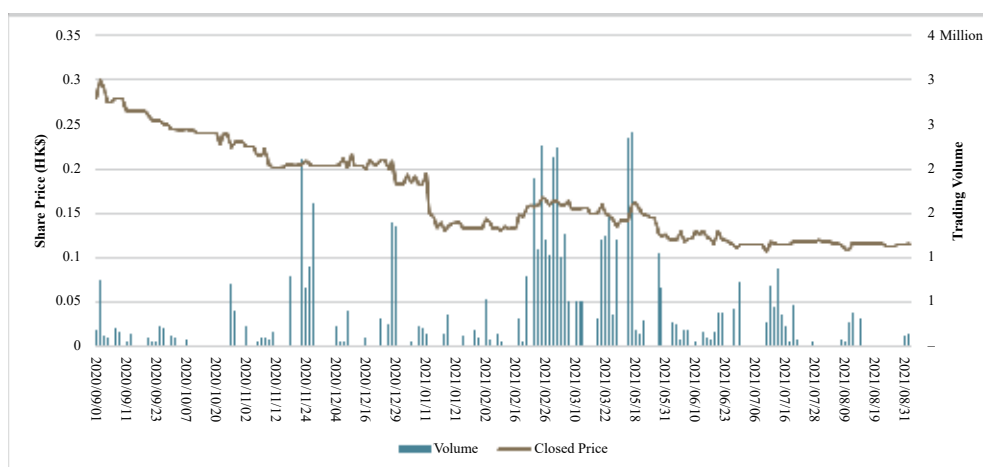
- (a) a discount of approximately 71.43% to the closing price of HK\$0.140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 65.52% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 54.55% to the theoretical ex-entitlement price of approximately HK\$0.088 per Share, based on the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (d) a discount of approximately 65.22% to the average closing price of approximately HK\$0.115 per Share as quoted on the Stock Exchange for the last five consecutive trading days up and including the Last Trading Day;
- (e) a discount of approximately 65.22% to the average closing price of approximately HK\$0.115 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up and including the Last Trading Day;
- (f) a discount of approximately 80.49% to the audited net asset value per Share of approximately HK\$0.205 per Share based on the audited financial results of the Group for the year ended 31 December 2020;
- (g) a discount of approximately 75.76% to the unaudited net asset value per Share of approximately HK\$0.165 per Share based on the unaudited interim financial results of the Group for the six months ended 30 June 2021; and
- (h) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 24.57% represented by the theoretical diluted price of HK\$0.0875 per Share to the benchmarked price of approximately HK\$0.116 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price of the Shares on the Last Trading Day of HK\$0.116 per Share and the average closing price per Share as quoted on the Stock Exchange for the last five trading days prior to the Last Trading Day of approximately HK\$0.115 per Share).

LETTER FROM THE BOARD

The Offer price was arrived at with reference to, (i) the downward trend of the market price and low trading volume of the Shares; (ii) the prevailing unstable market conditions, the working capital requirements of the Company and the financial performance and financial position of the Group as at 31 December 2020 and 30 June 2021; (iii) the uncertainty brought about by the COVID-19 pandemic on the Group's business operations; and (iv) the funding needs for the implementation of the Scheme.

Share price performance and trading liquidity under the prevailing market conditions

The Directors have considered the recent market price and the trading liquidity of the Shares in determining the Offer Price. The chart below illustrates the daily closing price of the Shares and the trading volume of the Shares between 1 September 2020 and up to the Last Trading Day:



The closing price of the Shares during the period from 1 September 2020 (i.e. one year prior to the Last Trading Day) up to the Last Trading Day ranged from a minimum of HK\$0.107 per Share on 9 July 2021 to a maximum of HK\$0.30 per Share on 2 September 2020 and shows a general downward trend.

The Offer Price was set at a discount to the Shares with the aim to reduce further investment cost of the Shareholders and the terms of the Open Offer should remain attractive to all Qualifying Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimizing the dilution impact to the Shareholders.

Whilst the Offer Price represents a deep discount to the net asset value per Share as presented in (f) and (g) above, the Directors are of the view that the net asset value per Share may not be a meaningful reference when determining the Offer Price as the Shares have continuously been trading below its net asset value during the Review Period (as defined below).

LETTER FROM THE BOARD

In addition, the Directors have further reviewed the Share price performance with reference to the net asset value per Share and the trading liquidity of the Company during the period commencing from 1 September 2020 up to the Last Trading Day (the “**Review Period**”). The Directors considered that the Review Period, covering a full year prior to the Last Trading Day, (i) is appropriate for assessing the recent financial position of the Group which covers the annual results for the year ended 31 December 2020 and interim results for the six months ended 30 June 2021; (ii) represents a reasonable period of time to provide a general overview of the recent price performance and the recent trading volume of the Shares which can reflect the correlation between the recent business performance of the Company and the latest market reaction in the Share price for conducting an analysis against the Offer Price; (iii) is a significantly long period to avoid any short-term fluctuation which may distort the analysis; and (iv) is sufficient and in line with common market practice.

The table below shows the discount to net asset value based on the price of the Shares as at the end of each month during the Review Period:

Month end	Share Price (HK\$)	Net asset value per share (HK\$)	Premium/ (Discount)
Sep-20	0.245	0.373 <i>(Note 1)</i>	(38.32%)
Oct-20	0.23	0.373 <i>(Note 1)</i>	(38.34%)
Nov-20	0.204	0.373 <i>(Note 1)</i>	(45.31%)
Dec-20	0.183	0.373 <i>(Note 1)</i>	(50.94%)
Jan-21	0.133	0.205 <i>(Note 2)</i>	(35.12%)
Feb-21	0.166	0.205 <i>(Note 2)</i>	(19.02%)
Mar-21	0.16	0.205 <i>(Note 2)</i>	(21.95%)
Apr-21	0.16 (suspended)	0.205 <i>(Note 2)</i>	(21.95%)
May-21	0.127	0.205 <i>(Note 2)</i>	(38.05%)
Jun-21	0.115	0.205 <i>(Note 2)</i>	(43.90%)
Jul-21	0.118	0.165 <i>(Note 3)</i>	(28.48%)
Aug-21	0.115	0.165 <i>(Note 3)</i>	(30.30%)

Note:

1. From July 2020 to December 2020, the calculation is based on dividing the unaudited net asset value as at 30 June 2020 by the number of Shares in issue as at 30 June 2020.
2. From January 2021 to June 2021, the calculation is based on dividing the audited net asset value as at 31 December 2020 by the number of Shares in issue as at 31 December 2020.
3. From July 2021 to August 2021, the calculation is based on dividing the unaudited net asset value as at 30 June 2021 by the number of Shares in issue as at 30 June 2021.

LETTER FROM THE BOARD

As illustrated in the table above, the Shares have been trading at a discount to the net asset value over the reference period. The Directors are of the view that the Offer Price should be determined with reference to the market price of the Shares rather than using the net asset value per Share. The market price of the Shares represents the actual value of the Shares that willing buyers and sellers will exchange for in an open market, whilst net asset value per Share simply implies the value of total assets less the value of total liabilities of the Group according to its financial statements divided by the total issued Shares. As such, the Directors consider the market price of the Shares to be a more appropriate indicator of the perceived value of the Shares as compared to the net asset value per Share.

The following table illustrates the thin trading volume of the Shares during the Review Period:

Month	Total trading volume trade <i>(No. of Shares)</i>	Number of trading days	Average daily trading volume <i>(No. of Shares)</i> <i>(Note 2)</i>	Percentage of the average daily trading volume over total number of issued Shares <i>(%)</i> <i>(Note 3)</i>
Sep-20	2,610,000	22	118,636.36	0.01%
Oct-20	2,080,000	18	115,555.56	0.01%
Nov-20	9,515,000	21	453,095.24	0.05%
Dec-20	7,580,000	22	344,545.45	0.04%
Jan-21	6,805,100	20	340,255.00	0.03%
Feb-21	9,865,000	18	548,055.56	0.06%
Mar-21	2,045,000	23	88,913.04	0.01%
Apr-21 <i>(Note 1)</i>	NA	NA	NA	NA
May-21 <i>(Note 1)</i>	2,875,000	9	319,444.44	0.03%
Jun-21	5,765,000	21	274,523.81	0.03%
Jul-21	4,045,000	21	192,619.05	0.02%
Aug-21	1,338,200	22	60,827.27	0.01%

Notes:

1. Trading in Shares was suspended between 1 April 2021 and 17 May 2021.
2. Average daily trading volume is calculated by dividing the total trading volume traded for the month/period by the number of trading days in the respective month/period.
3. The calculation is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue at the end of each month/period.

LETTER FROM THE BOARD

As illustrated in the table above, the average daily trading volume of the Shares only amounted to between 0.01% to 0.06% of the total number of issued Shares during the Review Period. Given the generally thin liquidity of the Shares during the Review Period, the Directors consider that it is reasonable to determine more attractive Offer Price by offering discounts to the Shareholders.

Financial performance and position of the Group

The Directors have considered the financial performance and position of the Group when determining the Offer Price. The Group's business has been adversely affected since the beginning of 2020. The Directors are of the view that the COVID-19 pandemic, the Sino-US trade war and economic downturn in the PRC were some of the contributing factors. Despite the increase in adoption of COVID-19 vaccinations globally, the number of new COVID-19 cases, as at the Latest Practicable Date, remain at a high level. As at the Latest Practicable Date, the Directors are unable to reasonably estimate the financial impacts of COVID-19 on the Group and the Directors will continue to closely monitor the Group's exposure to the risks and uncertainties in connection with the COVID-19 pandemic.

The Group's PRC main operating subsidiaries have as a result been making a loss since the financial year ended 31 December 2020 and the Company's subsidiaries were unable to distribute dividends to the Company. Given that the Bonds and bank loans in the PRC are immediately due and repayable while the Group had cash and cash equivalents of approximately RMB0.4 million as at 30 June 2021, the Directors consider that there is an imminent need for capital for the already due and outstanding borrowings and additional working capital to sustain the Group's continuing operations during these difficult times. Having considered the latest financial position of the Group, the Board resolved to implement a debt restructuring and the Open Offer to fund the implementation of the Scheme for the purpose of the Bonds related liabilities in order to address the overdue borrowings of the Group. For further details on the Scheme, please refer to the section headed "The Scheme" in this Circular.

Given that (i) the Group intends to reduce its debt level through the implementation of the Scheme and provide additional working capital for its business operations; (ii) upon the completion of the Scheme, all the Bond indebtedness of the Company in the amount of approximately RMB35 million as at 30 April 2021 will be discharged and released in full; (iii) the Offer Price was determined by the Directors with reference to the prevailing market price of the Shares prior to and including the Last Trading Day; and (iv) the Qualifying Shareholders will be entitled to subscribe for the Offer Shares at the Offer Price in proportion to their existing shareholding in the Company, the Directors consider that the Offer Price to be fair and reasonable and the Open Offer to be in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

- (a) the passing of the necessary resolutions by the Independent Shareholders at the EGM to approve the Proposed Restructuring and the transactions contemplated thereunder, including but not limited to the Scheme and the Open Offer (more than 50% of the Independent Shareholders at the EGM by way of poll) by no later than the Prospectus Posting Date;
- (b) the delivery to the Stock Exchange for authorization and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorized in writing) as having been approved by resolution of the Directors (and with all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time) by no later than the Prospectus Posting Date;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;
- (d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in all the Offer Shares by no later than the Prospectus Posting Date, and such listing and permission not being subsequently withdrawn or revoked;
- (e) all requirements and conditions imposed by the Stock Exchange or the SFC or under the Listing Rules otherwise in connection with the Open Offer and the transactions contemplated thereunder (if any) having been fulfilled or complied with;
- (f) compliance with and performance of the Irrevocable Undertakings by the Substantial Shareholder, the Concert Group and Mr. Chai; and
- (g) compliance with the requirements under the applicable laws and regulations of Hong Kong and the Cayman Islands.

None of the conditions of the Open Offer as set out above are waivable. As at the Latest Practicable Date, none of the above conditions have been fulfilled.

LETTER FROM THE BOARD

Status of the Offer Shares

The Offer Shares (when fully paid and allotted) will rank *pari passu* in all respects among themselves and the Shares in issue as at the date of allotment and issuance of the Offer Shares, including all rights to all future dividends or distributions, which may be declared, made or paid by the Company on or after the date of allotment and issuance of the Offer Shares, as well as rights to voting and interest in capital.

Qualifying Shareholders

The Open Offer will be made available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Prospectus with the Overseas Letter to the Non-Qualifying Shareholders for information purposes only.

To qualify for the Open Offer, a Shareholder must (a) be registered as a member of the Company at the close of business on the Record Date; and (b) not be a Non-Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Wednesday, 15 June 2022.

Closure of register of members

The register of members of the Company will be closed from Thursday, 16 June 2022 to Wednesday, 22 June 2022, both dates inclusive, for the purpose of determining entitlements of Qualifying Shareholders to the Open Offer. No transfer of the Shares will be registered during this period.

Rights of the Non-Qualifying Shareholders

Based on the register of members of the Company, as at the Latest Practicable Date, there was no Overseas Shareholder. The Prospectus Documents are not intended to be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong.

In compliance with Rule 13.36(2) of the Listing Rules, the Board will make enquiries, to be based on legal advice, regarding the feasibility of extending the Open Offer to the Overseas Shareholders, if any. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient on account either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory bodies or stock exchanges in that place, not to offer the Offer Shares to the Overseas Shareholders, no provisional allotment of Offer Shares will be made to the Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Non-Qualifying Shareholders.

LETTER FROM THE BOARD

The results of the enquiries and the basis of exclusion of the Overseas shareholders will be included in the Prospectus. The Company will, subject to compliance with the relevant local laws, regulations, and requirements, send copies of the Prospectus with the Overseas Letter for information only, but will not send any Application Form(s) to excess application form(s), to the Non-Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Open Offer, subject to the results of enquires made by the Directors pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

Application for excess Offer Shares

The Offer Shares (i) to which the Non-Qualifying Shareholders would otherwise have been entitled; (ii) not validly applied for by the Qualifying Shareholders under the Open Offer; and (iii) created by aggregation of fractional assured entitlements, will be available for excess application by the Qualifying Shareholders.

The Qualifying Shareholders are entitled to apply for any Offer Shares in excess of their own assured allotments by completing an excess application form and lodging the same with a separate remittance for the excess Offer Shares being applied for, but are not assured of being allocated any Offer Shares in excess of their assured allotments under the Application Forms.

The Directors will allocate the excess Offer Shares at their discretion on a fair and equitable basis as far as practicable according to the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Offer Shares than they would receive, which is an unintended and undesirable result; and
- (ii) subject to availability of excess Offer Shares, the excess Offer Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the excess Offer Shares applied for by them.

In the event that the Board notes unusual patterns of excess applications and has reason to believe that any application may have been made with the intention to abuse the mechanism, such application(s) for excess Offer Shares may be rejected at the sole discretion of the Board.

Shareholders with their Shares held by a nominee (including HKSCC) should note that the Directors will regard the nominee (including HKSCC) as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of a nominee (including HKSCC) should note that the aforesaid arrangements in relation to the allocation of excess Offer Shares will not be extended to them individually. Shareholders should consult their professional advisers if they are in any doubt as to whether they should register their shareholding in their own names prior to the book closure period and apply for the Offer Shares themselves.

LETTER FROM THE BOARD

Those Qualifying Shareholders who do not take up the Offer Shares in full to which they are entitled to and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Open Offer.

Fractions of the Offer Shares

Entitlement to the Open Offer will be rounded down to the nearest whole number. No fractional entitlements to the Offer Shares will be issued to the Qualifying Shareholders. Any Offer Shares created from the aggregation of fractional assured entitlements will be available for excess application by the Qualifying Shareholders.

Share certificates and refund cheques for the Offer Shares

Subject to the fulfilment of the conditions of the Open Offer, share certificates for all Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Offer Shares on or before Monday, 18 July 2022 by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares, or if the Open Offer is terminated, refund cheques in respect of the applications for Offer Shares are expected to be posted on or before Monday, 18 July 2022 by ordinary post to the applicants at their own risk.

Application for listing of the Offer Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. No part of the securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no such listing or permission to deal is proposed to be sought. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty (if any) in Hong Kong and any other applicable fees and charges in Hong Kong.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Offer Shares on the Stock Exchange or such other dates 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.

LETTER FROM THE BOARD

Shareholders should note that Shares will be dealt in on an ex-entitlement basis commencing from Tuesday, 14 June 2022 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about their position is recommended to consult their own professional advisor.

CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Open Offer and implementation of the Scheme assuming there is no change in the shareholding structure of the Company from the date of this Circular to immediately after completion of the Open Offer and the Scheme (for illustrative purpose only):

	As at the Latest Practicable Date		Immediately after the completion of the Open Offer (assuming all Offer Shares are subscribed by the Qualifying Shareholders)		Immediately after the completion of the Open Offer (assuming no Offer Share is subscribed by the Qualifying Shareholders save for those subscribed under the Irrevocable Undertakings)		Immediately after the completion of the Open Offer (assuming all Offer Share is subscribed by the Qualifying Shareholders) and the issuance of shares under the Scheme		Immediately after the completion of the Open Offer (assuming no Offer Share is subscribed by the Qualifying Shareholders save for those subscribed under the Irrevocable Undertakings) and the issuance of shares under the Scheme	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Substantial Shareholder	221,405,000	22.72	354,248,000	22.72	354,248,000	26.16	354,248,000	21.80	354,248,000	24.95
Shares under receivership (Note 1)	190,000,000	19.50	304,000,000	19.50	190,000,000	14.03	304,000,000	18.71	190,000,000	13.38
Concert Group (Note 2)	67,403,000	6.92	107,844,800	6.92	107,844,800	7.96	107,844,800	6.64	107,844,800	7.60
Mr. Chai and his spouse (Note 3)	73,500,000	7.54	117,600,000	7.54	280,215,200	20.69	117,600,000	7.24	280,215,200	19.73
Sub-total	552,308,000	56.68	883,692,800	56.68	932,308,000	68.84	883,692,800	54.39	932,308,000	65.66
Public Shareholders										
Scheme Creditors (Note 4)	—	0.00	—	0.00	—	0.00	65,592,635	4.04	65,592,635	4.62
Other public shareholders	422,092,000	43.32	675,347,200	43.32	422,092,000	31.16	675,347,200	41.57	422,092,000	29.72
Public Sub-total	422,092,000	43.32	675,347,200	43.32	422,092,000	31.16	740,939,835	45.61	487,684,635	34.34
Total	974,400,000	100.00	1,559,040,000	100.00	1,354,400,000	100.00	1,624,632,635	100.00	1,419,992,635	100.00

LETTER FROM THE BOARD

Notes:

1. Ms. Leung Leung Wing Yee Winnie was appointed as a receiver on 2 July 2021 of the relevant shares pursuant to the disclosure of interest filed on 14 July 2021.
2. Pursuant to the Concert Party Agreement entered into among Mr. Ke Mingcai, Mr. Cai Jinxi, Mr. Wang Songmao, Mr. Lin Qingxiong, Mr. Wu Shican and Ms. Wu Haiyan, they have agreed on certain arrangements pertaining to their shareholdings in the Company. The Company has been given to understand that Mr. Ke Mingcai has been declared bankrupt and his interest in the Company is in the hands of the receiver. Ms. Wu Haiyan has irrevocably undertaken to take up the assured entitlement of Concert Group for the Open Offer.
3. As at the Latest Practicable Date, Mr. Chai is the legal owner of 57,200,000 Shares and his spouse is the legal owner of 16,300,000 Shares. Mr. Chai is deemed to be interested in all the shares in which his spouse is interested by virtue of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
4. The number of Scheme Shares and Consent Fee Shares to be issued is subject to the indebtedness figures and claims of the Scheme Creditors to be determined by the Scheme Administrators and adjudication under the Scheme.
5. As illustrated in the shareholding structure above, the Open Offer and the issuance of Scheme Shares and Consent Fee Shares will not trigger or cause any person to be obliged to make a mandatory general offer pursuant to Rule 26 of the Takeovers Code.

Shareholders and public investors should note that the above changes in shareholding structure of the Company are for illustration purpose only and the actual change in the shareholding structure of the Company upon completion of the Open Offer is subject to various factors including, among other things, the acceptance level of the Open Offer.

REASONS FOR THE PROPOSED RESTRUCTURING AND INTENDED USE OF PROCEEDS FROM THE OPEN OFFER

In light of the uncertainties casted by the COVID-19 pandemic, the Sino-US trade war and economic downturn in the PRC, the Group's business has been adversely affected since the beginning of 2020, the Group's PRC main operating subsidiaries have been making a loss since the financial year ended 31 December 2020 and the Company's subsidiaries were unable to distribute dividends to the Company.

The Company has been in discussion with a potential independent buyer, on a possible disposal of certain assets of the Group to repay the Group's bank borrowings in its PRC subsidiaries.

Considering that the current volatile market conditions, the Group's cash and cash equivalents of approximately RMB0.4 million as at 30 June 2021, the imminent need for capital for the already due and outstanding borrowings, and the prevailing financial market conditions and economic outlook, the Board considers that it would be necessary and in the interest of the Company to implement the Open Offer in order to raise sufficient capital to fund the implementation of the Scheme, reduce debt level of the Group and raise additional working capital to sustain the Group's continuing operations during these difficult times.

LETTER FROM THE BOARD

The Scheme will facilitate the Group in discharging the amounts due to and the Scheme Claims against the Company and alleviating its cash flow burden. The remaining proceeds will also provide additional working capital to the Group, enhance its business operations and the flexibility to make investments through acquisitions or new business ventures when suitable opportunities arise in the future. It is envisaged that the Proposed Restructuring will be completed by July 2022.

The Board has also considered various alternatives means of fund raising including but not limited to, a rights issue, an issuance of shares under general or specific mandate or debt financing such as obtaining new bank borrowings.

The Board considers right issue to be an alternative option for fund raising as opposed to the Open Offer, due to the flexibility of the Shareholders being able to sell their entitled nil-paid rights should they decide not to take up the entitlements. However, conducting a rights issue would incur additional costs and time as compared to the Open Offer, due to the additional trading arrangements of nil-paid right required.

It is expected that the timeframe for rights issue (where general meeting is required) and the Open Offer (where general meeting is required) are similar and will take approximately 41 business days after publication of the Circular. However, having considered the low trading volume of the Shares over the past few months, the Board is of the view that should the Company opt for rights issue, its Shareholders should be given a longer trading period of the nil paid rights to ensure more meaningful opportunities for Shareholders to trade under a rights issue. In addition, it is also envisaged that additional time would reasonably be required to complete the extra preparatory administrative work involved in a rights issue, *inter alia*, liaising and discussing with the share registrar and other professional parties, before the publication of this Circular, which would otherwise not be required with the Open Offer. Accordingly, the Board is of the view that conducting a rights issue would require additional time as compared to the Open Offer.

Furthermore, the estimated expenses to be incurred for conducting a rights issue (primarily comprising fees and expenses payable to the share registrar, printing cost and fees for other professional advisers) are expected to be approximately HK\$0.4 million (equivalent to approximately 1.7% of the total funds expected to be raised), while the related expense for the Open Offer were estimated to be approximately HK\$0.2 million (equivalent to approximately 0.85% of the total funds expected to be raised).

LETTER FROM THE BOARD

Having considered, amongst others, (i) the additional cost of approximately HK\$0.2 million to be incurred for conducting a rights issue as compared to the Open Offer; (ii) the opportunity for Shareholders to vote on the Open Offer at the EGM; (iii) the anticipated low trading volume of the nil paid rights and additional time required to accommodate a meaningful trading period for Shareholders to trade their nil paid rights under a rights issue given the recent tepid trading volume; (iv) additional time might anyway be required for the Company (by itself and/or through the Scheme Administrators) to solicit indication of support to the Proposed Restructuring from the majority of Scheme Creditors (in number and in value) before applying to the High Court for leave to convene the relevant Scheme Meeting for approving the Scheme; and (v) there is certainty as to minimum amount of funds which will be raised pursuant to the Irrevocable Undertakings under the Open Offer whereas it is uncertain in the acceptance for subscribing the nil paid rights by Shareholders and/or transferees of the nil paid rights, the Board is of the view that on balance, the benefits of the proposed Open Offer outweighs the merits of a rights issue in the current circumstances.

The Board has also considered allotting and issuing new shares under general and specific mandate. However, an issuance of new Shares under general or specific mandate would mean that not all Shareholders are treated fairly and equally. The Shareholders would not be able to participate in such fund-raising exercise and their shareholdings would potentially be diluted. The Board is of the view that the Shareholders should be given a fair chance to participate in the Group's future development if they wish to do so. The Company has also previously conducted an informal solicitation of over five potential investors for the Company's convertible bonds to gauge the market sentiment and appetite. However, the Company has not received any positive response for subscribing convertible securities of the Company from the potential investors.

Debt financing, such as bank borrowings, was also another method of fund raising which the Board has considered. A total of three financial institutions were approached by the Company relating to potential short to medium term banking facility and the Company was advised that certain assets may have to be pledged to secure such borrowings and this may involve a lengthy approval process of at least 12 months given the Group's current financial position. As at the Latest Practicable Date, the Company has received several writs of summons with a total statement of claim of approximately HK\$5.6 million issued in the District Court of Hong Kong by certain bondholders against the Company, which have been disclosed in the announcements of the Company dated 29 June 2020, 3 September 2020, 24 September 2020 and 17 February 2021. The Company has also received a statutory demand pursuant to section 178(1)(a) or section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of Laws of Hong Kong) from one of its bondholders on 19 January 2021 for the claim of HK\$0.1 million, being the unpaid interest of the bond in the principal amount of HK\$2.0 million issued by the Company to that bondholder.

LETTER FROM THE BOARD

Based on preliminary quotations obtained by the Company, the annualised interest rate offered to the Company were between approximately 30% and 40%, which is substantially higher than the Group's effective interest rate for the year ended 31 December 2020. Given the amount of cash held by the Company, it would be difficult for the Company to repay all the existing debts and liabilities under the Bonds at this juncture. Favourable terms in relation to debt financing on a timely basis would unlikely be achievable. As such, the Board is of the view that debt financing, considering the current economic climate and the indebtedness status of the Company, would be difficult to timely procure.

Having considered that (i) rights issue could incur additional costs and potentially a more lengthy process; (ii) the equity financing by way of general or specific mandate will not allow all Shareholders to participate in this round of fund raising and could potentially lead to a dilution of their respective shareholding in the Company; (iii) muted market response to convertible securities; and (iv) debt financing such as bank financing would increase the interest burden to the Group and adversely affect the financial position of the Group as compared to equity financing, the Directors are of the view that the Open Offer to be the most appropriate fund raising method given the circumstance of the Group and is in the interest of the Company and the Shareholders as a whole.

Assuming a maximum of 584,640,000 Offer Shares and a minimum of 380,000,000 Offer Shares will be issued, the estimated gross proceeds of the Open Offer will range from approximately HK\$15.2 million (pursuant to the Irrevocable Undertakings) to appropriate HK\$23.4 million (assuming the provisionally allotted Offer Shares have been fully subscribed). The estimated expenses in relation to the Open Offer will amount to approximately HK\$0.2 million and the estimated net proceeds of the Open Offer will range from approximately HK\$23.2 million (assuming the provisionally allotted Offer Shares have been fully subscribed) and a minimum of approximately HK\$15.2 million (pursuant to the Irrevocable Undertakings). The net subscription price per Offer Share is expected to be a maximum of HK\$0.040 (assuming the provisionally allotted Offer Shares have been fully subscribed) and a minimum of approximately HK\$0.040 (assuming only the Substantial Shareholder, the Concert Group and Mr. Chai each takes up the undertaken Offer Shares pursuant to the Irrevocable Undertakings).

In the event that the maximum proceeds of HK\$23.4 million is raised, (i) approximately HK\$20.0 million will be applied for the purpose of implementing the Scheme and its associated costs, of which HK\$15.2 million will fund the cash consideration under the Scheme and (ii) approximately HK\$3.4 million will be applied as general working capital for the Group's business. In the event that only the minimum net proceeds of HK\$15.2 million is raised, all the proceeds will fund the cash consideration under the Scheme. The net proceeds from the Open Offer will be utilised in the above priority order and allow the Group to reduce its gearing level and interest burden in relation to the Bonds related liabilities amounting to approximately RMB35 million as at 30 April 2022, equivalent to approximately HK\$42 million. Upon the completion of the Proposed Restructuring and based on the unaudited pro forma financial information as disclosed in Appendix II of this Circular, the Gearing Ratio is expected to reduce from approximately 125% as at 31 December 2021 to approximately 34% due to a reduction in the Group's borrowings and the interest burden on the Group will accordingly be reduced.

LETTER FROM THE BOARD

As disclosed in the Company's Announcements, the Board considers it would be in the interest of the Company to restructure its debts by way of implementing the Scheme, as part of the Proposed Restructuring, to discharge the amounts due to and claims by the Scheme Creditors against the Company and to alleviate its cash flow pressure. As the Company is short of cash in meeting its contractual obligations (in particular, its payment obligations under the existing bonds of the Company in issue), a debt restructuring plan will be crucial for the Company.

It is expected that approximately HK\$15.2 million will be raised to fund the implementation of the Scheme which will be implemented in accordance with the terms as approved by the High Court and the Scheme Creditors. The amount of proceeds to be applied to the Scheme was a commercial decision determined by reference to (i) the prevalent unstable financial market conditions; (ii) the Group's recent financial performance and its financial positions as at 31 December 2020 and 30 June 2021; (iii) the business prospects of the Group given the current market sentiment; (iv) the commercial viability of the Scheme; (v) its current cash flow needs; (vi) the reasonable belief of the Board and sufficient certainty regarding the amount of funds that could potentially be raised by way of the Open Offer and the Irrevocable Undertakings.

The Board believes that it would be in the interest of the Company to raise equity funding via the Open Offer to facilitate the implementation of the Scheme and is an equitable method to allow its Shareholders to participate and contribute to the long-term development of the Group.

In the event that the Open Offer is not fully subscribed and further funding may be required for working capital purposes, the Company will consider raising funds via bank borrowings or shareholder's loan as and when necessary.

PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Shares are traded on the Stock Exchange in board lot size of 5,000 Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 5,000 Shares to 30,000 Shares with effect from 9: 00 a.m. on Wednesday, 27 July 2022. For the avoidance of doubt, the change in board lot size is not conditional upon the completion of the Proposed Restructuring, *inter alia*, the Scheme and the Open Offer.

Pursuant to the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Stock Exchange on 28 November 2008 and last updated on 30 August 2019, the expected value per board lot should be greater than HK\$2,000 considering the minimum transaction costs for a securities trade. Having considered that (i) the Shares are trading below HK\$2,000 per board lot and (ii) the theoretical adjustment to the closing price of the Share upon completion of the Open Offer, the Board proposes to change the board lot size for trading in Shares from 5,000 Shares to 30,000 Shares on the Stock Exchange after the completion of the Open Offer with a view to complying with the trading requirements under the Listing Rules. Based on the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Last Trading Day, the market value per existing board lot is HK\$580 and the estimated market value per new board lot upon completion of the Open Offer and the change in board lot size will be more than HK\$2,000.

LETTER FROM THE BOARD

Given that the change in board lot size will not result in any change in the relative rights of the Shareholders and the change in board lot size will enable the Company in complying with the trading requirements under the Listing Rules while allowing buffer for price fluctuation above the recommended threshold of HK\$2,000 per board lot, the Board considers that the change in board lot size to be fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

SHARE CERTIFICATES

No new share certificate for existing Shares will be issued as a result of the change in board lot size, and therefore there will be no arrangement for free exchange of existing share certificate in board lot size of 5,000 Shares to new share certificates in board lot size of 30,000 Shares.

As from Wednesday, 27 July 2022, share certificates will be issued in board lot of 30,000 Shares each (except where the Registrar is otherwise instructed). All existing share certificates in board lot of 5,000 Shares each will continue to be good evidence of legal title to such Shares and continue to be valid for transfer, trading, delivery and settlement purposes. Save and except for the change in the number of Shares of each board lot, new share certificates will have the same format and colour as the existing certificates of the Shares.

ARRANGEMENT ON ODD LOT TRADING

In order to facilitate the trading of odd lots (if any) of the Shares as a result of the Open Offer and the change in board lot size, the Company will appoint a securities firm to provide matching services, on a best effort basis, to those Shareholders who wish to top up or sell their holdings of odd lots of the Shares. Further details in respect of the arrangement of odd lot trading will be set out in the Prospectus.

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

To alleviate the difficulties in trading odd lots of the Shares arising from the Open Offer and the change in board lot size, the Company will appoint an agent to provide matching services to the Shareholders who wish to top up or sell their holdings of odd lots of the Shares during the period from 9:00 a.m. on Wednesday, 27 July 2022 to 4:10 p.m. on Wednesday, 17 August 2022 (both dates inclusive). Holders of the Shares in odd who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full new board lot may directly or through their broker during such period. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

PUBLIC FLOAT

The Directors and the Substantial Shareholder will take necessary steps to ensure the minimum public float requirement, as set out under Rule 8.08 of the Listing Rules, be maintained at all times upon completion of the Open Offer.

LETTER FROM THE BOARD

FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activity in the past twelve months before the Latest Practicable Date.

IMPLICATIONS UNDER THE LISTING RULES

The Offer Shares will not be issued under the authority of currently available general mandate granted by the Shareholders to the Directors. According to Rules 7.24A(1) and 7.27A of the Listing Rules, the Open Offer will be made conditional on approval by Independent Shareholders in the EGM by a resolution on which the Directors (excluding independent non-executive Directors) and chief executive of the Company and their associates shall abstain from voting in favour at the EGM in respect of the resolution for the Open Offer.

GENERAL

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Lo Yuk Yee, Mr. Tso Siu Lun Alan and Mr. Kwok Yiu Tong Henry, to advise the Independent Shareholders in respect of the Open Offer and the transactions contemplated thereunder.

Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable and whether the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

The EGM will be held for the purpose of considering, and, if thought fit, approving the Proposed Restructuring and the transactions contemplated thereunder, including, but not limited to, the Scheme and the Open Offer. Given that there is no controlling Shareholders as at the Latest Practicable Date, according to Rules 7.24A(1) and 7.27A of the Listing Rules, the Open Offer must be made conditional on approval by Independent Shareholders in the EGM by a resolution on which Directors (excluding independent non-executive Directors) and chief executive of the Company and their associates, together holding 183,283,800 Shares in aggregate, representing approximately 18.81% of total issued Shares, shall abstain from voting in favour at the EGM in respect of the resolution for the Open Offer.

Subject to, among others, the Proposed Restructuring being approved at the EGM, the Prospectus Documents or the Prospectus with the Overseas Letter, whichever is appropriate, is expected to be despatched to the Qualifying Shareholders on or before Thursday, 23 June 2022 and, for information only, the Non-Qualifying Shareholders in due course.

LETTER FROM THE BOARD

Shareholders and potential investors should note that the Scheme and the Open Offer are subject to various conditions which may or may not be fulfilled. There is therefore no assurance that the Proposed Restructuring and/or any of these transactions will proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

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

By Order of the Board
Da Sen Holdings Group Limited
SUN Yongtao
Non-Executive Chairman and
Non-Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders in relation to the Open Offer.

Da Sen Holdings Group Limited
大森控股集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1580)

20 May 2022

To the Independent Shareholders

Dear Sir or Madam,

**(I) PROPOSED DEBT RESTRUCTURING INVOLVING, INTER ALIA,
(A) THE SCHEME; AND
(B) PROPOSED OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY FIVE (5) EXISTING SHARES
HELD ON THE RECORD DATE;
(II) CHANGE IN BOARD LOT SIZE;
AND
(III) NOTICE OF EGM**

INTRODUCTION

We refer to the circular of the Company dated 20 May 2022 (“**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. We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser. Details of the Open Offer are set out in the “Letter from the Board” contained in the Circular. Rainbow Capital (HK) Limited, being the Independent Financial Adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in arriving such advice, are contained in its letter set out on pages 37 to 62 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having considered the terms of the Open Offer and the advice and recommendations of the Independent Financial Adviser as contained in its letter set out on pages 37 to 62 of the Circular, we consider that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the respective transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Open Offer and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee of
Da Sen Holdings Group Limited

Ms. LO Yuk Yee
Independent
non-executive Director

Mr. TSO Siu Lun Alan
Independent
non-executive Director

Mr. KWOK Yiu Tong Henry
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, which has been prepared for the purpose of inclusion in this circular.

20 May 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER ON THE BASIS OF THREE (3) OFFER SHARES FOR EVERY FIVE (5) EXISTING SHARES HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 20 May 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the Letter from the Board, the Board, having considered the latest financial position of the Group, resolved to implement a debt restructuring plan and implement the Open Offer to fund the implementation of the Scheme. On 8 January 2021, the Company proposed to raise approximately HK\$29.2 million (before expenses) by way of an open offer on the basis of one (1) offer share for every two (2) existing Shares in order to fund the implementation of the Scheme. On 1 September 2021, the Board resolved to adjust the terms of the open offer which will now be implemented on the basis of three (3) Offer Shares for every five (5) existing Shares held on the Record Date by issuing 584,640,000 Offer Shares (assuming no further issue or repurchase of Shares on or before the Record Date) at the Offer Price of HK\$0.04 per Offer Share. The gross proceeds of the Open Offer (before expenses) are approximately HK\$23.4 million and net proceeds of the Open Offer (after expenses) are estimated to be approximately HK\$23.2 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Offer Shares will not be issued under the authority of currently available general mandate granted by the Shareholders to the Directors. According to Rules 7.24A(1) and 7.27A of the Listing Rules, the Open Offer will be made conditional on approval by the Independent Shareholders at the EGM by a resolution on which the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates shall abstain from voting in favour at the EGM in respect of the resolution for the Open Offer.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Lo Yuk Yee, Mr. Tso Siu Lun Alan and Mr. Kwok Yiu Tong Henry, has been formed to advise the Independent Shareholders in respect of the Open Offer. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, the Scheme Creditors or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other parties. Accordingly, we are qualified to give independent advice on the Open Offer.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all the statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions 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 the information and representations 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 and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management 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 Group, or any of its respective substantial shareholders, subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Business and financial performance of the Group

The Group was principally engaged in the manufacturing and sales of plywood products and leasing activities.

The Group's plywood products consist of (i) furniture board (家具板) which is widely used in interior design and certain household furniture; (ii) ecological plywood (生態板) which is used in interior applications of buildings and furniture making; and (iii) hardwood multi-layered board (實木多層板) which is widely used in high-quality furniture, kitchen furniture and bathroom furniture. Customers of the Group are mainly end users including furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers.

(i) Financial performance

Set out below is a summary of the consolidated statements of profit and loss for the year ended 31 December 2019 (“FY2019”), 2020 (“FY2020”) and 2021 (“FY2021”) as extracted from the annual reports of the Company for the year ended 31 December 2020 (the “2020 Annual Report”) and for the year ended 31 December 2021 (the “2021 Annual Report”), respectively:

	For the year ended 31 December		
	2021	2020	2019
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
<i>Continuing operations</i>			
Revenue	172,748	175,281	305,503
– Sales of plywood	170,548	173,859	305,503
– Rental income	2,200	1,422	–
Cost of sales	(229,799)	(289,083)	(329,755)
Gross loss	(57,051)	(113,802)	(24,252)
Selling and distribution expenses	(1,140)	(845)	(1,029)
Administrative expenses	(16,883)	(14,584)	(21,012)
Allowance for expected credit losses, net	(22,629)	(61,864)	(11,404)
Other income, gains or (losses)	(17,662)	(9,517)	(10,100)
Finance costs	(3,745)	(4,416)	(4,315)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December		
	2021	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Loss before tax from continuing operations	(119,110)	(205,028)	(72,112)
Income tax (expense)/credit	(41)	(6,246)	4,539
Loss for the year from continuing operations	(119,151)	(211,274)	(67,573)
 <i>Discontinued operation</i>			
Sales of biomass wood pellets	–	2,952	13,039
Net (provision)/reversal of impairment losses on financial assets	–	(18,931)	97
Loss for the year from discontinued operation	–	(24,028)	(8,008)
 Loss attributable to the shareholders of the Company	 (119,151)	 (235,302)	 (75,581)

FY2020 compared to FY2019

Revenue of the Group decreased significantly from approximately RMB305.5 million for FY2019 to approximately RMB175.3 million for FY2020 as a result of the decrease in sales of plywood products due to the outbreak of COVID-19 since the beginning of 2020 which disrupted general economic conditions and demands for non-essential goods. The Group's customers, such as furniture manufacturers and decoration or renovation companies, reduced their purchase orders on plywood products as demand from the end purchasers of their finished products dropped significantly in 2020.

As the demand for biomass wood pellets has significantly reduced since the latter part of 2019, in the second half of 2020, the Group made the decision to cease the operations of this business segment. Following the cessation of the biomass wood pellets business, to make better use of the properties of the biomass wood pellets plant as well as other plants and land which are surplus to the Group, the Group decided to lease out some of these properties to generate recurring rental income. As a result, rental income business became a new business segment of the Group for FY2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As an interim measure to improve liquidity, the Group made the decision to lower the selling prices of its plywood products during the six months ended 30 June 2020. However, the Group was unable to lift the selling prices of its plywood products in the latter half of 2020 as the demand for the Group's plywood products continued to contract. Due to the above and the provision for inventory write-down, gross loss of the Group increased to approximately RMB113.8 million for FY2020 from approximately RMB24.3 million for FY2019.

Net loss from continuing operations increased from approximately RMB67.6 million for FY2019 to approximately RMB211.3 million for FY2020, which was primarily resulted from (a) the increase in gross loss as mentioned above; and (b) the increase in allowance for expected credit losses, net due to the worsening collectability of outstanding receivables from the Group's downstream customers which have been experiencing difficulties in their business operations as a result of COVID-19. The loss from discontinued operation related to the biomass wood pellet business also increased from approximately RMB8.0 million for FY2019 to approximately RMB24.0 million for FY2020 prior to the cessation of this business.

As a result of the foregoing, the loss attributable to the Shareholders increased from approximately RMB75.6 million for FY2019 to approximately RMB235.3 million for FY2020.

FY2021 compared to FY2020

Revenue of the Group remained relatively stable at approximately RMB172.7 million for FY2021 as compared to approximately RMB175.3 million for FY2020, among which sales of plywood amounted to approximately RMB170.5 million and rental income amounted to approximately RMB2.2 million. Nevertheless, the Group has seen improvements in both the sales volume and the pricing of its plywood products since the first half of 2021 as the demand for the Group's product gradually surged. During FY2021, the Group gradually lifted the selling prices of its plywood products and as a result, gross loss of the Group decreased significantly from approximately RMB113.8 million for FY2020 to approximately RMB57.1 million for FY2021.

Net loss from continuing operations decreased from approximately RMB211.3 million for FY2020 to approximately RMB119.2 million for FY2021, which was primarily attributable to (a) the decrease in gross loss as mentioned above; and (b) the decrease in allowance for expected credit losses, net.

As a result of the foregoing, loss attributable to the Shareholders decreased from approximately RMB235.3 million for FY2020 to approximately RMB119.2 million for FY2021.

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(ii) Financial position

Set out below is a summary of the consolidated statements of financial position as at 31 December 2019, 2020 and 2021 as extracted from the 2020 Annual Report and the 2021 Annual Report, respectively:

	As at 31 December		
	2021	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets	89,937	111,270	156,576
Right-of-use assets	7,352	10,579	27,270
Property, plant and equipment	37,425	54,813	119,675
Investment properties	45,160	45,878	–
Prepayments	–	–	2,351
Deferred income tax assets	–	–	7,280
Current assets	90,748	164,345	346,115
Inventories	5,116	47,228	82,682
Trade and other receivables	82,373	111,354	212,426
Cash and cash equivalents	3,259	5,763	51,007
Total assets	180,685	275,615	502,691
Equity attributable to owners of the Company	50,120	169,271	404,573
Non-current liabilities	267	292	23,078
Deferred income	267	292	342
Borrowings	–	–	22,736
Current liabilities	130,298	106,052	75,040
Trade and other payables	53,983	40,333	30,288
Deferred income	25	25	–
Receipt in advance	240	–	–
Tax payables	7,168	7,168	7,177
Amount due to related parties	6,235	589	–
Borrowings	62,647	57,937	37,103
Lease liabilities	–	–	472
Total liabilities	130,565	106,344	98,118
Net current assets/(liabilities)	(39,550)	58,293	271,075
Gearing ratio (note)	125.0%	34.2%	14.8%

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Note:

Calculated based on total interest-bearing debts divided by total equity of the Company as at the end of the year

Non-current assets decreased significantly from approximately RMB156.6 million as at 31 December 2019 to approximately RMB111.3 million as at 31 December 2020 and further to approximately RMB89.9 million as at 31 December 2021. Such decrease was mainly due to the decrease in right-of-use assets and property, plant and equipment, which was partially offset by the increase in investment properties. The above changes were primarily because (a) the Group ceased the biomass wood pellets business and changed the factory site for leasing, as a result of which certain related land and buildings were reclassified from right-of-use assets and property, plant and equipment to investment properties; (b) the Group disposed of certain property, plant and equipment and construction in progress so as to vacant the land for leasing out; and (c) impairment loss was recorded.

Current assets also decreased significantly from approximately RMB346.1 million as at 31 December 2019 to approximately RMB164.3 million as at 31 December 2020 and further to approximately RMB90.7 million as at 31 December 2021. Inventories decreased from approximately RMB82.7 million as at 31 December 2019 to approximately RMB47.2 million as at 31 December 2020, which was mainly due to (a) the provision for write-down of the Group's inventories as a result of the decrease in their estimated sales prices; and (b) less work in progress and finished goods of plywood products as at 31 December 2020 as less purchase orders were received by the end of December 2020 and lower sales were projected for the first quarter of 2021. Inventories further decreased to approximately RMB5.1 million as at 31 December 2021, which was mainly due to (a) less left-over raw materials as a result of costs saving measures; (b) less work in progress and finished goods of plywood products as at 31 December 2021 as less purchase orders were received by the end of December 2021; and (c) less raw materials needed for the estimated sales in the first quarter of 2022. Trade and other receivables decreased from approximately RMB212.4 million as at 31 December 2019 to approximately RMB111.4 million as at 31 December 2020 and further to approximately RMB82.4 million as at 31 December 2021, which was primarily attributable to (a) the decrease in revenue; and (b) the allowance for expected credit losses of trade receivables as a result of the worsening collectability of outstanding receivables from the Group's downstream customers which have been experiencing difficulties in their business operations as a result of COVID-19. Cash and cash equivalents decreased from approximately RMB51.0 million as at 31 December 2019 to approximately RMB5.8 million as at 31 December 2020 and further to approximately RMB3.3 million as at 31 December 2021, primarily due to funding needs of the ongoing operations of the Group.

Current liabilities increased from approximately RMB75.0 million as at 31 December 2019 to approximately RMB106.1 million as at 31 December 2020 and further to approximately RMB130.3 million as at 31 December 2021, which was mainly due to the increase in borrowings from approximately RMB37.1 million as at 31 December 2019 to approximately RMB57.9 million as at 31 December 2020 and further to approximately RMB62.6 million as at 31 December 2021 as approximately RMB22.7 million of non-current borrowings as at 31 December 2019 became immediately repayable and were

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reclassified as current liabilities since the Company failed to pay the interests on the Bonds that were due for repayment in FY2020 thereby triggering the default redemption clause of the bond contracts.

As a result of the increase in current liabilities and the decrease in current assets as mentioned above, the Group had net current liabilities and net assets of approximately RMB39.6 million and RMB50.1 million as at 31 December 2021, respectively. The gearing ratio also deteriorated from approximately 14.8% as at 31 December 2019 to approximately 34.2% as at 31 December 2020 and further to approximately 125.0% as at 31 December 2021.

(iii) Overall comments

As stated in the Letter from the Board, in light of the uncertainties caused by the COVID-19 pandemic, the Sino-US trade war and economic downturn in the PRC, the Group's business has been adversely affected since the beginning of 2020. Revenue of the Group has decreased since FY2019 with loss recorded for three consecutive years from FY2019 up to FY2021.

The financial position of the Group has been deteriorating with decreasing net assets and cash and cash equivalents and increasing gearing ratio from FY2019 to FY2021. The Group had a net current liability position of approximately RMB39.6 million as at 31 December 2021, indicating that the Group was currently under liquidity pressure.

As stated in the 2021 Annual Report, a number of measures including the Proposed Restructuring and the Open Offer have been taken to mitigate the liquidity pressure and to improve the financial position, to refinance its operation and to restructure its debts.

2. Principal terms of the Open Offer

For details of the terms of the Open Offer, please refer to the section headed "Proposed Open Offer" in the Letter from the Board. Set out below are the principal terms of the Open Offer:

Basis of the Open Offer	:	Three (3) Offer Shares for every five (5) existing Shares held on the Record Date
Offer Price	:	HK\$0.04 per Offer Share
Number of Shares in issue as at the Latest Practicable Date	:	974,400,000 Shares
Number of Offer Shares	:	584,640,000 Offer Shares (assuming there is no change to the issued share capital of the Company from the Latest Practicable Date up to the Record Date).

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584,640,000 Offer Shares represent (i) 60.0% of the Company's issued share capital as at the Latest Practicable Date; and (ii) 37.5% of the Company's issued share capital as enlarged by the issuance of the Offer Shares. As at the Latest Practicable Date, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

The Open Offer will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Offer Shares and the level of subscription of the excess Offer Shares. The Qualifying Shareholders are entitled to apply for any Offer Shares in excess of their own assured allotments. In the event that the Open Offer is not fully subscribed, any Offer Shares not taken up by the Qualifying Shareholders will not be issued by the Company and the size of the Open Offer will be reduced accordingly.

Total number of Shares : 1,559,040,000 Shares
upon completion of
the Open Offer

Proceeds from the Open Offer : The gross proceeds from the Open Offer will range from a maximum of approximately HK\$23.4 million (assuming the provisionally allotted Offer Shares have been fully subscribed) to a minimum of approximately HK\$15.2 million (pursuant to the Irrevocable Undertakings).

The net proceeds from the Open Offer after deducting the expenses will range from a maximum of approximately HK\$23.2 million (assuming the provisionally allotted Offer Shares have been fully subscribed) to a minimum of approximately HK\$15.2 million (pursuant to the Irrevocable Undertakings).

The Irrevocable Undertakings

To facilitate the implementation of the Open Offer under the Proposed Restructuring, on 1 September 2021, the Substantial Shareholder, the Concert Group and Mr. Chai, an executive Director, each provided, an Irrevocable Undertaking to the Company.

The Substantial Shareholder has irrevocably undertaken to the Company that he (i) will accept or procure the acceptance of the Offer Shares to be provisionally allotted to him under the Open Offer of 132,843,000 Offer Shares (being all of the assured entitlement of the Substantial Shareholder under the Open Offer based on the existing shareholding structure of the Company, assuming that there will not be any change to the shareholding

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structure from the Latest Practicable Date up to and including the Record Date); and (ii) will ensure that 221,405,000 Shares will remain legally and beneficially owned by him at the close of business on the Record Date.

The Concert Group has irrevocably undertaken to the Company that it (i) will accept or procure the acceptance of the Offer Shares to be provisionally allotted to it under the Open Offer of 40,441,800 Offer Shares (being all of the assured entitlement of the Concert Group under the Open Offer based on the existing shareholding structure of the Company, assuming that there will not be any change to the shareholding structure from the date of this Circular up to and including the Record Date); and (ii) will ensure that 67,403,000 Shares will remain legally and beneficially owned by them at the close of business on the Record Date.

Mr. Chai has irrevocably undertaken to the Company that he (i) will accept or procure the acceptance of the Offer Shares to be provisionally allotted to him and his spouse under the Open Offer of 44,100,000 Offer Shares (being all the assured entitlement of Mr. Chai and his spouse under the Open Offer based on the existing shareholding structure of the Company, assuming that there will not be any change to the shareholding structure from the Latest Practicable Date up to and including the Record Date); (ii) will ensure that 73,500,000 Shares will remain legally and beneficially owned by Mr. Chai and his spouse at the close of business on the Record Date; and (iii) will apply, by way of excess application, up to a maximum of 162,615,200 additional Offer Shares.

To sum up, pursuant to the Irrevocable Undertakings, the Substantial Shareholder, the Concert Group and Mr. Chai will accept or procure the acceptance of a total of 217,384,800 Offer Shares to be provisionally allotted to them under the Open Offer, and Mr. Chai will apply, by way of excess application, up to a maximum of 162,615,200 additional Offer Shares.

Having considered that (i) the Irrevocable Undertakings were given by the Substantial Shareholder, the Concert Group and Mr. Chai to facilitate the implementation of the Open Offer under the Proposed Restructuring; and (ii) the Irrevocable Undertakings guarantee minimum gross proceeds of approximately HK\$15.2 million to be raised under the Open Offer to fund the Cash Consideration of the Scheme, thereby improving the financial position of the Group, details of which are set out in the section headed “Use of proceeds of the Open Offer” below, we consider that the terms of the Irrevocable Undertakings are fair and reasonable.

Application for excess Offer Shares

The Offer Shares (i) to which the Non-Qualifying Shareholders would otherwise have been entitled; (ii) not validly applied for by the Qualifying Shareholders under the Open Offer; and (iii) created by aggregation of fractional assured entitlements, will be available for excess application by the Qualifying Shareholders.

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The Qualifying Shareholders are entitled to apply for any Offer Shares in excess of their own assured allotments by completing an excess application form and lodging the same with a separate remittance for the excess Offer Shares being applied for, but are not assured of being allocated any Offer Shares in excess of their assured allotments under the Application Forms.

Having considered that such arrangement will give an opportunity to the Qualifying Shareholders who have confidence in the prospect of the Group and would increase their shareholding by way of subscribing the excess Offer Shares, we concur with the Directors that the arrangement for the excess Offer Shares is fair and reasonable so far as the Shareholders are concerned.

3. Reasons for and benefits of the Open Offer

(i) Implementation of the Scheme so as to mitigate the liquidity pressure and to improve the financial position

As stated in the 2021 Annual Report, a number of conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. Details of the conditions are as follows:

- (a) the Group incurred a loss of approximately RMB119.2 million and recorded a net operating cash outflow of RMB6.8 million for FY2021. As at 31 December 2021, the Group recorded net current liabilities of approximately RMB39.6 million where the borrowings amounted to approximately RMB62.6 million, while the Group's cash and cash equivalents amounted to approximately RMB3.3 million only;
- (b) in respect of the Bonds, the Company had defaulted to pay the related interests in 2020, thereby triggering the default redemption clause of the bond contracts. As such, the Bonds became immediately repayable if requested by the bond holder creditors. In addition, the Company received several writs of summons and a statutory demand from the bond holder creditors in relation to the overdue payments of the bonds' principals and interests. In 2021, the District Court of Hong Kong ordered that judgment be entered in favour of the bond holder creditors against the Company for the principal amounts and interests accrued. The Company has also received a statutory demand pursuant to section 178(1)(a) or section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of Laws of Hong Kong) from one of its bondholders for the claim of unpaid interest of the bond; and
- (c) in respect of the bank borrowings in the PRC, the Group defaulted to repay three borrowings from a bank in the PRC, totaling RMB18.9 million which was due for repayment in January and February 2021. In 2021, the bank filed a petition to the People's Court in Chengwu County of Shandong Province for the repayment of the loans and interest accrued and the court ordered the repayment of the principal amount and the interest accrued within the time specified.

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As illustrated above, the Company has an imminent need of funding to resolve the above circumstances, and the Company proposed to undertake a number of measures, including the Proposed Restructuring by way of the Scheme, the Open Offer and potential disposal of certain assets. As stated in the Letter from the Board, the Scheme will be implemented in accordance with the terms as approved by the High Court and the Scheme Creditors (i.e., all the holders of the Bonds). On 9 December 2021, the Scheme was approved by the requisite majorities of the Scheme Creditors at the Scheme Meeting and was subsequently sanctioned without modification by the High Court at the sanction hearing held on 11 January 2022.

Pursuant to the Scheme, the Scheme Creditors (for the avoidance of doubt, shall not include the Substantial Shareholder and Mr. Chai in respect of the Cash Advance and parties with claims relating to the Restructuring Costs) shall receive the Scheme Consideration comprising the following:

- (a) Cash Consideration in the aggregate amount of HK\$15.2 million which shall be funded by the net proceeds from the Open Offer to be distributed amongst the Scheme Creditors on the basis of the relative proportion of their respective admitted claims as compared to the total admitted claims under the Scheme (which shall be subject to the determination and adjudication by the Scheme Administrators); and
- (b) Scheme Shares comprising 49,194,476 new Shares to be distributed amongst the Scheme Creditors on the basis of the relative proportion of their respective admitted claims as compared to the total admitted claims under the Scheme (which shall be subject to the determination and adjudication by the Scheme Administrators), disregarding fractions, credited as fully paid.

As part of the Scheme, the Company will also issue and allot up to 16,398,159 additional new Shares under the General Mandate to Scheme Creditors, who enter into the restructuring support agreement in relation to the Scheme on or before 27 October 2021 and undertook to vote for the Scheme, on a pro rata basis based on their claims as admitted by the Scheme Administrators. The maximum value of the Consent Fee Shares that the Consenting Creditors may receive amount to approximately 5% of the aggregate principal amount and interests accrued up to 31 December 2020 on the Bonds held by the relevant Consenting Creditors.

There is an imminent need for the Group to raise the critical fund to implement the Scheme. The Open Offer is proposed to raise the required fund to settle the Cash Consideration of the Scheme which would help to mitigate the liquidity pressure and to improve the financial position of the Group. For details of the use of proceeds, please refer to the section headed “Use of proceeds of the Open Offer” below.

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(ii) Suitable source of financing among other fund-raising alternatives

As stated in the Letter from the Board, the Directors have considered various fund-raising alternatives before resolving to the Open Offer, including but not limited to a rights issue, issuance of shares under general or specific mandate, issuance of convertible bonds or debt financings such as obtaining new bank borrowings.

In respect of rights issue, although a rights issue allows the Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights attaching thereto, we concur with the Directors that a rights issue may not be desirable for the following reasons:

- (a) additional time would reasonably be required to (1) accommodate a meaningful trading period for the Shareholders to trade their nil paid rights under a rights issue; and (2) complete the extra preparatory administrative work involved in a rights issue, inter alia, liaising and discussing with the share registrar and other professional parties, before the publication of the Circular, which would otherwise not be required with the Open Offer; and
- (b) additional cost would be required for a rights issue. As stated in the Letter from the Board, the estimated expenses to be incurred for conducting a rights issue (primarily comprising fees and expenses payable to the share registrar, printing cost and fees for other professional advisers) are expected to be approximately HK\$0.4 million, while the related expense for the Open Offer were estimated to be approximately HK\$0.2 million.

In respect of issuance of shares under general or specific mandate, on one hand, the issuance of new Shares may only raise funds in a relatively small amount as compared to the Open Offer and not all Shareholders are treated fairly and equally. The Shareholders would not be able to participate in such fund-raising exercise and their shareholdings would potentially be diluted. On the other hand, the Scheme Shares and the Consent Fee Shares will be allotted and issued by the Company pursuant to the General Mandate, which further decrease the fund-raising ability of the General Mandate.

In respect of issuance of convertible bonds, the Company has also previously conducted an informal solicitation of over five potential investors for the Company's convertible bonds to gauge the market sentiment and appetite. However, the Company has not received any positive response for subscribing convertible securities of the Company from the potential investors.

In respect of debt financings, the Company has approached three financial institutions (the "**Financial Institutions**") for exploring the possibility of obtaining short to medium term banking facility. The Directors consider debt financings to be undesirable given the following: (a) certain assets of the Group may have to be pledged to secure such borrowings and this may involve a lengthy approval process of at least 12 months, as advised by the Financial Institutions; (b) based on preliminary quotations obtained by the Company, the annualised interest rates offered by the Financial Institutions to the Company were between

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approximately 30% and 40%, which were substantially higher than the Group's weighted average effective interest rates on borrowings from banks of approximately 6.03% and 6.75% for the year ended 31 December 2020 and the year ended 31 December 2021, respectively; and (c) favorable terms in relation to debt financings on a timely basis would unlikely be achievable, given the Group's current financial position.

(iii) Overall comment

Having taken into consideration the Open Offer (i) would provide a good opportunity for the Group to raise the critical fund to implement the Scheme which could ease the liquidity pressure and improve the financial position of the Group; (ii) would give the Shareholders an equal opportunity to maintain their proportionate interests in the Company; and (iii) is the most appropriate financing option as discussed above, we concur with the Directors that the Open Offer is the most appropriate fund raising method given the circumstance of the Group and is in the interest of the Company and the Shareholders as a whole.

4. Use of proceeds of the Open Offer

The net proceeds from the Open Offer after deducting the expenses will range from a maximum of approximately HK\$23.2 million (assuming the provisionally allotted Offer Shares have been fully subscribed) to a minimum of approximately HK\$15.2 million (pursuant to the Irrevocable Undertakings).

In the event that the maximum gross proceeds of HK\$23.4 million is raised, (i) approximately HK\$20.0 million will be applied for the purpose of implementing the Scheme (i.e., the Cash Consideration) and its associated costs; and (ii) approximately HK\$3.4 million will be applied as general working capital for the Group's business.

In the event that there is an under-subscription of the Open Offer, the net proceeds of the Open Offer will be utilised in the above priority order and allow the Group to reduce its gearing level and interest burden in relation to the Bonds related liabilities amounting to approximately RMB35 million as at 30 April 2022, equivalent to approximately HK\$42 million. In the event that only the minimum net proceeds of HK\$15.2 million is raised, all the proceeds will be applied for the purpose of implementing the Scheme (i.e. the Cash Consideration).

5. Assessment on the Offer Price

The Offer Price is HK\$0.04 per Offer Share, payable in full upon acceptance of the relevant assured allotment of the Offer Shares and, where applicable, application for excess Offer Shares under the Open Offer.

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The Offer Price of HK\$0.04 per Offer Share represents:

- (i) a discount of approximately 71.43% to the closing price of HK\$0.140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 65.52% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Last Trading Day (the “**LTD Discount**”);
- (iii) a discount of approximately 54.55% to the theoretical ex-entitlement price of approximately HK\$0.088 per Share, based on the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Last Trading Day (the “**TEEP Discount**”);
- (iv) a discount of approximately 65.22% to the average closing price of approximately HK\$0.115 per Share as quoted on the Stock Exchange for the last five consecutive trading days up and including the Last Trading Day (the “**Five Days Discount**”);
- (v) a discount of approximately 65.22% to the average closing price of approximately HK\$0.115 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up and including the Last Trading Day (the “**Ten Days Discount**”);
- (vi) a discount of approximately 80.49% to the audited net asset value per Share of approximately HK\$0.205 per Share based on the audited financial results of the Group for the year ended 31 December 2020;
- (vii) a discount of approximately 75.76% to the unaudited net asset value per Share of approximately HK\$0.165 per Share based on the unaudited interim financial results of the Group for the six months ended 30 June 2021;
- (viii) a discount of approximately 36.51% to the audited net asset value (the “**NAV**”) per Share of approximately HK\$0.063 per Share based on (a) the audited equity attributable to the Shareholders of approximately RMB50.1 million as at 31 December 2021; (b) 974,400,000 issued Shares as at the Latest Practicable Date; and (c) the exchange rate of RMB1: HK\$1.225 as at 31 December 2021 as extracted from Bloomberg (the “**NAV Discount**”); and
- (ix) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 24.57% represented by the theoretical diluted price of HK\$0.0875 per Share to the benchmarked price of approximately HK\$0.116 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price of the Shares on the Last Trading Day of HK\$0.116 per Share and the average closing price per Share as quoted on the Stock Exchange for the last five trading days prior to the Last Trading Day of approximately HK\$0.115 per Share).

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As disclosed in the Letter from the Board, the Offer Price was arrived at with reference to, (i) the downward trend of the market price and low trading volume of the Shares; (ii) the prevailing unstable market conditions, the working capital requirements of the Company and the financial performance and financial position of the Group as at 31 December 2020 and 30 June 2021; (iii) the uncertainty brought about by the COVID-19 pandemic on the Group's business operations; and (iv) the funding needs for the implementation of the Scheme.

We noted that during the period from 1 September 2020 to the Last Trading Day, being approximately one year, the Share price had been closed at a discount to the then NAV per Share, ranging from a discount of approximately 13.52% to a discount of approximately 62.53% with an average of a discount of approximately 42.17% (the “**Average Discount**”). The NAV Discount of approximately 36.51% is within the aforesaid range and is lower than the Average Discount.

(i) *Share price performance*

In order to assess the fairness and reasonableness of the Offer Price, we have performed a review on the daily closing prices of the Shares from 1 September 2020 (being the date of approximately one year prior to the Last Trading Day) and up to the Latest Practicable Date (the “**Review Period**”). We consider the Review Period is adequate to reflect the general market sentiment primarily caused by the outbreak of COVID-19 since 2020 and illustrates the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Company and the latest market reaction in the Share price.



During the Review Period, the average closing price was approximately HK\$0.149 per Share (the “**Average Closing Price**”). The daily closing price ranged from HK\$0.106 per Share (the “**Lowest Closing Price**”) recorded on 22 February 2022 to HK\$0.300 per Share (the “**Highest Closing Price**”) recorded on 2 September 2020 during the Review Period.

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Since the beginning of the Review Period, the daily closing price has been in a downward trend from HK\$0.300 per Share on 2 September 2020 to HK\$0.107 per Share on 9 July 2021. It then remained relatively stable and fluctuated between HK\$0.109 per Share to HK\$0.120 per Share before the Last Trading Day. The closing price was HK\$0.116 per Share as at the Last Trading Day.

The daily closing prices of the Shares were above the Offer Price throughout the Review Period. The Offer Price of HK\$0.04 per Offer Share represents (a) a discount of approximately 62.26% to the Lowest Closing Price of HK\$0.106 per Share; (b) a discount of approximately 86.67% to the Highest Closing Price of HK\$0.300 per Share; and (c) a discount of approximately 73.15% to the Average Closing Price of approximately HK\$0.149 per Share for the Review Period. After March 2022, the daily closing price slightly surged and closed at HK\$0.140 as at the Latest Practicable Date.

With reference to the sub-section headed “(iii) Recent open offer exercises” below, we note that it is a common market practice to set the offer price at a discount to the prevailing market prices of the relevant share in order to increase the attractiveness and encourage the shareholders to participate in the open offer so as to meet the company’s need for additional funding.

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(ii) Trading volume

Apart from historical daily closing prices of the Shares, we have also reviewed the average daily trading volume of the Shares for each month during the Review Period, details of which are set out below:

	Approximate average daily trading volume of the Shares <i>(No. of Shares)</i>	Number of trading days	Approximate percentage of average daily trading volume to total number of issued Shares <i>(Note 1)</i>	Approximate percentage of average daily trading volume to total number of issued Shares held by public Shareholders <i>(Note 2)</i>
2020				
September	118,636	22	0.012%	0.031%
October	115,556	18	0.012%	0.031%
November	453,095	21	0.046%	0.119%
December	344,545	22	0.035%	0.091%
2021				
January	340,255	20	0.035%	0.090%
February	548,056	18	0.056%	0.144%
March	1,006,200	23	0.103%	0.265%
April <i>(note 3)</i>	Nil	Nil	NA	NA
May <i>(note 3)</i>	319,444	9	0.033%	0.084%
June	274,524	21	0.028%	0.072%
July	192,619	21	0.020%	0.046%
August	60,827	22	0.006%	0.014%
September	40,714	21	0.004%	0.010%
October	20,278	18	0.002%	0.005%
November	28,409	22	0.003%	0.007%
December	19,318	22	0.002%	0.005%
2022				
January	298,571	21	0.031%	0.071%
February	34,412	17	0.004%	0.008%
March	424,130	23	0.044%	0.100%
April	42,500	18	0.004%	0.010%
1 May to the Latest Practicable Date	93,500	10	0.010%	0.022%

Notes:

- Based on the number of total issued Shares as at each month end as disclosed in the monthly returns of the Company.
- Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by the Substantial Shareholder, the Concert Group and Mr. Chai and his spouse and the Shares under receivership from the number of total issued Shares as at each month end.
- Trading in the Shares was suspended between 1 April 2021 and 17 May 2021.

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As shown in the table above, during the Review Period, the average daily trading volume of the Shares in each month represented approximately 0.002% to 0.103% of the total number of issued Shares, and approximately 0.005% to 0.265% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, indicating a thin trading liquidity during the Review Period. The higher trading liquidity in March 2021 may be attributable to (a) the announcement of writ of summons dated 17 February 2021; and (b) the announcement of profit warning for the results of FY2020 dated 15 March 2021.

We consider it justifiable that the Offer Price was set at a discount to the prevailing market prices after taking into consideration the following:

- (a) the Qualifying Shareholders may have difficulties in disposing a significant number of the Shares in the open market in the event that the same trading pattern of the Shares continues during and after completion of the Open Offer in light of the thin trading volume of the Shares;
- (b) the Qualifying Shareholders may find the Open Offer less attractive in view of (1) the deteriorating financial performance and financial position of the Group in the recent years as stated in the section headed “1. Business and financial performance of the Group” above; and (2) the thin trading volume of the Shares during the Review Period as stated above;
- (c) the Offer Price at a discount would (1) encourage the Qualifying Shareholders to participate in the Open Offer; and (2) provide greater opportunity for the Qualifying Shareholders to recoup their investment costs when they realise the Shares in the open market in the future; and
- (d) it is a common market practice to set the offer price at a discount to the prevailing market prices of the relevant share in order to increase the attractiveness as stated in the sub-section headed “(iii) Recent open offer exercises” below.

(iii) Recent open offer exercises

In order to further assess the fairness and reasonableness of the terms of the Open Offer, we have further reviewed the open offer exercises initially announced and completed by the companies listed on the Stock Exchange for the period from 1 January 2020 up to the Latest Practicable Date. Based on the aforesaid criteria, we have identified an exhaustive list of five open offer transactions (the “**Comparable Transactions**”). We consider that the aforesaid review period is adequate and appropriate to (a) capture the recent market practice in relation to open offer exercises under the prevailing market conditions, in particular the effect of the recent COVID-19 outbreak which has significantly affected the economic sentiment; and (b) provide a sufficient sample for comparison with the Open Offer.

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The details of the Comparable Transactions are set out below:

Company name (Stock code) <i>(Note 4)</i>	Date of announcement	Basis of entitlement	Premium/ (discount) of the offer price over/ to the closing price on the last trading day	Premium/ (discount) of the offer price over/ to the average closing price for the last five consecutive trading days up to and including the last trading day	Premium/ (discount) of the offer price over/ to the average closing price for the last ten consecutive trading days up to and including the last trading day	Premium/ (discount) of the offer price over/ to the theoretical ex-entitlement price per share	Premium/ (discount) of the offer price over/ to the consolidated NAV per share	Maximum dilution of shareholding <i>(Note 1)</i>	Theoretical dilution effect <i>(Note 2)</i>	
Celestial Asia Securities Holdings Limited (1049)	27 March 2020	2 for 1	(32.58%)	(27.71%)	(28.57%)	(14.29%)	(75.00%)	66.67%	(21.35%)	
Courage Investment Group Limited (1145)	24 July 2020	1 for 1	(32.64%)	(34.01%)	(32.64%)	(20.73%)	(77.92%)	50.00%	(17.17%)	
National United Resources Holdings Limited (254) ("National United")	24 June 2021	1 for 1	(92.30%)	(92.80%)	(92.90%)	(85.62%)	Net liabilities	50.00%	(72.04%) <i>(Note 3)</i>	
First Shanghai Investments Limited (227)	23 July 2021	1 for 5	(19.40%)	(17.90%)	(17.20%)	(16.70%)	(85.30%)	16.67%	(3.00%)	
First Shanghai Investments Limited (227)	19 November 2021	1 for 11	(17.60%)	(16.70%)	(16.30%)	(16.30%)	(88.40%)	8.33%	(1.40%)	
			Maximum	(17.60%)	(16.70%)	(16.30%)	(14.29%)	(75.00%)	66.67%	(1.40%)
			Minimum	(92.30%)	(92.80%)	(92.90%)	(85.62%)	(88.40%)	8.33%	(72.04%)
			Average	(38.90%)	(37.82%)	(37.52%)	(30.73%)	(81.66%)	38.33%	(22.99%)
			Median	(32.58%)	(27.71%)	(28.57%)	(16.70%)	(81.61%)	50.00%	(17.17%)
The Company	1 September 2021	3 for 5	(65.52%)	(65.22%)	(65.22%)	(54.55%)	(36.51%)	37.50%	(24.57%)	

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Note:

1. Maximum dilution effect of each of the Comparable Transactions is calculated as: (number of new shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%.
2. As defined under Rule 7.27B of the Listing Rules.
3. The subscription and open offer conducted by National United would together result in a theoretical dilution effect of 72.04%. Such information for open offer on a standalone basis is not available.
4. Among the listed issuers involved in the Comparable Transactions, only National United and the Company had going concern issue as disclosed in their latest published annual reports before their respective open offers were announced, in which a number of conditions indicated the existence of a material uncertainty which may cast significant doubt about the listed issuers' ability to continue as a going concern. In other words, National United and the Company might be unable to realise its assets and discharge their liabilities in their normal course of business.

As illustrated in the table above, it is a common market practice that the pricings of open offer transactions represent discounts to the prevailing closing share prices prior to the announcement of the transactions and to the theoretical ex-entitlement price of the shares. The offer prices of the Comparable Transactions:

- (a) ranged from a discount of approximately 17.60% to 92.30%, with an average of a discount of approximately 38.90% and a median of a discount of approximately 32.58%, to their respective closing prices on the last trading day prior to/on the dates of the relevant announcements;
- (b) ranged from a discount of approximately 16.70% to 92.80%, with an average of a discount of approximately 37.82% and a median of a discount of approximately 27.71%, to their respective average closing prices for the five (5) consecutive trading days up to and including the last trading day prior to/on the dates of the relevant announcements;
- (c) ranged from a discount of approximately 16.30% to 92.90%, with an average of a discount of approximately 37.52% and a median of a discount of approximately 28.57%, to their respective average closing prices for the ten (10) consecutive trading days up to and including the last trading day prior to/on the dates of the relevant announcements;
- (d) ranged from a discount of approximately 14.29% to 85.62%, with an average of a discount of approximately 30.73% and a median of a discount of approximately 16.70%, to their respective theoretical ex-entitlement prices based on the closing prices on the last trading day prior to/on the dates of the relevant announcements; and
- (e) ranged from a discount of approximately 75.00% to 88.40%, with an average of a discount of approximately 81.66% and a median of a discount of approximately 81.61%, to their respective NAV per share.

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When comparing the Open Offer to the Comparable Transactions as shown in the table above, it is noted that (a) the LTD Discount, the Five Days Discount, the Ten Days Discount and the TEEP Discount are approximately 65.52%, 65.22%, 65.22% and 54.55% respectively, which are within the range of those of the Comparable Transactions; and (b) the NAV Discount is approximately 36.51% which is lower than all of those of the Comparable Transactions.

Although the LTD Discount, the Five Days Discount and the Ten Days Discount are higher than the average of those of the Comparable Transactions, we consider the Offer Price of HK\$0.04 to be fair and reasonable for the following reasons:

- (a) thin trading liquidity would result in difficulties for the Qualifying Shareholders in disposing a significant number of the Shares in the open market after completion of the Open Offer. The substantial discounts represented by the Offer Price provide greater opportunity for the Qualifying Shareholders to recoup their investment costs when they realise the Shares in the open market in the future and therefore increase the attractiveness of the Open Offer;
- (b) given the deteriorating financial performance and financial position of the Group in the recent years, especially the material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern, there is an uncertainty on the future performance of the Share price. The substantial discounts represented by the Offer Price would increase the attractiveness of the Open Offer so as to encourage the Qualifying Shareholders to participate in the Open Offer;
- (c) in view of the recent volatility of the financial market in Hong Kong, especially the decrease in Hang Seng Index by approximately 20.8% from 26,028.29 as at the Last Trading Day to 20,602.52 as at the Latest Practicable Date, the substantial discounts represented by the Offer Price would increase the attractiveness of the Open Offer and therefore the success rate in raising funds to satisfy the imminent need of funding of the Company;
- (d) as disclosed in the 2021 Annual Report, the Company has going concern issue and, in order to solve the issue, the Company proposed to undertake a number of measures, including the Proposed Restructuring by way of the Scheme, the Open Offer and potential disposal of certain assets. Among the five Comparable Transactions, National United also had going concern issue when the open offer was conducted. As such, we are of the view that the circumstance of National United is akin to that of the Company and the substantial discounts represented by the Offer Price and that of National United are justifiable given the need to (1) encourage the shareholders to participate in the open offers; and (2) raise the critical fund through the open offers to mitigate the going concern issue. The LTD Discount, the Five Days Discount and the Ten Days Discount are all lower than those of National United;

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- (e) the LTD Discount, the Five Days Discount, the Ten Days Discount and the TEEP Discount are within the range of those of the Comparable Transactions;
- (f) the NAV Discount is lower than all of those of the Comparable Transactions as well as the Average Discount; and
- (g) The theoretical dilution effect of the Open Offer of approximately 24.57% is in compliance with Rule 7.27B of the Listing Rules.

6. Dilution effect of the Open Offer on shareholding interest

All the Qualifying Shareholders are entitled to subscribe for the Open Offer. For those Qualifying Shareholders who take up their full provisional allotments under the Open Offer, their shareholding interests in the Company will not be diluted after completion of the Open Offer. Qualifying Shareholders who do not accept the Open Offer and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Open Offer.

As at the Latest Practicable Date, the existing public Shareholders held 43.32% of the total issued share capital of the Company. Upon completion of the Open Offer (assuming no Offer Share is subscribed for by the Qualifying Shareholders save for those subscribed under the Irrevocable Undertakings), the shareholding of the existing public Shareholders will be diluted to approximately 31.16%. On the other hand, Qualifying Shareholders who wish to increase their shareholding interests in the Company through the Open Offer may, subject to availability, apply for excess Offer Shares.

As set out in table under the above sub-section headed “5. (iii) Assessment on the Offer Price – Recent open offer exercises”, the maximum dilution of the Comparable Transactions ranged from approximately 8.33% to approximately 66.67%. For the Non-Qualifying Shareholders and the Qualifying Shareholders who do not take up their full provisional allotments under the Open Offer, depending on the extent to which they subscribe for the Offer Shares, their shareholding interests in the Company upon completion of the Open Offer will be potentially diluted by up to a maximum of approximately 37.50%, which is within the range of and close to the average of those of the Comparable Transactions.

Having considered that (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders’ interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Open Offer; and (ii) the maximum dilution of the Open Offer is within the range of and close to the average of those of the Comparable Transactions, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Offer Shares, is acceptable.

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7. Financial impacts of the Open Offer

(i) *Net tangible liability*

Based on the unaudited consolidated net tangible assets of the Group attributable to shareholders of the Company set out in Appendix II to this Circular, the audited consolidated net tangible assets of the Group attributable to the Shareholders as at 31 December 2021 was approximately RMB50.1 million. Upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would be approximately RMB69.0 million, representing an increase of approximately 37.7%. The net assets position of the Group would be improved upon the completion of the Open Offer.

Upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately RMB0.0442.

(ii) *Liquidity*

As part of the net proceeds of not less than approximately HK\$15.2 million from the Open Offer will be used to settle the Cash Consideration under the Scheme, the working capital position of the Group would be improved upon completion of the Open Offer.

(iii) *Earnings*

Following completion of the Open Offer, total debt of the Group will be reduced by the amounts of net proceeds of not less than approximately HK\$15.2 million which shall be applied to settle the Cash Consideration under the Scheme. As such, the finance costs arising from the Bonds are expected to be reduced accordingly which will bring a positive impact to the earnings of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company following completion of the Open Offer.

OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation in respect of the Open Offer, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- in light of the uncertainties caused by the COVID-19 pandemic, the Sino-US trade war and economic downturn in the PRC, the Group's business has been adversely affected since the beginning of 2020. The Group recorded net loss of approximately RMB75.6 million, RMB235.3 million and RMB119.2 million for the three years ended 31 December 2021, respectively. The financial position of the Group has been deteriorating with decreasing net assets and cash and cash equivalents and increasing

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gearing ratio from FY2019 to FY2021. As at 31 December 2021, the Group's borrowings and cash and cash equivalents amounted to approximately RMB62.6 million and RMB3.3 million, respectively. The Group had a net current liability position of approximately RMB39.6 million as at 31 December 2021, indicating that the Group was currently under liquidity pressure;

- given the significant doubt about the Group's ability to continue as a going concern caused by (i) the deteriorating financial performance and financial position as stated above; and (ii) the default on the Bonds and bank borrowings, a number of measures would be required to be taken, including the Proposed Restructuring by way of the Scheme. The Open Offer is proposed to raise the critical fund to settle the Cash Consideration of the Scheme which would help resolve possible insolvency of the Company, mitigate the liquidity pressure and improve the financial position of the Group;
- the Open Offer is a suitable source of financing as compared to other fund-raising alternatives such as a rights issue, issuance of shares under general or specific mandate, issuance of convertible bonds and debt financing, as particularly discussed under the section headed "3.(ii) Reasons and benefit of the Open Offer – Suitable source of financing among other fund-raising alternatives" above;
- the principal terms of the Open Offer, in particular the Offer Price, are fair and reasonable after considering the following:
 - (i) it is reasonable to set the Offer Price at a discount to the prevailing market prices given that it would (a) encourage the Qualifying Shareholders to participate in the Open Offer and (b) provide greater opportunity for the Qualifying Shareholders to recoup their investment costs when they realise the Shares in the open market in the future;
 - (ii) in view of the recent volatility of the financial market in Hong Kong, especially the decrease in Hang Seng Index by approximately 20.8% from 26,028.29 as at the Last Trading Day to 20,602.52 as at the Latest Practicable Date, the substantial discounts represented by the Offer Price would increase the attractiveness of the Open Offer and therefore the success rate in raising funds to satisfy the imminent need of funding of the Company;
 - (iii) the LTD Discount, the Five Days Discount, the Ten Days Discount and the TEEP Discount are within the range of those of the Comparable Transactions; and
 - (iv) the NAV Discount is lower than all of those of the Comparable Transactions as well as the Average Discount;

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- the Irrevocable Undertakings were given by the Substantial Shareholder, the Concert Group and Mr. Chai to facilitate the implementation of the Open Offer under the Proposed Restructuring and the Irrevocable Undertakings guarantee minimum gross proceeds of approximately HK\$15.2 million to be raised under the Open Offer to fund the Cash Consideration of the Scheme, thereby improving the financial position of the Group;
- the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Offer Shares, is acceptable, given (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Open Offer; and (ii) the maximum dilution of the Open Offer is within the range of and close to the average of those of the Comparable Transactions; and
- the Open Offer is expected to bring an overall positive impact on the Group's net tangible assets, liquidity and earnings.

Based on the above, we consider that the terms of the Open Offer are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Open Offer, while not in the ordinary and usual course of business of the Group, is nevertheless in the interests of the Company and its shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.com.hk>) and the Company (www.msdsdn.com):

- (a) Annual report of the Company for the year ended 31 December 2021 published on 29 April 2022 (pages 49 to 128)

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042900005.pdf>

- (b) Annual report of the Company for the year ended 31 December 2020 published on 18 May 2021 (pages 47 to 126)

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0518/2021051801130.pdf>

- (c) Annual report of the Company for the year ended 31 December 2019 published on 21 April 2020 (pages 42 to 108)

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0421/2020042100501.pdf>

2. INDEBTEDNESS STATEMENT

As at 30 April 2022, being the latest practicable date prior to the printing of this Circular for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately RMB77 million which comprised:

- (i) unsecured outstanding bonds of approximately RMB35 million;
- (ii) secured short-term bank borrowings of approximately RMB9 million;
- (iii) unsecured cash advances from a shareholder and directors of approximately RMB7.4 million;
- (iv) other unsecured loan from third party of approximately RMB9.5 million; and
- (v) other secured loan from third party of approximately RMB16.1 million.

The Group's short-term bank borrowings are secured by the Group's land use rights, plants and investment properties as at 30 April 2022. The bank borrowings were also guaranteed by Mr. Ke Mingcai, an ex-director of the Company, together with his spouse, Mr. Zhang Ayang, a director and an employee of the Group's PRC subsidiary.

The bonds and cash advances from shareholders are unsecured and unguaranteed.

The Group provided a guarantee with the maximum amount of RMB14,250,000 to bank in respect of banking facility of a third party. As at 30 April 2022, RMB9,500,000 of bank borrowing are drawn down by the third party.

Save as aforesaid and apart from normal trade payables in the ordinary course of business, other payables and accruals, none of the entities of the Group had any debt securities which are issued and outstanding, or authorised or otherwise created but unissued term loans, other borrowings or indebtedness including bank overdrafts loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, mortgage, charges, activities or other material contingent liabilities as at the close of business on 30 April 2022.

Note: On 5 May 2022, the local PRC management has been verbally notified by the relationship manager of China Construction Bank Chengwu Branch that the bank has already started the internal procedure to auction the overdue debts of Meisen (Shangdong) and Dasen (Heze) as its standard practice. The local PRC management has not received any written information or further update on this matter as at the Latest Practicable Date.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that in the absence of unforeseen circumstances, subject to completion of the Proposed Restructuring and the potential disposal of non-core assets in the PRC (details of which were disclosed in the Group's annual report for the year ended 31 December 2021 and the latest progress is disclosed below) which is expected to take place within twelve months from the date of this Circular, and considering the financial resources available to the Group, the Group has sufficient working capital for its normal business for at least the twelve months from the date of this Circular.

Progress relating to the disposal of non-core assets in the PRC

Between March 2021 and March 2022, the Company has conducted negotiations with five potential buyers to acquire the Group's investment properties (consist of land and factories) currently held by Dasen (Heze) Biomass Energy Limited which will be sold with existing tenancy. As at the Latest Practicable Date, four of the five potential buyers have already completed site inspections and two of the five buyers have commenced due diligence process. The Company has so far received one written offer and two verbal offers for the investment properties but has turned down all the offers as they were either unable to match the Company's expected selling price or they are unable to complete within a reasonable period to improve the Group's short term liquidity.

The Company expects to meet with another two new potential investors in coming weeks after the COVID-19 situation in Heze improves. The Company has deployed a consultant to Heze to oversee the sale process of Groups' investment properties.

The Directors understand that the sale of non-core assets of the Group is a crucial task to improve the Group's liquidity and has been monitoring the situation on a daily basis. The Board will take prompt actions to complete this crucial task and the Board has full confidence that the sale will be completed within the 2022 financial year.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practical Date, the Directors confirmed that there had been no material adverse change in the financial position or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group was made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacturing and sales of wooden products and leasing activities. As the demand for biomass wood pellets has significantly reduced since the latter part of 2019 which continued more significantly so in the first half of 2020, the Group made the decision to cease the operations of this business segment and leased out part of the biomass wood pellets factories as well as other factories and land which are surplus to the Group with the view to generating a stable recurring rental income.

Business Outlook

The management of the Company believes that market conditions are gradually improving in 2021 despite the uncertainties surround COVID-19, when comparing to 2020 and, barring any unforeseen circumstances, expects such improvements to continue.

Plywood Products

The management of the Company has seen improvements in both the sales volume and the pricing of its plywood products in the first half of 2021. As vaccines are now widely adopted in the PRC and the Western countries, the management of the Company has seen a gradual surge in demand in the products of our customers and in turn the demand for the Group's plywood products. The Group remains confident in the long-term competitiveness of our plywood products, given its years of development experience in the production process and quality control, and its ability to meet the needs of our customers. The Group will continue to leverage on its strategic advantage of having quality poplar supplies in its neighbourhood as the world recovers from the impact of COVID-19.

Going forward, the Group will also review the prospect of capturing the low to middle end plywood market and explore the prospects of developing, along the furniture supply chain, the manufacturing, sales and distributions of furniture in the longer term. The low to middle end plywood market will allow the Group to serve both domestic and international end users, and if successfully implemented is expected to reduce the degree of the Group's sole reliance on demand from international customers. The longer-term prospects of entering into the furniture business, if successfully implemented, is expected to allow the Group to capture the more profitable parts of the furniture supply chain with significant improvement to the overall gross profit and gross profit margin.

China Opportunities

With COVID-19 under control in China and the domestic market demonstrating a recovery in demand, the management of the Company will also make a proactive effort to optimize and diversify its plywood business to focus on business opportunities within China.

UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE
ASSETS OF THE GROUP AS AT 31 DECEMBER 2021

The following unaudited pro forma statement of adjusted consolidated net tangible assets (the “**Unaudited Pro Forma Financial Information**”) of the Group attributable to shareholders of the Company has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants to illustrate the effect of the Open Offer on the audited consolidated net tangible assets of the Group attributable to shareholders of the Company as if the Open Offer had been completed on 31 December 2021.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not reflect a true picture of the audited consolidated net tangible assets of the Group attributable to shareholders of the Company upon completion of the Open Offer as at 31 December 2021 or at any future date.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated net tangible assets of the Group attributable to shareholders of the Company as at 31 December 2021, as extracted from the audited consolidated statement of financial position of the Group as at 31 December 2021 in the published audited annual report of the Group for the year ended 31 December 2021, and is adjusted for the effect of the Open Offer and debt restructuring described below.

Audited consolidated net tangible assets of the Group attributable to shareholders of the Company as at 31 December 2021 RMB'000 (Note 1)	Estimated net proceeds from the Open Offer RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to shareholders of the Company RMB'000 (Note 6)	Unaudited pro forma adjusted consolidated net tangible assets per Share after the completion of the Open Offer RMB (Note 4)	Unaudited pro forma adjusted consolidated net tangible assets per Share after the completion of the Open Offer HK\$ (Note 8)
Based on completion of Offer Shares	50,120	18,850	68,970	0.0442
	<u>50,120</u>	<u>18,850</u>	<u>68,970</u>	<u>0.0442</u>

Audited consolidated net tangible assets per Share prior to the completion of the Open Offer is RMB0.0514 (Note 7).

APPENDIX II

**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE GROUP**

Audited consolidated net tangible assets of the Group attributable to shareholders of the Company as at 31 December 2021	Estimated net proceeds from the Open Offer	Estimated liabilities to be cancelled and discharged or settled by shares under Scheme	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share after the completion of Proposed Restructuring	Unaudited pro forma adjusted consolidated net tangible assets per Share after the completion of Proposed Restructuring	
<i>RMB'000</i> (Note 1)	<i>RMB'000</i> (Note 2)	<i>RMB'000</i> (Note 3)	<i>RMB'000</i> (Note 6)	<i>RMB</i> (Note 5)	<i>HK\$</i> (Note 8)	
Based on completion of Proposed Restructuring	50,120	18,850	16,930	85,900	0.0529	0.0651

Notes:

1. The amount is determined based on the audited consolidated net tangible assets of RMB50,120,000 as at 31 December 2021, which is extracted from the audited consolidated statement of financial position of the Group as at 31 December 2021 in the published audited annual report of the Group for the year ended 31 December 2021.
2. The estimated net proceeds from the Open Offer are based on the number of 584,640,000 Offer Shares to be issued at the Offer Price of HK\$0.04 per Offer Share, after deduction of the estimated related expenses which are directly attributable to the Open Offer, of approximately HK\$200,000.
3. The estimated liabilities to be cancelled and discharged under the Scheme are based on:
 - the bond and interest payables to the Scheme Creditors as at 31 December 2021 amounted to approximately RMB33,190,000;
 - Consenting Creditors have executed or otherwise acceded to the restructuring support agreement in relation to the Scheme;
 - approximately 44% of the bond and interest payables to the Scheme Creditors as at 31 December 2021 amounted to approximately RMB14,540,000 to be cancelled and discharged under the Scheme, approximately 37% of the bond and interest payables to the Scheme Creditors will be settled in cash and approximately 14% and 5% of the bond payables of approximately RMB6,292,000 to the Scheme Creditors will be settled by issuing approximately 49,194,000 Scheme Shares and approximately 16,398,000 Consent Fee Shares at the issuance price of HK\$0.118; and
 - after deduction of the estimated related expenses which are directly attributable to the Scheme of approximately HK\$4,800,000.

4. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to shareholders of the Company after completion of the Open Offer are arrived at after aggregating: (a) the audited consolidated net tangible assets of the Group attributable to shareholders of the Company as at 31 December 2021 of approximately RMB50,120,000 (Note 1); and (b) the estimated net proceeds of approximately HK\$23,200,000 (equivalent to approximately RMB18,850,000) from the Open Offer (Note 2) and on the basis that 974,400,000 Shares were in issue as at 31 December 2021; and 584,640,000 Offer Shares to be issued pursuant to the Open Offer.
5. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to shareholders of the Company after completion of the Proposed Restructuring are arrived at after aggregating: (a) the audited consolidated net tangible assets of the Group attributable to shareholders of the Company as at 31 December 2021 of approximately RMB50,120,000 (Note 1); (b) the estimated net proceeds of approximately HK\$23,200,000 from the Open Offer (Note 2); and (c) the estimated liabilities of approximately RMB16,930,000 to be cancelled and discharged under the Scheme based on the carrying amount of total Bonds Indebtedness as at 31 December 2021 (Note 3); and on the basis that 974,400,000 Shares were in issue as at 31 December 2021; 584,640,000 Offer Shares to be issued pursuant to the Open Offer; and 49,194,000 Scheme Shares and 16,398,000 Consenting Shares to be issued pursuant to the Scheme.
6. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results since 31 December 2021.
7. The calculation of the audited consolidated net tangible assets per Share attributable to shareholders of the Company as at 31 December 2021 is determined based on the audited consolidated net tangible assets of the Group attributable to shareholders of the Company of approximately RMB50,120,000 divided by the number of Shares in issue of 974,400,000 as at 31 December 2021.
8. For the purposes of the unaudited pro forma adjusted net tangible assets per Share attributable to shareholders of the Company, the amount stated in RMB is converted into Hong Kong dollar at the rate of RMB1 to HK\$1.23.

The following is the text of the independent reporting accountants' assurance report, received from Confucius International CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Group as set out in this Appendix and prepared for the purpose of inclusion in this circular.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Da Sen Holdings Group Limited,**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma net asset statement of the Group as at 31 December 2021 and related notes as set out in Appendix II of the circular issued by the Company dated 20 May 2022 (the "Circular"). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in Appendix II of the Circular.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the proposed open offer of 584,640,000 offer shares at HK\$0.04 per offer share on the basis of three (3) offer shares for every five (5) shares held on the record date (the "Open Offer") and proposed debt restructuring on the Group's net assets as at 31 December 2021 as if the Open Offer and debt restructuring had taken place at 31 December 2021. As part of this process, information about the Group's net assets has been extracted by the directors from the Group's financial statements for the year ended 31 December 2021, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant’s Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2021 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

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

Yours faithfully,

Confucius International CPA Limited

Certified Public Accountants

Tsang Kwong Kin

Practising Certificate Number: P07368

Hong Kong

20 May 2022

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 is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

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

2. SHARE CAPITAL

The share capital of the Company as at the Latest Practicable Date and upon the completion of the Open Offer are as follows:

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

	Nominal value per Share	Number of Shares	Amount (HK\$)
Authorised:			
As at the Latest Practicable Date	0.01	3,000,000,000	30,000,000
Issued and fully paid:			
As at the Latest Practicable Date	0.01	974,400,000	9,744,000

(ii) **Share capital upon completion of the Proposed Restructuring (assuming that all Offer Shares are subscribed by Qualifying Shareholders)**

	Nominal value per Share	Number of Shares	Amount (HK\$)
Authorised:			
As at the Latest Practicable Date	0.01	3,000,000,000	30,000,000
Issued and fully paid:			
As at the Latest Practicable Date	0.01	974,400,000	9,744,000
Offer Shares to be issued pursuant to the Open Offer	0.01	584,460,000	5,844,600
Shares upon completion of the Open Offer	0.01	1,559,040,000	15,590,400
Scheme Shares and Consent Fee Shares to be issued pursuant to the Scheme	0.01	65,592,635	655,926
Shares upon completion of the Open Offer and the implementation of the Scheme	0.01	1,624,632,635	16,246,326

All of the Offer Shares, the Scheme Shares and the Consent Fee Shares to be issued will rank *pari passu* in all respects, without any preference among themselves and with all Shares then in issue including with respect to all the rights as to dividends, voting and interest in capital.

As at the Latest Practicable Date, the maximum number of unexercised share options permitted to be granted under the share option scheme is an amount equivalent, upon their exercise, to 72,000,000 Shares. The maximum number of Shares issuable under share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the Shares in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

There are no arrangements under which future dividends will be waived or agreed to be waived.

As at the Latest Practicable Date, no capital of any members of the Group was under option or agreed conditionally or unconditionally to be put under option.

Save as disclosed above, no share, options, warrants, conversion rights or any equity or debt securities of the Company were outstanding or were proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

Since 31 December 2021, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, no Shares have been allotted and issued by the Company. No part of the equity or debt securities of the Company is listed or dealt in, nor is any listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS

Interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules (“**Model Code**”) were as follows:

(a) *Interests of Directors*

Name of director	Number of Shares held, capacity and nature of interest			Percentage of the Company's share capital
	Directly beneficially owned	Through spouse or minor children	Total	
Mr. Zhang Ayang (<i>Note 1</i>)	–	109,783,800	109,783,800	12.18%
Mr. Chai Kaw Sing	57,200,000	16,300,000	73,500,000	7.55%

Note:

- Mr. Zhang Ayang is the spouse of Ms. Wu Haiyan and he is deemed to be interested in these Shares under the SFO.

(b) Interests of substantial Shareholders

Name	Number of Shares held, capacity and nature of interest			Percentage of the Company's share capital
	Directly beneficially owned	Interests in persons acting in concert (Note 1)	Total	
Mr. Wong Tseng Hon	221,295,000	–	221,295,000	22.71%
<i>Concert Group (Note 1)</i>				
Mr. Ke Mingcai	42,380,800	67,403,000	109,783,800	11.27%
Mr. Wang Songmao	25,291,000	84,492,800	109,783,800	11.27%
Mr. Wu Shican	12,300,000	97,483,800	109,783,800	11.27%
Mr. Lin Qingxiong	100,000	109,683,800	109,783,800	11.27%
Ms. Wu Haiyan (Note 2)	29,712,000	80,071,800	109,783,800	11.27%
Ms. Leung Leung Wing Yee Winnie (Note 3)	190,000,000	–	190,000,000	19.50%

Note:

- Pursuant to the Concert Party Agreement, Mr. Ke Mingcai, Mr. Cai Jinxu, Mr. Wang Songmao, Mr. Lin Qingxiong, Mr. Wu Shican and Ms. Wu Haiyan have agreed on certain arrangements pertaining to their shareholdings in the Company. Pursuant to the SFO, since each of Lin Qingxiong and Wu Haiyan is a party to the Concert Party Agreement, each of Mr. Lin Qingxiong and Ms. Wu Haiyan is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.
- Mr. Zhang Ayang is the spouse of Ms. Wu Haiyan and he is deemed to be interested in these Shares under the SFO.
- Mr. Ke Mingcai's Shares are currently held by a receiver. Ms. Leung Leung Wing Yee Winnie was appointed as a receiver on 2 July 2021 of the relevant shares pursuant to the disclosure of interest filed on 14 July 2021.

Save as disclosed above, as at the Latest Practicable Date, there was no other person who had an interest or short position in the Shares, underlying shares (in respect of positions held pursuant to equity derivatives) and debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 5% or more of the issued voting shares of the Company; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased, or which were proposed to be acquired, disposed of by or leased to any member of the Group since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up.

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

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

There were no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by any member of the Group within the two years immediately preceding the date of this Circular and up to the Latest Practicable Date.

7. LITIGATION

The Company has received several writs of summons with a total statement of claim of approximately HK\$5.6 million issued in the District Court of the Hong Kong by certain holders of the Bonds against the Company, which have been disclosed in the announcements of the Company dated 29 June 2020, 3 September 2020 and 24 September 2020 and 17 February 2021, respectively.

The Company has also received a statutory demand pursuant to section 178(1)(a) or section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of Laws of Hong Kong) from one of the holders of the Bonds on 19 January 2021 for the claim of HK\$0.1 million, being the unpaid interest of the Bonds in the principal amount of HK\$2.0 million issued by the Company to that bondholder.

For the two writs of summons as disclosed in the announcements of the Company dated 29 June 2020 and 24 September 2020, the District Court of the Hong Kong has granted orders of the Summons in favour of the Plaintiffs and the Company has provided updates for these legal proceedings in the announcements of the Company dated 20 July 2021 and 4 August 2021, respectively.

The two principal subsidiaries of the Company in the PRC were in default with the repayment of certain loans provided by banks in the PRC. Further details of this are set out in interim report of the Company for the six months ended 30 June 2021. On 21 August 2021, the Court of Chengwu County of Shandong Province of the PRC handed down a judgment on one of these two PRC principal subsidiaries of the Company requiring it to repay to a bank the outstanding principal amount of RMB7,441,641.41 together with interest and costs. Further details of this are set out in the announcement of the Company dated 30 August 2021.

As at the Latest Practicable Date, save as disclosed above, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

8. EXPERTS AND CONSENTS

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

Names	Qualifications
Rainbow Capital (HK) Limited	A corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Confucius International CPA Limited	Certified Public Accountant

Each of the above expert has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter or report, as the case may be dated 20 May 2022, and reference to its name, and/or its advice in the form and context in which it respectively appears.

As at the Latest Practicable Date, each of the above expert did not have any shareholding directly or indirectly, in any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

Principal place of business of the Company in Hong Kong	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Auditor	Confucius International CPA Limited Room 1501-08, 15/F Tai Yau Building 181 Johnston Road Wanchai Hong Kong
Principal bankers	Bank of China 52/F, Bank of China Tower No. 1, Garden Road Hong Kong
Principal share registrar	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre No. 183 Queen's Road East Wanchai Hong Kong
Company secretary	Mr. Leung Wing Lun Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong

Authorised representative	Mr. Wong Ben Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
	Mr. Leung Wing Lun Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
Financial adviser to the Company	Asian Capital Limited Suite 1405-1409 Bank of America Tower 12 Harcourt Road Central Hong Kong
Independent Financial Adviser	Rainbow Capital (HK) Limited Room 5B, 12/F Tung Ning Building No. 2 Hillier Street Sheung Wan Hong Kong
Legal advisers to the Company (as to Hong Kong law)	P. C. Woo & Co. Room 1225, 12th Floor Prince's Building No. 10 Chater Road Central Hong Kong
Restructuring adviser to the Company	Ernst & Young Transactions Limited 27/F, One Taikoo Place 979 King's Road Quarry Bay Hong Kong

10. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

Name	Address
<i>Executive Directors</i>	
Mr. Chai Kaw Sing	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
Mr. Wong Ben	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
Mr. Zhang Ayang (<i>duties suspended</i>)	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
<i>Non-executive Director</i>	
Mr. Sun Yongtao	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong

Name	Address
<i>Independent non-executive Directors</i>	
Ms. Lo Yuk Yee	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
Mr. Tso Siu Lun Alan	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
Mr. Kwok Yiu Tong Henry	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong

Senior management

Mr. Leung Wing Lun	Room 2703, 27th Floor K. Wah Centre No. 191 Java Road North Point Hong Kong
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(b) Biographies of the Directors and senior management of the Company

Executive Directors

Mr. Chai Kaw Sing

Aged 45, is the executive Director. Mr. Chai joined the Group in July 2019 as an executive Director. Mr. Chai has extensive experience in general management, financing arrangement and brokering services for stocks and foreign exchange products. Mr. Chai founded Blackwell Global Group (including Blackwell Global Investments Limited and its subsidiaries), a global financial and brokerage service provider, in 2010 and has been its chairman since then. Mr. Chai has been the majority shareholder and director of Blackwell Global Holdings Limited, a company listed on the Main Board of New Zealand's Exchange (stock code: BGI: NZ) since

June 2017. Mr. Chai obtained his degree in economics from National Cheng Chi University in 2000. Mr. Chai is responsible for the business development of the Group.

Mr. Wong Ben (“Mr. Ben Wong”)

Aged 42, is the executive Director. Mr. Ben Wong joined the Group in July 2019 as an executive Director. He has extensive experience in project investment and management. He has been working as a manager in a privately owned company in Hong Kong responsible for daily operation and exploring investment opportunities in different projects since January 2008. Prior to that, he worked in Stottler Henke as an AI software engineer from April 2005 to August 2007 where Mr. Wong was mainly responsible for software development, including writing proposals to clients, designing and implementing software. Mr. Ben Wong obtained his bachelor of Arts from Cornell University in 2001 and his master of science from Stanford University in 2004. He also obtained the professional certificate in business management from The Open University of Hong Kong in November 2011. He is the son of Mr. Wong Tseng Hon, a substantial shareholder of the Company. Mr. Ben Wong is responsible for the management of the Group’s office in Hong Kong and also the Group’s information technology system.

Mr. Zhang Ayang (“Mr. Zhang”) (duties suspended)

Aged 45, is the executive Director responsible for sales and marketing strategy and overseeing the sales of the Group, but his duties and powers as an executive Director have been suspended with effect from 15 December 2021 until further notice. Mr. Zhang joined the Group in December 2010 as the head of sales department. Mr. Zhang was promoted as the general manager of Dasen (Heze) Biomass Energy Limited, a Company’s wholly-owned subsidiary, in November 2014. Since November 2008, Mr. Zhang has been working at Jinjiang Qing Yang Xin Yi Material Trading Company, engaging in the wholesaling and retailing of wooden board, light steel keel and fireproof material. Mr. Zhang is responsible for sales and marketing strategy and overseeing the operations of the Group’s subsidiaries in the PRC.

Non-executive Director

Mr. Sun Yongtao (“Mr. Sun”)

Aged 64, is the non-executive Director and Chairman of the Board since March 2022. Mr. Sun joined the Group in May 2020 as an independent non-executive Director and redesignated as the executive Director on 26 November 2020. Mr. Sun has over 30 years of experience in finance and accounting. Mr. Sun is a senior accountant accredited by Guangdong Senior Title Evaluation Committee under Department of Finance of Guangdong Province, the PRC. Mr. Sun obtained his master degree in economics from Nankai University in 1986. From July 1993 to

January 1996, he was a director and general manager of finance department of Shum Yip Investment Limited (now known as Shenzhen Investment Limited), a company listed on the Main Board of the Stock Exchange (stock code: 00604). From January 1996 to February 2002, he served as the financial controller, the deputy general manager (general affairs) and a director of Hengli Weaving (Holdings) Limited. Mr. Sun was the deputy general manager and the financial controller of Daya Bay Nuclear Power Finance Corporation, Ltd. from February 2002 to November 2004. Mr. Sun was the chief accountant of Travelsky Technology Limited (“**Travelsky**”), a company listed on the Main Board of the Stock Exchange (stock code: 0696) from November 2004 to August 2017, and was a non-executive director of Travelsky from January 2007 to March 2009. Mr. Sun is responsible for the financial management and reporting and internal control matters of the Group’s operation in the PRC.

Independent non-executive Directors

*Ms. Lo Yuk Yee (“**Ms. Lo**”)*

Aged 61, is an independent non-executive Director. Ms. Lo joined the Group in November 2020 as an independent non-executive Director. Ms. Lo has over 25 years of experience in the banking, insurance, finance and investment fields. Ms. LO was the chairman and chief executive officer of MAXX Bioscience Holdings Limited (now known as China Grand Pharmaceutical and Healthcare Holding Limited), a company listed on the Main Board of the Stock Exchange (stock code: 512) from 2002 to 2006. Ms. Lo is also the founder of MAXX Capital Finance Limited, a company primarily engaged in providing commercial finance and structured finance advice, and has been the chief executive officer since its incorporation in 1999. Ms. Lo is currently the chairman, executive director and controlling shareholder of Finet Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8317).

*Mr. Tso Siu Lun Alan (“**Mr. Tso**”)*

Aged 37, is an independent non-executive Director. Mr. Tso joined the Group in May 2020 as an independent non-executive Director. Mr. Tso is currently an independent non-executive director of Shi Shi Services Limited, a company listed on the GEM of the Stock Exchange (stock code: 8181), an independent non-executive director of OCI International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0329), and a responsible officer at Fenghua Asset Management Limited (CE No. BKV973), a company holding Type 4 and Type 9 licences from the Securities and Futures Commission for carrying out the regulated activities of advising on securities and asset management. Mr. Tso is the founder and director of China Mini Storage Limited (“**CMS**”), a company primarily engaged in the self storage business in PRC. Prior to establishing CMS, Mr. Tso worked as an investment director at the Everbright Ashmore China Real Estate Fund, a joint venture offshore real estate fund sponsored by the China Everbright Limited (stock code: 0165), a company listed on the Main Board of the Stock Exchange and the

Ashmore Group plc, a company listed on the Main Market of the London Stock Exchange (stock code: ASHM), from 2008 to 2012. Previously, Mr. TSO also worked at Merrill Lynch's Global Commercial Real Estate team from 2006 to 2007, where he was principally involved in investing activities in Asian real estate. Mr. Tso also worked at the HSBC's Global Capital Markets — ABS & Structured Bonds Team from 2005 to 2006 where he was principally involved in the bank's securitisation business.

Mr. Kwok Yiu Tong Henry (“Mr. Kwok”)

Aged 64, is an independent non-executive Director. Mr. Kwok joined the Group in March 2022 as an independent non-executive Director. Mr. Kwok has over 40 years of experience in financial management field, mainly gained from reputable multi-national corporations. Mr. Kwok was the finance manager of Hyatt Regency Hong Kong from 1978 to 1989. Mr. Kwok was also the deputy CFO of Harvest International Hotel Ltd., Beijing Taiwan Hotel, and Shenzhen Century Hotel respectively from 1989 to 1998. Mr. Kwok is currently the CFO of a Shenzhen property developer. Mr. Kwok is familiar with the Hong Kong and China accounting standards as well as internal control of multi-national corporations.

Senior management

Mr. Leung Wing Lun (“Mr. Leung”)

Aged 39, has been the company secretary of the Group since April 2019 and is responsible for the secretarial matters of the Group. Mr. Leung has over 15 years of experience in providing professional corporate services and is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Leung worked in Hop Fung Group Holdings Limited (stock code: 2320) from July 2004 to August 2005. He served in the Inland Revenue Department as contract assistant taxation officer in Hong Kong from September 2005 to March 2006. From March 2006 to July 2011, Mr. Leung worked as tax consultant at Thomas Lee & Partners Limited. In November 2010, Mr. Leung founded Superior Alliance Group Company Limited which provides professional corporate services. He has been acting as the director of Superior Alliance Group Company Limited since its establishment. Mr. Leung obtained a bachelor's degree in business administration majoring in accounting from the City University of Hong Kong in 2004. Mr. Leung is currently the company secretary of Maike Tube Industry Holdings Limited (stock code: 1553) since April 2019 and has been the company secretary of Hang Yick Holdings Company Limited from May 2018 to March 2021.

11. EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, printing and translation costs, registration fees, legal and accountancy charges and other fees are estimated to be approximately HK\$0.20 million and will be payable by the Company.

12. LANGUAGE

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

13. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.msdsdn.com) from the date of this Circular up to and including the date of the EGM:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the “Letter from the Board” set out in this Circular;
- (iii) the “Letter from the Independent Board Committee” in this Circular;
- (iv) the “Letter from the Independent Financial Adviser” in this Circular;
- (v) the report from Confucius International CPA Limited on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this Circular;
- (vi) the written consent referred to paragraph headed “11. Experts and Consents” in this appendix;
- (vii) the annual reports of the Company for the years ended 31 December 2019, 2020 and 2021; and
- (viii) this Circular.

NOTICE OF EGM

Da Sen Holdings Group Limited **大森控股集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1580)

NOTICE OF THE EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Da Sen Holdings Group Limited (the “**Company**”) will be held at 3 p.m., on Friday, 10 June 2022 with the combination of a physical meeting at Room 2703, 27th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong and a virtual meeting online for the purpose of considering the following ordinary resolutions. Unless otherwise specified, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 20 May 2022 (the “**Circular**”) of which the notice convening the EGM forms part.

ORDINARY RESOLUTIONS

“THAT

- (A) for the purpose of this resolution, “Scheme” means the scheme of arrangement to be entered into between the Company and the Scheme Creditors of the Company pursuant to Sections 666 to 675 of the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) with, or subject to, any modification, addition or conditions approved or imposed by the High Court of Hong Kong, and the “Open Offer” means the proposed issue by way of an open offer of 584,640,000 shares (the “**Offer Shares**”) of HK\$0.04 each in the capital of the Company to the qualifying shareholders of the Company, on the basis of three (3) Offer Shares for every five (5) existing shares of the Company held subject to the fulfilment of the conditions and terms set out in the Circular (the Scheme together with the Open Offer, the “**Proposed Restructuring**”). The Proposed Restructuring is subject to the terms summarised in the Circular be and is hereby approved and the board of directors be and is hereby authorised generally to do such things or make such arrangements as it may in its absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Proposed Restructuring;

NOTICE OF EGM

- (B) any Directors be and are hereby authorised to sign or execute such documents and do all such acts and things in connection with the Proposed Restructuring and to make and agree to make such variations of the terms of the Proposed Restructuring as they may in their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.

By Order of the Board
Da Sen Holdings Group Limited
SUN Yongtao
*Non-Executive Chairman and
Non-Executive Director*

Hong Kong, 20 May 2022

As at the date of this announcement, the executive Directors are Mr. Chai Kaw Sing, Mr. Wong Ben and Mr. Zhang Ayang (duties suspended); the non-executive Director is Mr. Sun Yongtao; and the independent non-executive Directors are Ms. Lo Yuk Yee, Mr. Tso Siu Lun Alan and Mr. Kwok Yiu Tong Henry.

Notes:

1. The resolution stated in this notice to be proposed at the Extraordinary General Meeting (the “EGM”) will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the poll result will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. A member of the Company (the “Shareholder”) entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company’s share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, No. 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM 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 at any adjournment thereof if you so wish. In such event, the form of proxy shall be deemed to be revoked.
4. For determining the qualification as Shareholders to attend and vote at the EGM, the register of members of the Company will be closed as set out below:

Latest time to lodge transfer documents for registration	4: 30 p.m. on Monday, 6 June 2022
Closure of register of members	Tuesday, 7 June 2022 to Friday, 10 June 2022 (both dates inclusive)
Record Date	Friday, 10 June 2022

During the above closure period, no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, No. 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than the above-mentioned latest time.

NOTICE OF EGM

5. The EGM will be in the form of a hybrid meeting. In addition to the traditional physical attendance at the EGM, Shareholders have the option of attending, participating and voting in the EGM through online access by visiting the website at <http://meetings.computershare.com/MQMA9HR> (the “Online Platform”). Shareholders participating in the EGM using the Online Platform will also be counted towards the quorum and you will be able to cast your votes and submit questions relevant to the proposed resolutions through the Online Platform. The live broadcast option can also broaden the reach of the EGM to Shareholders who do not wish to attend physically due to concerns on attending large scale events under the current COVID-19 situation, or for other overseas Shareholders who are unable to attend in person.

Shareholders attending the EGM using the Online Platform are expected to have a reliable and stable internet connection that can support live streaming and be able to follow the EGM proceedings in order to cast the votes and submit questions online. If for any reasons the internet connection is lost or interrupted, it may affect the ability of the Shareholders to follow the EGM proceedings. Any missed contents as a result of connection issues arise from the Shareholders will not be repeated. Each set of Shareholder login details can be used on one electronic device (either smartphone, tablet device or computer) at a time only. If Shareholders experience any technical difficulties or require assistance while using the Online Platform, please contact the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (“**Computershare**”) at (852) 2862 8689 from 9:00 a.m. until the end of the EGM (Hong Kong time) on the date of the EGM. Please note that Shareholders’ votes on the proposed resolutions cannot be recorded at, or taken by, Computershare’s service hotline. In the event that Shareholders have any concerns or issues attending the physical EGM or using the Online Platform, they are encouraged appointing the Chairman of the EGM as your proxy to exercise your voting rights.

The Online Platform will be opened to registered Shareholders (the “**Registered Shareholders**”) and non-registered Shareholders (the “**Non-registered Shareholders**”) (see below for login details and arrangements) to log in approximately 30 minutes prior to the commencement of the EGM and can be accessed from any location with connection to the internet with a smartphone, tablet device or computer.

Login details for Registered Shareholders

For details regarding the arrangements of the EGM, including login details to access the Online Platform and online voting, an invitation letter will be dispatched together with the Company’s notification letter to Registered Shareholders on 20 May 2022.

Login details for Non-registered Shareholders

Non-registered Shareholders who wish to attend and participate in the EGM using the Online Platform should liaise with your bank(s), broker(s), custodian(s), nominee(s) or HKSCC Nominees Limited through which your shares are held (collectively, the “**Intermediaries**”) and provide your email addresses to your Intermediaries. Details regarding the arrangements of the EGM, including login details to access the Online Platform and online voting, will be sent by Computershare to the email addresses provided by the Non-registered Shareholders.

6. Although Shareholders are welcome to attend the EGM in person if they so wish, the Company strongly recommends Shareholders to attend the EGM via online platform in view of the current COVID-19 situation. If the venue of the EGM is closed in response to the COVID-19 outbreak, the EGM will continue to be held via online platform.
7. Shareholders who wish to attend the EGM and exercise their voting rights can be achieved in one of the following ways:
- (1) attend the EGM in person and vote via smartphones or designated mobile devices at the EGM venue; or
 - (2) attend the EGM via online platform which enables live streaming and interactive platform for Q&A and vote online; or
 - (3) appoint chairman of the EGM or other persons as your proxy to vote on your behalf. Your proxy’s authority and instruction will be revoked if you attend and vote in person or via online platform at the EGM.
8. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.