



(formerly known as China LotSynergy Holdings Limited 華彩控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1371)

Executive Directors:

Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. LI Zi Kui
Ms. ZHU Xinxin

Registered Office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

Independent Non-executive Directors:

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

*Head office and principal place
of business:*

Unit 3308, 33rd Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

14 April 2021

To the Shareholders

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS
(II) PROPOSED PLACING OF NEW SHARES UNDER SPECIFIC MANDATE
(III) PROPOSED CONNECTED TRANSACTION IN RELATION TO THE SET-OFF
(IV) APPLICATION FOR WHITEWASH WAIVER
(V) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
AND
(VI) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Rights Issue, the Placing, the Set-Off, the Whitewash Waiver and the Increase in Authorised Share Capital; (ii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue, the Placing, the Set-Off and the Whitewash Waiver; (iii) a letter of advice from Gram Capital to the

Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Set-Off and the Whitewash Waiver; (iv) other information required under the Listing Rules and the Takeovers Code; and (v) the notice of the SGM.

PROPOSED RIGHTS ISSUE

The Board proposed to conduct the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held as at 5:00 p.m. on the Record Date. Set out below are the details of the Rights Issue statistics.

Rights Issue Statistics

Basis of the Rights Issue:	Two (2) Rights Shares for every one (1) existing Share held by the Shareholders as at 5:00 p.m. on the Record Date on a non-underwritten basis
Subscription Price:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	1,029,480,733 Shares
Maximum number of Rights Shares:	2,058,961,466 Rights Shares (assuming there is no change in the total number of issued Shares up to and including the Record Date), representing (i) 200.00% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 66.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion; or 2,207,541,466 Rights Shares (assuming there is no change in the total number of issued Shares up to and including the Record Date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date), representing (i) approximately 214.43% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 66.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.
Number of Rights Shares being undertaken by Ms. Lau:	800,000,000 Rights Shares
Gross proceeds to be raised from the Rights Issue:	From approximately HK\$80.00 million to approximately HK\$220.75 million

Save for the outstanding New Option 1 Bonds in the principal amount of HK\$148,580,000 which are convertible into 74,290,000 Shares upon full conversion at the current conversion price of HK\$2.00, the Company has no other outstanding warrants, options or convertible securities in issue or other similar rights which confer any right to convert or exchange into or subscribe for Shares as at the Latest Practicable Date.

The Subscription Price

The Subscription Price is HK\$0.10 per Rights Share, payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares and, where applicable, application for the excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 10.71% to the closing price of HK\$0.112 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 30.07% to the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on 29 January 2021, being the date on which the Subscription Price is fixed;
- (iii) a discount of approximately 30.07% to the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 32.89% to the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.149;
- (v) a discount of approximately 40.12% to the average closing price per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.167;
- (vi) a discount of approximately 43.18% to the average closing price per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.176;
- (vii) a discount of approximately 12.28% to the theoretical ex-entitlement price of approximately HK\$0.114 per Share based on the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares;
- (viii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 23.93% represented by the theoretical diluted price of approximately HK\$0.119 to the benchmarked price of approximately HK\$0.156 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price

on the Last Trading Day of HK\$0.143 per Share and the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days prior to the date on which the Subscription Price is fixed of HK\$0.156 per Share);

- (ix) a discount of approximately 56.33% to the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2019 of approximately HK\$0.229 per Share calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$235,583,000 as at 31 December 2019 as set out in the annual report of the Company for the year ended 31 December 2019 and 1,029,480,733 Shares in issue as at the Latest Practicable Date;
- (x) a discount of approximately 37.11% to the unaudited consolidated net asset value per Share attributable to the Shareholders as at 30 June 2020 of approximately HK\$0.159 per Share calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$164,183,000 as at 30 June 2020 as set out in the 2020 Interim Report and 1,029,480,733 Shares in issue as at the Latest Practicable Date; and
- (xi) a premium of approximately HK\$0.188 over the audited consolidated net liability value per Share attributable to the Shareholders as at 31 December 2020 of approximately HK\$0.088 per Share calculated based on the audited consolidated net liabilities of the Group attributable to the Shareholders of approximately HK\$91,058,000 as at 31 December 2020 as set out in the 2020 Annual Results Announcement and 1,029,480,733 Shares in issue as at the Latest Practicable Date.

Knight Frank Petty Limited (the independent valuer in respect of the property of the Group in Hong Kong) and Prudential Surveyors (Hong Kong) Limited (the independent valuer in respect of the property of the Group in the PRC) confirm that the valuations of the properties of the Group in Hong Kong and the PRC as at 31 December 2020 are the same as those as at 28 February 2021. As a result, no further adjustment is required to be made on the audited consolidated net liabilities of the Group attributable to the Shareholders in light of the valuations of the properties of the Group in Hong Kong and the PRC as at 28 February 2021. Please refer to Appendices III and IV to this circular for the valuation reports of the properties of the Group in Hong Kong and the PRC as at 28 February 2021, respectively.

Each Rights Share has a par value of HK\$0.025.

The aggregate par value of the Rights Shares will, depending on the level of subscription of the Rights Shares, range from HK\$20,000,000 to HK\$55,188,536.65.

Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly.

The legal adviser of the Company as to Bermuda law has confirmed that there are no applicable statutory requirements under the Companies Act 1981 of Bermuda regarding minimum subscription levels in respect of the Rights Issue.

Overall fundraising plan of the Company

In addition to the Rights Issue, the Company also proposes to conduct the Placing to place the Untaken Shares on a best effort basis. Further details of the Placing are disclosed in the section headed “Placing of New Shares under Specific Mandate” of this circular.

In order to facilitate the issue of the Rights Shares and Placing Shares under the Rights Issue and the Placing, the Company proposes to increase the authorised share capital from HK\$40,000,000 to HK\$125,000,000. Further details of the Increase in Authorised Share Capital are disclosed in the section headed “Proposed Increase in Authorised Share Capital” of this circular.

The Rights Issue and the Placing are part and parcel of the overall fundraising plan of the Company. The terms of the Rights Issue and the Placing, including the Subscription Price and the Placing Price, were determined by the Board with reference to (i) the prevailing market conditions for the Group’s principal business; (ii) the prevailing market prices of the Shares; (iii) the current financial position of the Group; and (iv) the funding and liquidity requirements of the Group as detailed in the section headed “Reasons for the Rights Issue, the Placing and the Set-Off and the Use of proceeds” in this circular.

In determining the Subscription Price, the Board has considered in particular (i) the recent and general downward trend of the market price of the Shares in January 2021 (from the highest of approximately HK\$0.217 per Share to the lowest of approximately HK\$0.139 prior to the Last Trading Day) and the low trading volume and infrequent trading of the Shares; (ii) the loss-making position of the Group for the recent years; (iii) the net current liabilities of the Group as at 31 December 2020 and 31 December 2019; (iv) the adverse effect of the COVID-19 pandemic on the Chinese lottery market and policy adjustments of the Chinese government which resulted in the deterioration of the business performance of the Group; and (v) the pressing financial needs of the Group in the near-term. The Chinese lottery market was severely hard-hit in 2020 by (i) the continuing prohibition of online and telephone lottery tickets sales; (ii) the suspension of video lottery sales in 2020; (iii) the implementation of policies by the PRC government which tightened the regulation of high frequency games and single match games and emphasised public welfare and social responsibility of the State’s lottery; and (iv) the outbreak of COVID-19 which, among others, resulted in global football and basketball tournaments being suspended, thereby heavily affecting the performance of the Chinese sports lottery market. The Chinese lottery market experienced the longest market closure in its recent history, with a 49-day suspension of all operation of physical lottery stores from the end of January 2020 and lottery sales in China plummeted by approximately 21% year-on-year in 2020, thereby affecting the business performance of the Group. Although the Subscription Price represents a significant discount to the benchmarked price of approximately HK\$0.156 per Share (as defined under Rule 7.27B of the Listing Rules) and net asset value of the Company per Share as at 30 June 2020, the Directors (including the independent nonexecutive Directors, whose opinion is set forth in the “Letter from the Independent Board

Committee” in this circular after taking into account the advice of Gram Capital) consider that, in view of the prevailing market conditions and other factors as described above, setting the Subscription Price at such a significant discount would help attract the Qualifying Shareholders to participate in the Rights Issue and invest in the Company so as to enable the Company to raise the funds required. Therefore, the Directors (excluding Ms. Chan, who abstained from voting but including members of the Independent Board Committee, whose opinion is set forth in the “Letter from the Independent Board Committee” in this circular after taking into account the advice of Gram Capital) consider that the terms of the Rights Issue, including the Subscription Price, are fair, reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Conditions of the Rights Issue

The Rights Issue is conditional on each of the following conditions being fulfilled:

- (i) the grant by the Executive of the Whitewash Waiver on or before the Posting Date and such Whitewash Waiver not having been subsequently revoked or withdrawn;
- (ii) the passing by more than 50% of the votes cast by the Independent Shareholders by way of poll of all necessary resolutions to be proposed at the SGM for the transactions contemplated under the Rights Issue to be effective in compliance with the Listing Rules and the Takeovers Code, including but not limited to approving, confirming and/or ratifying (as the case may be):
 - (a) the Rights Issue, including the allotment and issue of the Rights Shares in their nil- paid and fully paid forms; and
 - (b) the Set-Off;
- (iii) the passing by at least 75% of the votes that are cast by the Independent Shareholders by way of poll of all necessary resolutions to be proposed at the SGM for the Whitewash Waiver;
- (iv) the passing by the Shareholders of all necessary resolutions to be proposed at the SGM for the Increase in Authorised Share Capital;
- (v) the issue by the Stock Exchange of a certificate authorising the registration of, and the registration with the Companies Registry, respectively, of one copy of each of the Prospectus Documents not later than the Posting Date and otherwise in compliance with the Listing Rules and the Companies (WUMP) Ordinance;
- (vi) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus bearing a “For Information Only” stamp to the Non-Qualifying Shareholders, if any, for information purpose only on or before the Posting Date;

- (vii) the grant by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully paid forms (subject to customary conditions) and such approval not having been withdrawn or revoked;
- (viii) the compliance by Ms. Lau with her obligations under the Irrevocable Undertaking prior to the Latest Time for Acceptance and the Irrevocable Undertaking remaining in full force and effect; and
- (ix) the compliance with any other mandatory requirements under the applicable laws and regulations of Hong Kong and Bermuda.

The conditions are incapable of being waived. If any of the above conditions is not satisfied at or prior to the respective time stipulated therein or 4:00 p.m. on the Rights Issue Settlement Date (as the case may be), the Rights Issue will not proceed.

As at the Latest Practicable Date, none of conditions (i) to (viii) above has been fulfilled, and in respect of condition (ix) above, the Directors were not aware of any other mandatory requirements under the applicable laws and regulations of Hong Kong and Bermuda in relation to the Rights Issue which have to be complied with.

Status of the Rights Shares

The Rights Shares, when issued and fully paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank *pari passu* in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of allotment of the Rights Shares.

Qualifying Shareholders and Non-Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and a Qualifying Shareholder.

In order for the transferees to be registered as members of the Company by 5:00 p.m. on the Record Date, all transfers of Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by 4:30 p.m. on Thursday, 13 May 2021.

Basis of provisional allotment

Under the Rights Issue, the basis of the provisional allotment shall be two (2) Rights Shares (in nil-paid form) for every one (1) existing Share held by the Qualifying Shareholders as at 5:00 p.m. on the Record Date.

Fractional entitlements to the Rights Shares

On the basis of the provisional allotment of two (2) Rights Shares for every one (1) existing Share held on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue. No odd lot matching services will be provided by the Company in respect of the Rights Shares.

Application for all or any part of a Qualifying Shareholder's provisional allotment of Rights Shares should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar at or before the Latest Time for Acceptance (i.e. 4:00 p.m. on Friday, 4 June 2021).

Rights of Overseas Shareholders

As at the Latest Practicable Date, based on the register of members of the Company, the Overseas Shareholders were as follows:

Jurisdiction of the registered address of the Overseas Shareholders	Number of Overseas Shareholders	Number of Shares held
Australia	6	3,591
PRC	2	7,593,164
United Kingdom	5	1,265
India	2	340
Singapore	1,288	703,238

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

The Company has, in compliance with Rule 13.36(2)(a) of the Listing Rules, made reasonable enquiries of the legal requirements regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. Based on the legal advice from the legal advisers as to the laws of Australia, the PRC, the United Kingdom, India and Singapore and having considered the circumstances, the Directors are of the view that it is necessary or expedient not to offer the Rights Shares (in their nil-paid and fully paid forms) to Overseas Shareholders with registered addresses in PRC due to the time and costs involved in the registration or filing of the Prospectus Documents and/or approval required by the relevant authorities in the PRC and/or additional steps the Company and/or Overseas Shareholders need to take to comply with the local legal requirements and/or other requirements to be satisfied in order to comply with relevant local legal or regulatory requirements in the PRC.

Thus, for the purposes of the Rights Issue, the Non-Qualifying Shareholders are (i) any Shareholder(s) whose name(s) appeared in the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in the PRC and (ii) any Shareholder(s) or Beneficial Owner(s) at that time who is/are otherwise

known by the Company to be residents in the PRC (and, as applicable and to the extent of any such Beneficial Owner's interests, the Shareholder(s) in whose name(s) such Beneficial Owner's Shares are registered).

The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send PALs or EAFs to them. The Non-Qualifying Shareholders will not be entitled to any provisional allotment under the Rights Issue. The relevant Rights Shares which would otherwise have been available to the Non-Qualifying Shareholders will form the Rights Shares available for excess applications.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, had they been Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the Rights Shares in their nil-paid form commence and before dealings in the Rights Shares in their nil-paid form end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid to the Non-Qualifying Shareholders pro rata to their shareholdings held on the Record Date. In light of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlements of the Non-Qualifying Shareholders, and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by renounees and transferees of nil-paid Rights Shares, will be made available for excess applications by the Qualifying Shareholders under the EAF(s).

Overseas Shareholders should note that they may or may not be entitled to participate in the Rights Issue, subject to the results of the enquiries to be made by the Company. The Company reserves the right to treat as invalid any acceptances of, or applications for, the Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their own professional advisers.

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to, by way of excess application, apply for the excess Rights Shares, which comprise (i) any unsold entitlements to the Rights Shares of the Non-Qualifying Shareholders; and (ii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renounees or transferees of nil-paid Rights Shares.

Applications for the excess Rights Shares can be made by Qualifying Shareholders by completing an EAF and lodging the same with a separate remittance for the full amount payable for the excess Rights Shares being applied for, with the Registrar.

The Directors will allocate any excess Rights Shares (including where the aggregate number of Rights Shares available for excess application is less than the aggregate number of excess Rights Shares applied for through EAFs) at their discretion on a fair and equitable basis in accordance with the principle that the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for them on a pro-rata basis with reference to the

number of excess Rights Shares applied for, but no reference will be made to the Rights Shares subscribed through applications by PALs and no preference will be given to topping- up odd lot holdings to whole board lot holdings.

If the aggregate number of Rights Shares available for excess application is greater than the aggregate number of excess Rights Shares applied for through EAFs, the Directors will allocate in full to each Qualifying Shareholder the number of excess Rights Shares applied for under the EAFs.

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

Investors with their Shares held by a nominee (or which are held in CCASS) should note that the Directors will regard the nominee (including HKSCC Nominees Limited) 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 (or which are held in CCASS) should note that the above arrangement for allocation of excess Rights Shares will not be extended to them individually. Beneficial owners with their Shares held by a nominee (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to 4:30 p.m. on Thursday, 13 May 2021. If so, they must lodge all necessary documents with the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for completion of the relevant registration by 4:30 p.m. on Thursday, 13 May 2021. The register of members of the Company will be closed from Friday, 14 May 2021 to Thursday, 20 May 2021 (both days inclusive).

Share certificates and refund cheques for the Rights Shares

Subject to fulfilment of the conditions, and the proceeding, of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted by Friday, 11 June 2021 to those entitled to them at their registered addresses by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be despatched on or before Friday, 11 June 2021 to the applicants at their registered addresses by ordinary post at their own risk.

Application for listing and dealing arrangements of the Rights Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy and other applicable fees and charges in Hong Kong.

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stock brokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising their rights in, disposing of or dealing in the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding the Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of any person resulting from the purchase, holding or disposal of, or dealing in, the Rights Share in both their nil-paid and fully-paid forms.

THE IRREVOCABLE UNDERTAKING BY MS. LAU

As at the Latest Practicable Date, Ms. Lau was the beneficial owner of a total of 91,509,437 Shares, representing approximately 8.89% of the total number of issued Shares.

Ms. Lau gave the Irrevocable Undertaking in favour of the Company in connection with the Rights Issue. Pursuant to the Irrevocable Undertaking, Ms. Lau has irrevocably undertaken to the Company that, among other things, (i) subject to the Company despatching the Prospectus Documents to the Qualifying Shareholders and the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not been revoked or withdrawn, she shall accept and pay for, or procure the acceptance and payment for, all the Entitlement Shares provisionally allotted to her; (ii) she shall remain to be the beneficial owner of 91,509,437 Shares on the Record Date; and (iii) she shall not, and shall procure her nominees not to, acquire any further Shares on or before the Record Date.

In addition, Ms. Lau has irrevocably undertaken to the Company to, among other things:

- (i) promptly (and in any event prior to the Posting Date) apply to the Executive for the Whitewash Waiver; and

- (ii) subject to the Company despatching the Prospectus Documents to the Qualifying Shareholders and the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not been revoked or withdrawn, she shall, at or before the Latest Time for Acceptance, apply and pay for, or procure the application and payment for, no less than 616,981,126 excess Rights Shares, which represents the difference between (1) the Undertaken Shares; and (2) all Entitlement Shares provisionally allotted to her, and no more than such number of excess Rights Shares which represents the difference between (1) the maximum number of Rights Shares available for subscription under the Rights Issue; and (2) all Entitlement Shares provisionally allotted to her.

Assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date, the maximum number of excess Rights Shares which Ms. Lau may apply for shall be 1,875,942,592 Rights Shares.

Assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date, the maximum number of excess Rights Shares which Ms. Lau may apply for shall be 2,024,522,592 Rights Shares.

Save for Ms. Lau, no Shareholder has undertaken with the Company to take up his/her/its provisional allotment in full or in part in connection with the Rights Issue.

PLACING OF NEW SHARES UNDER SPECIFIC MANDATE

On 16 February 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, places to subscribe for the Placing Shares (i.e. the Undertaken Shares during the Rights Issue) at the Placing Price of HK\$0.10 per Placing Share on the terms and subject to the conditions set out in the Placing Agreement. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue whether through the PAL(s) or EAF(s), the Placing will not proceed.

Placing Agreement

The principal terms of the Placing Agreement are summarised below:

Placing Agent : Cornerstone Securities Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.

The Placing Agent confirms that it and its ultimate beneficial owner(s) are Independent Third Parties and independent from, and not acting in concert with, Ms. Lau.

- Placing commission : 1.0% of the gross proceeds from the subscription of the Placing Shares actually placed by the Placing Agent under the Placing Agreement.
- Placing Period : The Placing Period shall commence on Tuesday, 8 June 2021, and end on the Placing End Date (i.e. 4:00 p.m. on Wednesday, 9 June 2021 under the expected timetable) or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Placing.
- Placees : the Placing Agent shall use its reasonable endeavours to ensure that (i) the placees procured by it (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties and independent from, and not acting in concert with, Ms. Lau; and (ii) no placee shall become a substantial Shareholder and any party acting in concert with Ms. Lau immediately following the Placing. As at the Latest Practicable Date, the Placing Agent has identified certain potential placees who are interested in subscribing for the Placing Shares.

Placing Shares

The number of Placing Shares shall be equivalent to the number of Untaken Shares, being the difference between (i) the total number of Rights Shares available for subscription as at the Record Date; and (ii) the total number of Rights Shares taken up by Qualifying Shareholders whether under the PAL(s) or EAF(s).

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date; and (ii) no Qualifying Shareholder (other than Ms. Lau, who subscribes for the Undertaken Shares pursuant to the Irrevocable Undertaking) subscribes for any Rights Shares, the maximum number of Placing Shares will be 1,258,961,466 Shares, representing (1) approximately 122.29% of the total number of existing Shares in issue; and (2) approximately 40.76% of the total number of issued Shares as enlarged by the allotment and issuance of the Rights Shares and the Placing Shares.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date (other than the full exercise of conversion rights under the New Option 1 Bonds on or before the Record Date); and (ii) no Qualifying Shareholder (other than Ms. Lau, who subscribes for the Undertaken Shares pursuant to the Irrevocable Undertaking) subscribes for any Rights Shares, the maximum number of Placing Shares will be 1,407,541,466 Shares, representing (1) approximately 136.72% of the total number of existing Shares in issue; and (2) approximately 42.50% of the total number of issued Shares as enlarged by the allotment and issuance of the Shares upon full conversion of the New Option 1 Bonds, the Rights Shares and the Placing Shares.

Placing Price

For the avoidance of doubt, the Placing will proceed only if the Rights Shares are not fully subscribed for and validly taken up. The Placing Price of HK\$0.10 per Placing Share, which is the same as the Subscription Price, represents:

- (i) a discount of approximately 10.71% to the closing price of HK\$0.112 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 30.07% to the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on 29 January 2021, being the date on which the Subscription Price is fixed;
- (iii) a discount of approximately 30.07% to the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 32.89% to the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.149;
- (v) a discount of approximately 40.12% to the average closing price per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.167;
- (vi) a discount of approximately 43.18% to the average closing price per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.176;
- (vii) a discount of approximately 12.28% to the theoretical ex-entitlement price of approximately HK\$0.114 per Share based on the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares and the Placing Shares;
- (viii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 23.93% represented by the theoretical diluted price of approximately HK\$0.119 to the benchmarked price of approximately HK\$0.156 per Share (as defined under Rule 7.27B of the Listing Rules);
- (ix) a discount of approximately 56.33% to the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2019 of approximately HK\$0.229 per Share calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$235,583,000 as at 31 December 2019 as set out in the annual report of the Company for the year ended 31 December 2019 and 1,029,480,733 Shares in issue as at the Latest Practicable Date;
- (x) a discount of approximately 37.11% to the unaudited consolidated net asset value per Share attributable to the Shareholders as at 30 June 2020 of approximately HK\$0.159 per Share calculated based on the unaudited consolidated net assets of the Group

attributable to the Shareholders of approximately HK\$164,183,000 as at 30 June 2020 as set out in the 2020 Interim Report and 1,029,480,733 Shares in issue as at the Latest Practicable Date; and

- (xi) a premium of approximately HK\$0.188 over the audited consolidated net liability value per Share attributable to the Shareholders as at 31 December 2020 of approximately HK\$0.088 per Share calculated based on the audited consolidated net liabilities of the Group attributable to the Shareholders of approximately HK\$91,058,000 as at 31 December 2020 as set out in the 2020 Annual Results Announcement and 1,029,480,733 Shares in issue as at the Latest Practicable Date.

Knight Frank Petty Limited (the independent valuer in respect of the property of the Group in Hong Kong) and Prudential Surveyors (Hong Kong) Limited (the independent valuer in respect of the property of the Group in the PRC) confirm that the valuations of the properties of the Group in Hong Kong and the PRC as at 31 December 2020 are the same as those as at 28 February 2021. As a result, no further adjustment is required to be made on the audited consolidated net liabilities of the Group attributable to the Shareholders in light of the valuations of the properties of the Group in Hong Kong and the PRC as at 28 February 2021. Please refer to Appendices III and IV to this circular for the valuation reports of the properties of the Group in Hong Kong and the PRC as at 28 February 2021, respectively.

Each Placing Share has a par value of HK\$0.025.

The aggregate par value of the maximum number of Placing Shares will be HK\$35,188,536.65.

As stated above, the Rights Issue and the Placing are part and parcel of the overall fundraising plan of the Company. The terms of the Placing Agreement, including the Placing Price and the placing commission, were determined after arm's length negotiation between the Placing Agent and the Company with reference to (i) the prevailing market conditions for the Group's lottery business in China amid the COVID-19 pandemic; (ii) the prevailing market prices of the Shares; (iii) the current financial position of the Group; (iv) the funding and liquidity requirements of the Group as detailed in the section headed "Reasons for the Rights Issue, the Placing and the Set-Off and the Use of proceeds" in this circular; (v) the Subscription Price, the details of which are set out in the section headed "Overall fundraising plan of the Company" in this letter; and (vi) the attractiveness to invest in the Company from the perspective of potential investors.

In particular, the Directors considered that priority would be given to the Qualifying Shareholders to subscribe for the Rights Shares from their provisional allotments and excess applications under the Rights Issue. Should the Qualifying Shareholders (except for Ms. Lau) not participate in the Rights Issue and there remains any Untaken Shares, the Placing provides an equal opportunity for potential investors to invest in the Company so as to enable the Company to raise sufficient funds. The Directors are also of the view that if the Placing Price is set higher than the Subscription Price, it would adversely affect the results of the Placing as investors could otherwise acquire the Shares in the open market before the Record Date and participate in the Rights Issue at the Subscription Price. Therefore, although the Placing Price represents a significant discount to the benchmarked price of approximately HK\$0.156 per

Share (as defined under Rule 7.27B of the Listing Rules) and net asset value of the Company per Share as at 30 June 2020, having balanced the interests of the Company, the Shareholders and investors who would like to participate in the Group's future development, the Directors consider that the terms of the Placing, including the Placing Price and the placing commission, are on normal commercial terms, fair and reasonable and the Placing is in the interest of the Company and the Shareholders as a whole.

Status of the Placing Shares

The Placing Shares, when issued and fully paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank pari passu in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of issue of the Placing Shares.

Conditions of the Placing

The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon the following conditions being fulfilled:

- (i) the passing by the Shareholders of all necessary resolutions to be proposed at the SGM for the transactions contemplated under the Placing Agreement (including the Specific Mandate);
- (ii) the grant by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Placing Shares (subject to customary conditions) and such approval not having been withdrawn or revoked; and
- (iii) the Rights Issue becoming unconditional.

None of the above conditions of the Placing is capable of being waived in whole or in part by the Placing Agent or the Company. As at the Latest Practicable Date, none of the conditions above has been fulfilled.

The timetable of the Placing is driven by the timetable of the Rights Issue. Under the terms of the Placing Agreement, the Placing Period shall commence on Tuesday, 8 June 2021, being the second Business Day following the day on which the Latest Time for Acceptance falls, or such other date as the Company may announce. The Placing Period shall end on Wednesday, 9 June 2021, being the third Business Day following the day on which the Latest Time for Acceptance, or such other date as the Company may announce.

The long stop date for the fulfilment of conditions of the Placing Agreement shall be 4:00 p.m. on Thursday, 10 June 2021 (being the next Business Day after the Placing End Date) or such later date as may be announced by the Company. The Company shall use its reasonable endeavours to procure the fulfilment of the conditions and if the said conditions are not fulfilled on or before the Placing Long Stop Date, the Placing Agreement will lapse and

become null and void and the Company and the Placing Agent shall be released from all obligations under the Placing Agreement, save the liabilities for any antecedent breaches thereof.

If all the Rights Shares are already fully taken up in the Rights Issue whether through valid applications by PAL(s) or EAF(s), the Placing will not proceed.

Completion of the Placing

Subject to the fulfilment of conditions of the Placing as set out in the section headed “Placing of New Shares under Specific Mandate — Conditions of the Placing” of this circular, the completion of the Placing shall take place on the next business day after the Placing End Date (or such later date as the Company may announce).

In the event any of the conditions of the Placing (other than condition (i)) is not satisfied on or before the expiry of the Specific Mandate (i.e. three months from the date of the SGM), the Company will re-comply with the relevant Listing Rules requirements (including obtaining shareholders’ approval of the Specific Mandate).

CONNECTED TRANSACTION IN RELATION TO THE SET-OFF

The Set-Off

Pursuant to the Amended Loan Agreement, Ms. Lau had advanced to the Borrower the Shareholder’s Loan in the principal amount of HK\$50,000,000. The Shareholder’s Loan was used for repayment of instalment payments under a mortgage loan and payment of office expenses, including salaries of the Group’s staff for the period from January 2020 to October 2020. As at the Latest Practicable Date, the entire principal amount of the Shareholder’s Loan remained outstanding. The Shareholder’s Loan is unsecured, bearing an interest of 9.5% per annum and will fall due on 20 January 2022.

On 29 January 2021, the Company, the Borrower and Ms. Lau entered into the Set-Off Deed, pursuant to which the parties have agreed to restructure the Shareholder’s Loan by offsetting the outstanding balance of the Shareholder’s Loan as at the Rights Issue Settlement Date on a dollar-to-dollar basis against an equivalent amount of the aggregated Subscription Price of (i) all Entitlement Shares; and (ii) the Relevant Excess Shares allocated to Ms. Lau. The Set-Off will be conditional upon the Rights Issue becoming unconditional pursuant to the terms and conditions as set out in the Prospectus.

The exact Set-Off Amount would depend on the number of Entitlement Shares to be taken up by Ms. Lau and the number of Relevant Excess Shares to be applied for and allocated to Ms. Lau.

Subject to (i) the compliance of the set-off arrangement under the Set-Off Deed and (ii) the entire principal amount of the Shareholder’s Loan being offset against the Subscription Price of the relevant Rights Shares pursuant to the terms and conditions of the Set-Off Deed, Ms. Lau shall release and discharge the Borrower from any and all obligations, liabilities,

losses, damages, demands, claims, suits or actions of whatsoever nature arising from or in any way relating to the Loan and/or the Amended Loan Agreement with effect from the Rights Issue Completion.

If there remains any balance of the Shareholder's Loan after the Set-Off, the Borrower shall repay such remaining balance and pay all unpaid interests accrued and to be accrued on the Shareholder's Loan pursuant to the terms of the Amended Loan Agreement.

Assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion:

- (i) in the event that Ms. Lau validly applies for, and is allocated, all Entitlement Shares and 316,981,126 excess Rights Shares or more, the Set-Off Amount will reach the maximum of HK\$50,000,000; and
- (ii) in the circumstances that (1) all Shareholders are Qualifying Shareholders and (2) all Qualifying Shareholders take up their respective provisional allotments under the Rights Issue, the Placing, the Set-Off Amount will be at the minimum of HK\$18,301,887.40.

Information on the Group and Ms. Lau

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games and KENO-type lottery to new media lottery, and the Group intends to continue to explore and develop other potential businesses, including natural and healthy food business and trading business.

Ms. Lau is an entrepreneur, a substantial Shareholder, and the founder of the Group. She was the chairperson of the Board, an executive Director and the chief executive officer of the Company until September 2017. Ms. Lau has over 30 years of solid experience in business planning and management, mergers and acquisitions, and financial and human resources management.

Reasons for and Benefits of the Set-Off

The Directors (excluding Ms. Chan, but including members of the Independent Board Committee whose opinion is set forth in the "Letter from the Independent Board Committee" in this circular after taking into account the advice of Gram Capital) are of the view that although the amount of subscription monies under the Rights Issue being subject to the Set-Off might otherwise be available to the Group for other corporate purposes, the Set-Off will enable the Group not only to repay, in full or in part, the Shareholder's Loan before maturity and reduce its gearing level without cash outflow, but also to save on the interest payment that would be accrued upon the outstanding Shareholder's Loan from the Rights Issue Settlement Date to the maturity date. Accordingly, such Directors consider the Set-Off to be fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

REASONS FOR THE RIGHTS ISSUE, THE PLACING AND THE SET-OFF AND THE USE OF PROCEEDS

As disclosed in the section headed “Information on the Group and Ms. Lau” of this circular, the Group is engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in China’s lottery market.

The Group has recorded net loss since 2015, and as disclosed in the 2020 Interim Report, for the six months ended 30 June 2020, the Group recorded an unaudited net loss of approximately HK\$75.20 million. Such loss was mainly due to the decrease in sales of lottery terminals and related equipment of approximately HK\$22.26 million and a decrease of approximately HK\$15.10 million in revenue from lease income from operating leases, which was as a result of the ongoing novel coronavirus pneumonia 2019 (COVID-19) pandemic.

In addition, as disclosed in the 2020 Interim Report, as at 30 June 2020, the Company recorded net current liabilities of approximately HK\$211.52 million. However, as at 30 June 2020, the Company had cash and bank balances of only HK\$53.91 million.

As disclosed in the 2020 Annual Results Announcement, the Group continued to record audited net loss of approximately HK\$623.92 million and audited net liabilities attributable to owners of the Company of approximately HK\$91.06 million for FY2020. HLB Hodgson Impey Cheng Limited, the auditors of the Company, noted in its independent auditors’ reports for FY2019 and FY2020 that the consolidated financial statements of the Group indicated the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern. Further details are set out in Appendix I to this circular.

As at the Latest Practicable Date, the Group’s current liabilities mainly included (i) the unsecured Shareholder’s Loan with a total outstanding principal amount of HK\$50,000,000; (ii) the New Option 1 Bonds in the aggregate principal amount of HK\$148,580,000 where the second instalment of repayment of approximately HK\$26.22 million will be due in May 2021 (or such other date(s) as the Company and the Bondholders may agree); and (iii) a bank loan with a total outstanding amount of HK\$201.50 million which will fall due on 30 June 2021. The Company’s cash and bank balance is insufficient for meeting its imminent cash flow demand in view of the aforementioned liabilities.

In light of the above, the Company intends to raise funds by way of the Rights Issue. Assuming a maximum of 2,207,541,466 Rights Shares and a minimum of 800,000,000 Rights Shares will be issued, the estimated gross proceeds of the Rights Issue will range from a maximum of approximately HK\$220.75 million to a minimum of approximately HK\$80.00 million. The estimated expenses in relation to the Rights Issue to be borne by the Company will amount to approximately HK\$6.50 million and the estimated net proceeds of the Rights Issue will range from a maximum of approximately HK\$214.25 million to a minimum of approximately HK\$73.50 million (assuming there is no change in the total number of issued Shares up to and including the Record Date and only Ms. Lau subscribes for the Undertaken Shares under the Irrevocable Undertaking). The net subscription price per Rights Share is expected to be a maximum of approximately HK\$0.097 and a minimum of approximately HK\$0.092.

In the event that the maximum net proceeds of approximately HK\$214.25 million is raised, (i) approximately HK\$90.00 million (or approximately 42.01% of the maximum net proceeds) will be used towards the second repayment of the New Option 1 Bonds in May 2021 and the final repayment in part of the New Option 1 Bonds in November 2021 (or such other date(s) as the Company and the Bondholders may agree); (ii) approximately HK\$30.00 million (or approximately 14.00% of the maximum net proceeds) will be used towards the partial repayment of an existing bank borrowing (including interests) borrowed by Champ Technology Limited, an indirectly wholly-owned subsidiary of the Group, which will fall due in June 2021; (iii) approximately HK\$50.00 million (or approximately 23.34% of the maximum net proceeds) will be used towards the Set-Off immediately upon the Rights Issue Settlement Date; and (iv) approximately HK\$44.25 million (or approximately 20.65% of the maximum net proceeds) will be used towards the general working capital of the Group, such as the payment of salaries and remuneration of the Group's staff, research and development expenses and cost of sales, within 2021, respectively. In the event that the minimum net proceeds of approximately HK\$73.50 million is raised, (i) approximately HK\$23.50 million (or 31.97% of the minimum net proceeds) will be used towards the repayment in part of the New Option 1 Bonds in May 2021 (or such other date(s) as the Company and the Bondholders may agree); and (ii) approximately HK\$50.00 million (or approximately 68.03% of the minimum net proceeds) will be used towards the Set-Off immediately upon the Rights Issue Settlement Date, respectively. Taking into account the financial resources available to the Group, including the estimated net proceeds from the Rights Issue and the Placing, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least twelve months from the date of this circular.

As disclosed below, the Company has analysed alternative fundraising means and considered the Rights Issue and the Placing to be the most commercially acceptable and suitable fundraising option which is in the interest of the Company and its shareholders as a whole. In the event of an undersubscription or non-completion of the Rights Issue and/or the Placing, the Company would have to reassess those alternative fundraising methods available to the Group, including obtaining debt financing (such as bank borrowings or by issuance of bonds) and other equity financing (such as placing of shares or convertible securities under general or specific mandate) from the substantial shareholder, the banks or other financial institutions or other independent third party investors, to finance the intended use of proceeds specified above, and/or to consider seeking refinancing of existing debt. Depending on the market condition and the business and financial condition of the Group at that time and the results of negotiations with the provider of the financing, the Group may or may not pursue a fundraising option on the same terms of the Rights Issue and Placing.

As at the Latest Practicable Date, the outstanding principal amount of the New Option 1 Bonds is HK\$148,580,000, which is convertible into 74,290,000 Shares upon full conversion at the current conversion price of HK\$2.00. Subject to any extension which the Company and the Bondholders may agree, part of the New Option 1 Bonds in the principal amount of approximately HK\$26,220,000 will be due in May 2021, and the remaining outstanding principal amount of HK\$122,360,000 will be payable on the New Option 1 Bonds Maturity Date, i.e. 7 November 2021. The New Option 1 Bonds carry an interest of 8.5% per annum which is payable in arrears on the New Option 1 Bonds Maturity Date.

Details of the aforesaid existing bank borrowing to be repaid by the Group (including the Borrower, the lender, the interest rate, maturity date and outstanding balance) are as follows:

Tranche	Borrower	Lender	Interest rate	Maturity date	Outstanding balance of principal amount as at the Latest Practicable Date (HK\$)
1	Champ Technology Limited	Industrial Bank Co. Ltd., Hong Kong Branch	3-month HIBOR+5%	30 June 2021	78,500,000
2	Champ Technology Limited	Industrial Bank Co. Ltd., Hong Kong Branch	1-month HIBOR+9%	30 June 2021	130,000,000

The Company has considered alternative fundraising means. As regards debt financing, the Company has approached five different financial institutions, most of which provided banking facilities proposals ranging from one to twenty years with an interest rate of HIBOR plus a fixed rate to refinance the Group's current liabilities, but the Company has found it challenging to obtain approval from such financial institutions. Given the current financial market conditions in Hong Kong, the Board is of the view that it would be difficult for the Group to obtain sufficient debt financing in a timely manner.

As regards equity financing, the Company has considered (i) a sole placement of new Shares or an issue of convertible bonds; and (ii) an open offer. The Board considers a rights issue that enables all Qualifying Shareholders to be able to invest in the future growth of the Company to be preferable to a sole placing of new shares or convertible bonds which would be limited to a number of investors only. In addition, a rights issue, as compared with an open offer, offers flexibility to the Shareholders to sell their entitled nil-paid rights if they do not wish to take up the entitlements.

The Rights Issue is an offer to existing Shareholders to participate in the enlargement of the capital base of the Company and enable the Shareholders to maintain their interests in the Company and continue to invest in the future growth of the Group, provided that the Shareholders participate in the Rights Issue. After considering (i) the benefits and cost of the alternative fundraising means; and (ii) the importance of the fundraising exercise to the Company to satisfy its pressing financial needs, the Directors consider that the Rights Issue, together with the Placing, are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

The Company had approached five brokerage companies (including the Placing Agent) to explore their interest in participating in the underwriting of the Rights Issue. None of such brokerage companies indicated their willingness, nor were they responsive, in participating in the underwriting of the Rights Issue mainly due to the lack of interest in the secondary fundraising activity, the recent downward trend of the market price and the low trading volume of the Shares, save and except for the Placing Agent which expressed interest in acting as a placing agent and on a best effort basis only.

As disclosed above, there are several impending repayment obligations which the Company is required to satisfy in the next six months. The Company had explored a range of fundraising options including both debt and equity financing but had encountered difficulty in securing a sufficient amount of funds for the various reasons set out above. As it has become critical for the Company to be able to raise funds as soon as possible to meet the aforementioned repayment obligations (including but not limited to the repayment of the New Option 1 Bonds in the principal amount of HK\$26,220,000 which will fall due in May 2021 and the repayment of an existing bank borrowing which will fall due on 30 June 2021), the Company has decided to conduct the Rights Issue on a non-underwritten basis and to conduct the Placing alongside the Rights Issue in order to implement its fundraising plan. The Rights Issue and Placing will enable the Group to secure funding if the level of subscription of the Rights Issue is low.

Should the Rights Shares not be subscribed for by the Qualifying Shareholders through their provisional allotments and excess applications, the Untaken Shares would be placed through the Placing Agent. Given (i) its funding needs; (ii) the priority that will be given to the Qualifying Shareholders to subscribe for the Rights Shares; and (iii) the unavailability of alternative fundraising means, the Company considers that it is reasonable to treat other potential investors fairly and equally and set the Placing Price at the Subscription Price so as to induce other investors to invest in the Company.

Having considered the above factors, including but not limited to the current financial position of the Group and the maturity dates of New Option 1 Bonds, and taking into account the benefits and cost of the alternative fundraising means, the Directors (excluding Ms. Chan but including members of the Independent Board Committee whose opinion is set forth in the “Letter from the Independent Board Committee” in this circular after taking into account the advice of Gram Capital) consider that the Rights Issue and the Placing will enable the Group to raise the necessary and sufficient funds in a timely manner to satisfy the Group’s short term financial needs and thus improve the current financial position of the Group. Therefore, the Rights Issue and the Placing are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders in respect of the Rights Issue and the Set-Off) as a whole.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST 12 MONTHS FROM THE LATEST PRACTICABLE DATE

Save for the amendments to certain terms and conditions of the New Option 1 Bonds on 28 April 2020 under the Third Supplemental Trust Deed in respect of, among other things, the maturity date and the repayment schedule of the New Option 1 Bonds, details of which were disclosed in the announcements of the Company dated 23 April 2020 and 28 April 2020 respectively, the Company had not carried out any equity fundraising activities in the 12 months immediately preceding the Latest Practicable Date.

EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the Rights Issue Completion assuming (1) there is no change in the issued share capital of the Company from the Latest Practicable Date and up to and including the Record Date; and (2) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date:

I. Assuming there is no change in the issued share capital of the Company

Shareholder	As at the Latest Practicable		Assuming full acceptance by all Qualifying Shareholders under the Rights Issue		Assuming (a) no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; and (b) all the excess Rights Shares are subscribed for by Ms. Lau		Immediately upon the Rights Issue Completion Assuming (a) no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; (b) Ms. Lau subscribes for the Undertaken Shares pursuant to the Irrevocable Undertaking; and (c) all the Undertaken Shares are placed to Independent Third Parties under the Placing		Assuming (a) no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; (b) Ms. Lau subscribes for the Undertaken Shares pursuant to the Irrevocable Undertaking; and (c) no Independent Third Parties take up the Undertaken Shares	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Ms. Lau ^(Note 1)	91,509,437	8.89	274,528,311	8.89	2,150,470,903	69.63	891,509,437	28.87	891,509,437	48.73
<i>Parties acting in concert with Ms. Lau</i>										
Hang Sing Overseas Limited ^(Note 2)	7,505,287	0.73	22,515,861	0.73	7,505,287	0.24	7,505,287	0.24	7,505,287	0.41
Strong Purpose Corporation ^(Note 3)	13,773,554	1.34	41,320,662	1.34	13,773,554	0.45	13,773,554	0.45	13,773,554	0.75
Glory Add Limited ^(Note 4)	51,249,259	4.98	153,747,777	4.98	51,249,259	1.66	51,249,259	1.66	51,249,259	2.80
Mr. Chan Shing ^(Note 5)	24,248,642	2.36	75,745,926	2.36	24,248,642	0.79	24,248,642	0.79	24,248,642	1.33
Ms. Chan ^(Note 6)	15,936,000	1.54	47,808,000	1.54	15,936,000	0.51	15,936,000	0.51	15,936,000	0.87
Sub-total of Ms. Lau and parties acting in concert with her	204,222,179	19.84	612,666,537	19.84	2,263,183,645	73.28	1,004,222,179	32.52	1,004,222,179	54.89
<i>Other Directors</i> ^(Note 7)										
Mr. Wu Jingwei ^(Note 8)	8,220,000	0.80	24,660,000	0.80	8,220,000	0.27	8,220,000	0.27	8,220,000	0.45
Mr. Li Zi Kui ^(Note 8)	2,800,000	0.27	8,400,000	0.27	2,800,000	0.09	2,800,000	0.09	2,800,000	0.15
Ms. Zhu Xinxin ^(Notes 8 and 9)	1,850,000	0.18	5,550,000	0.18	1,850,000	0.06	1,850,000	0.06	1,850,000	0.10
Mr. Huang Shenglan ^(Note 8)	110,000	0.01	330,000	0.01	110,000	0.00	110,000	0.00	110,000	0.01
Mr. Cui Shuming ^(Note 8)	200,000	0.02	600,000	0.02	200,000	0.01	200,000	0.01	200,000	0.01
Sub-total	13,180,000	1.28	39,540,000	1.28	13,180,000	0.43	13,180,000	0.43	13,180,000	0.72
Independent placees	—	—	—	—	—	—	1,258,961,466	40.76	—	—
Other public Shareholders	812,078,554	78.88	2,436,235,662	78.88	812,078,554	26.29	812,078,554	26.29	812,078,554	44.39
Total	1,029,480,733	100.00	3,088,442,199	100.00	3,088,442,199	100.00	3,088,442,199	100.00	1,829,480,733	100.00

II. Assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date

Shareholder	As at the Latest Practicable Date		Assuming full acceptance by all Qualifying Shareholders under the Rights Issue		Assuming (a) no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; and (b) all the excess Rights Shares were subscribed for by Ms. Lau		Immediately upon the Rights Issue Completion Assuming (a) no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; (b) Ms. Lau subscribes for the Undertaken Shares pursuant to the Irrevocable Undertaking; and (c) all the Untaken Shares were placed to Independent Third Parties under the Placing		Assuming (a) no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; (b) Ms. Lau subscribes for the Undertaken Shares pursuant to the Irrevocable Undertaking; and (c) no Independent Third Parties took up the Untaken Shares	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Ms. Lau ^(Note 1) <i>Parties acting in concert with Ms. Lau</i>	91,509,437	8.89	274,528,311	8.29	2,299,050,903	69.42	891,509,437	26.92	891,509,437	46.83
Hang Sing Overseas Limited ^(Note 2)	7,505,287	0.73	22,515,861	0.68	7,505,287	0.23	7,505,287	0.23	7,505,287	0.39
Strong Purpose Corporation ^(Note 3)	13,773,554	1.34	41,320,662	1.25	13,773,554	0.42	13,773,554	0.42	13,773,554	0.72
Glory Add Limited ^(Note 4)	51,249,259	4.98	153,747,777	4.64	51,249,259	1.55	51,249,259	1.55	51,249,259	2.69
Mr. Chan Shing ^(Note 5)	24,248,642	2.36	75,745,926	2.20	24,248,642	0.73	24,248,642	0.73	24,248,642	1.27
Ms. Chan ^(Note 6)	15,936,000	1.54	47,808,000	1.44	15,936,000	0.48	15,936,000	0.48	15,936,000	0.84
Sub-total of Ms. Lau and parties acting in concert with her	204,222,179	19.84	612,666,537	18.50	2,411,763,645	72.83	1,004,222,179	30.33	1,004,222,179	52.74
<i>Other Directors</i> ^(Note 7 and 10)										
Mr. Wu Jingwei ^(Note 8)	8,220,000	0.80	24,660,000	0.74	8,220,000	0.25	8,220,000	0.25	8,220,000	0.43
Mr. Li Zi Kui ^(Note 8)	2,800,000	0.27	8,400,000	0.25	2,800,000	0.08	2,800,000	0.08	2,800,000	0.15
Ms. Zhu Xinxin ^(Notes 8 and 9)	1,850,000	0.18	5,550,000	0.17	1,850,000	0.06	1,850,000	0.06	1,850,000	0.10
Mr. Huang Shenglan ^(Note 8)	110,000	0.01	330,000	0.01	110,000	0.00	110,000	0.00	110,000	0.01
Mr. Cui Shuming ^(Note 8)	200,000	0.02	600,000	0.02	200,000	0.01	200,000	0.01	200,000	0.01
Sub-total	13,180,000	1.28	39,540,000	1.19	13,180,000	0.40	13,180,000	0.40	13,180,000	0.70
Independent placees Holder of New Option 1 Bond	—	—	—	—	—	—	1,407,541,466	42.50	—	—
Other public Shareholders	812,078,554	78.88	2,436,235,662	73.58	812,078,554	24.53	812,078,554	24.53	812,078,554	42.66
Total	1,029,480,733	100.00	3,311,312,199	100.00	3,311,312,199	100.00	3,311,312,199	100.00	1,903,770,733	100.00

Notes:

1. As at the Latest Practicable Date, Ms. Lau, as beneficial owner, together with entities controlled by her, namely, (i) Hang Sing Overseas Limited; (2) Strong Purpose Corporation; and (3) Glory Add Limited, was interested in a total of 164,037,537 Shares, the details of which are set out in the table above and notes 2 to 4 below.
2. As at the Latest Practicable Date, Hang Sing Overseas Limited was wholly owned by Orient Strength Limited, which was wholly owned by Ms. Lau. Ms. Lau is therefore deemed to be interested in the Shares held by Hang Sing Overseas Limited under the SFO.
3. As at the Latest Practicable Date, Strong Purpose Corporation was wholly owned by Ms. Lau and Mr. Chan Shing. Each of Ms. Lau and Mr. Chan Shing is therefore deemed to be interested in the Shares held by Strong Purpose Corporation under the SFO.
4. As at the Latest Practicable Date, Glory Add Limited was wholly owned by Favor King Limited, which was wholly owned by Ms. Lau and Mr. Chan Shing. Each of Ms. Lau and Mr. Chan Shing is therefore deemed to be interested in the Shares held by Glory Add Limited under the SFO.
5. Mr. Chan Shing is a party acting in concert with Ms. Lau. Please also refer to notes 3 and 4 above for the interest held by entities controlled by Mr. Chan Shing.
6. Ms. Chan is the daughter of Ms. Lau and an executive Director. By virtue of being a close relative of Ms. Lau, Ms. Chan is presumed to be a party acting in concert with Ms. Lau pursuant to class (8) presumption under the definition of “acting in concert” under the Takeovers Code.
7. The Shares held by the other Directors consist of the Shares held by Directors other than Ms. Chan.
8. Mr. Wu Jingwei, Mr. Li Zi Kui and Ms. Zhu Xinxin are executive Directors, and Mr. Huang Shenglan and Mr. Cui Shuming are independent non-executive Directors. Pursuant to Rule 7.27A(1) of the Listing Rules, where there is no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the SGM.
9. Ms. Zhu Xinxin is a niece of Ms. Lau and a cousin of Ms. Chan and was appointed as an executive Director of the Company with effect from 18 June 2019 by the Board on 18 June 2019 in accordance with bye-law 102(B) of the Company. Ms. Zhu is not a party acting in concert with Ms. Lau.
10. Save for Ms. Chan, each of the Directors confirm that he/she is not involved in the discussion and negotiation in respect of the Rights Issue, the Placing, the Set-Off and the Whitewash Waiver.

As illustrated above, assuming (i) there is no change in the issued share capital of the Company; (ii) no Qualifying Shareholder (other than Ms. Lau, who subscribes for the Undertaken Shares) subscribes for any Rights Shares; and (iii) no Placing Shares are successfully placed to independent placees, the shareholding of the existing public Shareholders would be reduced from approximately 78.88% as at the Latest Practicable Date to approximately 44.39% upon the Rights Issue Completion.

Similarly, assuming (i) there is no change in the issued share capital of the Company (other than the full exercise of conversion rights under the New Option 1 Bonds on or before the Record Date); (ii) no Qualifying Shareholder (other than Ms. Lau, who subscribes for the Undertaken Shares) subscribes for any Rights Shares; and (iii) no Placing Shares are successfully placed to independent placees, the shareholding of the existing public Shareholders would be reduced from approximately 78.88% as at the Latest Practicable Date to approximately 42.66% upon the Rights Issue Completion.

If a Qualifying Shareholder does not accept the Rights Shares provisionally allotted to him/her/it in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

INTENTION OF MS. LAU

As at the Latest Practicable Date:

- (a) Ms. Lau intended for the Group to continue its current business;
- (b) Ms. Lau had no intention to introduce any major changes to the Group's existing business (including redeployment of the fixed assets of the Group other than in its ordinary course of business) or terminate the continued employment of the employees of the Group; and
- (c) Ms. Lau had no intention to inject any new business/assets to the Group.

Ms. Lau considers the Rights Issue is favourable to the Group as the Group will be able to strengthen its capital base and to enhance its financial position.

On the basis of Ms. Lau intention set out above, the Directors are of the view that the continuity of the Group's business can be maintained upon the Rights Issue Completion as before.

LISTING RULES IMPLICATIONS

The Rights Issue

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the date of the Announcement, the Rights Issue is conditional upon the minority Shareholders' approval of at the SGM, and any controlling Shareholders and their associates, or where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the SGM.

To the best information and knowledge of the Directors after making all reasonable enquiries, the Company had no controlling Shareholder as at the Latest Practicable Date. Accordingly, Ms. Chan, Mr. Wu Jingwei, Mr. Li Zi Kui and Ms. Zhu Xinxin, each being an executive Director, and their respective associates shall abstain from voting in respect of the resolution relating to the Rights Issue at the SGM in compliance with Rule 7.27A(1) of the Listing Rules.

The Placing

The Placing Shares will be issued under the Specific Mandate, which is subject to the Shareholders' approval at the EGM.

The Set-Off

Ms. Lau is a substantial Shareholder and therefore a connected person of the Company. Accordingly, the Set-Off Deed and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and will be subject to Independent Shareholders' approval at the SGM.

As Ms. Chan, as an executive Director and daughter of Ms. Lau, is materially interested in the Set-Off, she was required to abstain from voting on the Board resolutions approving the same.

TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, Ms. Lau and parties acting in concert with her were interested in 204,222,179 Shares, representing approximately 19.84% of the total number of issued Shares.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Share; and (iii) Ms. Lau has taken up and successfully been allotted, the maximum number of excess Rights Shares, being 1,875,942,592 Rights Shares, the voting rights of the Company held by Ms. Lau and parties acting in concert with her will increase from approximately 19.84% to 73.28% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date and the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Share; and (iii) Ms. Lau has taken up and successfully been allotted, the maximum number of excess Rights Shares, being 2,024,522,592 Rights Shares, the voting rights of the Company held by Ms. Lau and the parties acting in concert with her will increase from approximately 19.84% to 72.83% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date and the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Shares; (iii) Ms. Lau has taken up and successfully been allotted, the Undertaken Shares; and (iv) all the Untaken Shares were placed to Independent Third Parties under the Placing, the voting rights of the Company held by Ms. Lau and the parties acting in concert with her will increase from approximately 19.84% to 30.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date and the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Shares; (iii) Ms. Lau has taken up and successfully been allotted, the Undertaken Shares; and (iv) no Independent Third Parties take up the Untaken Shares under the Placing, the voting rights of the Company held by Ms. Lau and the parties acting in concert with her will increase from approximately 19.84% to 52.74% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

In such circumstances, the acceptance in full by Ms. Lau of the Entitlement Shares allotted to her pursuant to the Irrevocable Undertaking and/or the allotment of excess Rights Shares to her upon successful excess application when there is an undersubscription of the Rights Issue will trigger an obligation on Ms. Lau to make a mandatory general offer under Rule 26 of the Takeovers Code for all Shares not already owned or agreed to be acquired by Ms. Lau and parties acting in concert with her, unless a waiver is granted by the Executive.

An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among others, the approval of the Independent Shareholders of the Whitewash Waiver and Rights Issue at the SGM by way of poll in accordance with the requirements of the Takeovers Code.

The Executive may or may not grant the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, and the approval of the Rights Issue and the Set-Off by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, respectively, at the SGM. If the Whitewash Waiver is not granted by the Executive, or if granted, either the Whitewash Waiver, the Rights Issue or the Set-Off is not approved by the Independent Shareholders, the Rights Issue and the Set-Off (and Placing) will not proceed.

As disclosed above, the maximum potential controlling holding of the Company's voting rights to be held by Ms. Lau and parties acting in concert with her is approximately 73.28%. As such maximum potential holding exceeds 50% of the Company's voting rights upon the Rights Issue Completion, Ms. Lau and parties acting in concert with her may increase their holding of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer after the Rights Issue Completion.

As at the Latest Practicable Date, the Company did not believe that the Rights Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue does not comply with other applicable rules and regulations.

As at the Latest Practicable Date:

- (i) save as disclosed in the section headed “Effect of the Rights Issue on the shareholding structure of the Company” in this letter, Ms. Lau and parties acting in concert with her do not hold, own, have control or direction over any other voting rights, rights over Shares, any outstanding options, warrants, or any securities that are convertible into Shares or hold any outstanding derivatives in respect of the securities of the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (ii) save for the Irrevocable Undertaking given by Ms. Lau, details of which are set out in the section headed "The Irrevocable Undertaking" of this circular, none of Ms. Lau or any parties acting in concert with her had acquired or entered into any agreement or arrangement to acquire any voting rights in the Company or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (iii) none of Ms. Lau or parties acting in concert with her has received any irrevocable commitment to accept the Rights Issue;
- (iv) save for the Irrevocable Undertaking given by Ms. Lau, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) that had been entered into in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company between Ms. Lau and/or parties acting in concert with her on the one hand and any person on the other hand and which might be material to the Rights Issue and/or the Whitewash Waiver;
- (v) save for the Rights Issue being conditional upon obtaining of the Whitewash Waiver by Ms. Lau as set out in the section headed “Conditions of the Rights Issue” of this circular, there is no agreement or arrangement to which Ms. Lau or any parties acting in concert with her is a party which relates to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Rights Issue and/or the Whitewash Waiver;
- (vi) none of Ms. Lau or parties acting in concert with her has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (vii) save for the consideration to be payable or offset under the Set-Off Deed for the Rights Shares to be subscribed for by Ms. Lau and parties acting in concert with her, there is no other consideration, compensation or benefit in whatever form that has been or will be paid by Ms. Lau or parties acting in concert with her to the Company in connection with the Rights Issue and/or the Whitewash Waiver;
- (viii) there was no understanding, arrangement, agreement which constitutes a special deal (as defined under Rule 25 of the Takeovers Code) between (1) Ms. Lau or parties acting in concert with her on one hand; and (2) the Company on the other hand; and

- (ix) there was no understanding, arrangement, agreement which constitutes a special deal (as defined under Rule 25 of the Takeovers Code) between (1) any Shareholder on one hand; and (2) the Company, its subsidiaries or associated companies on the other hand.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the Company had an authorised share capital of HK\$40,000,000 divided into 1,600,000,000 Shares of HK\$0.025 each, of which 1,029,480,733 Shares had been issued and were fully paid or credited as fully paid. In addition, there are outstanding New Option 1 Bonds in the principal amount of HK\$148,580,000, which are convertible into 74,290,000 Shares upon full conversion at the current conversion price of HK\$2.00 per Share.

In order to facilitate the Rights Issue and the Placing and to provide the Company with flexibility for fundraising by allotting and issuing new Shares in the future as and when appropriate for future investment opportunities and other corporate purposes, the Board proposes that the authorised share capital of the Company be increased from HK\$40,000,000 to HK\$125,000,000 by the creation of 3,400,000,000 additional Shares, all of which will, upon issue and being fully paid, rank pari passu in all respects with the Shares in issue. The Increase in Authorised Share Capital is subject to the approval by the Shareholders by way of an ordinary resolution at the SGM.

ADJUSTMENT TO CONVERSION PRICE OF NEW OPTION 1 BONDS

Reference is made to the announcements of the Company dated 10 March 2017, 16 March 2017, 24 March 2017, 7 April 2017, 7 November 2017, 26 April 2018, 22 March 2019, 28 March 2019, 13 June 2019, 1 November 2019, 4 November 2019, 23 April 2020 and 28 April 2020 in relation to the New Option 1 Bonds.

Pursuant to the terms and conditions of the New Option 1 Bonds, if the Company shall issue Shares (i) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares or (ii) otherwise than as mentioned in (i) above (other than Shares issued on the exercise of the conversion rights under the New Option 1 Bonds or any other rights of conversion into, or exchange or subscription for, Shares), in each case, at less than 95% of the current market price of the Shares (as defined in the terms and conditions of the New Option 1 Bonds) on the date of announcement of the terms of such issue, the conversion price of the New Option 1 Bonds (the “**New Option 1 Bonds Conversion Price**”) shall be adjusted pursuant to the terms and conditions of the New Option 1 Bonds.

Further announcement(s) in relation to the adjusted New Option 1 Bonds Conversion Price and the additional number of Shares that will be issued upon conversion of all the outstanding New Option 1 Bonds based on the adjusted New Option 1 Bonds Conversion Price will be made by the Company as and when appropriate in compliance with the Listing Rules.

SGM AND INDEPENDENT SHAREHOLDERS' APPROVAL

The SGM will be held at Room 1703–1704, World-Wide House, 19 Des Voeux Road Central, Hong Kong on Monday, 10 May 2021 at 11:00 a.m. to consider and, if thought fit, approve, the Rights Issue, the Placing (including the Specific Mandate), the Set-Off, the Whitewash Waiver and the Increase in Authorised Share Capital.

Ms. Lau and parties acting in concert with her, and the executive Directors and their respective associates and Shareholders who are involved in or interested in the Rights Issue will be required to abstain from voting in respect of the resolution(s) to approve the Rights Issue at the SGM.

Ms. Lau and parties acting in concert with her and Shareholders who are involved in or interested in the Set-Off and/or the Whitewash Waiver (as applicable) will be required to abstain from voting in respect of the resolution(s) to approve the Set-Off and the Whitewash Waiver at the SGM.

Under the Takeovers Code and the Listing Rules, the resolution(s) in relation to the Whitewash Waiver shall be approved by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, and the resolution(s) in relation to the Rights Issue and the Set-Off shall be approved by at least 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, respectively, at the SGM.

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed on the form and deposit the same at the principal place of business of the Company at Unit 3308, 33/F., Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong or at the office of the Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours (i.e. 11:00 a.m. on Saturday, 8 May 2021 (Hong Kong time) before the time scheduled for the holding of the SGM or any adjournment of SGM (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 SGM or any adjournment of the SGM (as the case may be).

As at the Latest Practicable Date, save for (i) Ms. Lau and parties acting in concert with her; and (ii) Ms. Chan, Mr. Wu Jingwei, Mr. Li Zi Kui and Ms. Zhu Xinxin, being the executive Directors and their respective associates who are required to abstain from voting in favour of the resolution(s) in relation to the Rights Issue under Rule 7.27A(1) of the Listing Rules, no other Shareholder is involved in or interested in the Rights Issue, the Placing, the Set-Off and/or the Whitewash Waiver and will be required to abstain from voting in respect of the resolution(s) to approve the Rights Issue, the Placing, the Set-Off and/or the Whitewash Waiver at the SGM.

Subject to the approval by Independent Shareholders at the SGM, the Prospectus containing further information in relation to the Rights Issue and financial and other information relating to the Group is expected to be despatched by the Company together with

the PAL and EAF on or before Friday, 21 May 2021. A copy of the Prospectus will also be made available on the websites of the Company (<http://www.chinalotsynergy.com>) and the Stock Exchange (<https://www.hkexnews.hk/>). To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to Non-Qualifying Shareholders for their information only but will not send the PAL or the EAF to them.

WARNING OF THE RISKS OF DEALING IN SHARES

Shareholders and potential investors of the Company should note that the Rights Issue, the Placing and the Set-Off are conditional upon, among others, conditions set out in the section headed “Conditions of the Rights Issue”, “Conditions of the Placing” and “Connected Transaction in relation to the Set-Off” in this circular, respectively. Accordingly, the Rights Issue and/or the Placing and/or the Set-Off may or may not proceed. Any Shareholder or other person contemplating transferring, selling or purchasing Shares is advised to exercise caution when dealing in the Shares. Any person who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s).

Any dealings in the Shares up to the date on which all the conditions of the Rights Issue, the Placing and the Set-Off are fulfilled, which is expected to be 4:00 p.m. on the Rights Issue Settlement Date, will bear the risk that the Rights Issue and/or the Placing may not become unconditional or may not proceed.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 May 2021 to Monday, 10 May 2021 (both dates inclusive), for the purposes of determining the entitlements of the Shareholders to attend and vote at the SGM and from Friday, 14 May 2021 to Thursday, 20 May 2021 (both dates inclusive), for the purpose of determining the entitlements of the Shareholders to the Rights Issue. No transfer of the Shares may be registered during the said periods. In order for the transferees to be registered as members of the Company by 5:00 p.m. on the record date for attending and voting at the SGM and by 5:00 p.m. on the Record Date, all transfers of Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, by 4:30 p.m. on Monday, 3 May 2021 and 4:30 p.m. on Thursday, 13 May 2021, respectively.

RECOMMENDATION

You are advised to read carefully (i) the letter from the Independent Board Committee set out on pages 46 to 47 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders; and (ii) the letter from Gram Capital, set

out on pages 48 to 70 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Set-Off and the Whitewash Waiver.

The Directors (excluding Ms. Chan, who is required to abstain from voting but including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) are of the view that (i) the Rights Issue and the Placing will enable the Group to raise the necessary and sufficient funds in a timely manner to satisfy the Group's short term financial needs and thus improve the current financial position of the Group; (ii) the Set-Off will enable the Group to repay, in full or in part, the Shareholder's Loan without cash outflow and allow the Group to reduce its gearing level and save on the interest payment that would be accrued upon the outstanding Shareholder's Loan from the Rights Issue Settlement Date to the maturity date; and (iii) the approval of the Whitewash Waiver is a prerequisite for the Rights Issue Completion and the Set-Off. Therefore, the Rights Issue, the Placing, the Set-Off and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders in respect of the Rights Issue, the Set-Off and the Whitewash Waiver) as a whole. The Board also considers the Increase in Authorised Share Capital is fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board therefore recommends you vote in favour of the resolution in respect of the Rights Issue, the Placing, the Set-Off, the Whitewash Waiver and the Increase in Authorised Share Capital to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix I, Appendix II, Appendix III, Appendix IV and Appendix V to this circular.

By order of the Board
China Ecotourism Group Limited



CHAN Tan Na, Donna
Chairperson