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

If you have sold or transferred all your shares in **China Fordoo Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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CHINA FORDOO HOLDINGS LIMITED

中國虎都控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2399)

**(1) DISCLOSABLE TRANSACTION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE
CAPITAL OF THE TARGET COMPANY; AND
(2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE
ENTRY OF THE VIE AGREEMENTS**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

MESSIS  **大有融資**

Capitalised terms used in the lower portion of the front and inside cover pages have the same respective meanings as those defined in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 6 to 53 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 54 to 55 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 56 to 85 of this circular.

This circular is despatched to the Shareholders for information purpose only, and a written Shareholder’s approval has been obtained in lieu of holding a general meeting of the Company pursuant to the Listing Rules.

24 March 2021

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DEFINITIONS

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

“Acquisition”	the acquisition of the entire issued share capital of the Target Company by the Company pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement)
“Authorisation Agreement”	authorisation agreement (股東表決權委託協議) entered into among the WFOE, Mr. Tong and the OPCO, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (5) The Authorisation Agreement” in this circular
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday or statutory holiday) on which banks in the PRC are generally open for normal banking business
“BVI”	the British Virgin Islands
“Company”	China Fordoo Holdings Limited (中國虎都控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2399)
“Charming Expert”	Charming Expert Limited, a company incorporated in BVI with limited liability and directly wholly-owned by Mr. Tong as at the Latest Practicable Date
“Completion”	completion of the Acquisition in accordance with the terms and conditions under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement)
“Completion Date”	the fifth Business Day after the date of fulfillment (or waiver) of all conditions precedent under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) (or such other date as the parties to the Sale and Purchase Agreement and the Supplemental Agreement may agree in writing), on which Completion shall take place
“Consideration”	HK\$9.7 million

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Equity Pledge Agreement”	the equity pledge agreement (股份質押協議) entered into between the WFOE and Mr. Tong, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (4) The Equity Pledge Agreement” in this circular
“Exclusive Business Consultation and Technical Services Agreement”	the exclusive business consultation and technical services agreement (獨家諮詢及技術服務合作協議) entered into among the WFOE, the OPCO, and Mr. Tong details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (1) The Exclusive Business Consultation and Technical Services Agreement” in this circular
“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) entered into among the WFOE, Mr. Tong and the OPCO, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (2) The Exclusive Purchase Right Agreement” in this circular
“Golden Maxwell”	Hong Kong Golden Maxwell Limited (香港金晟有限公司), a company incorporated in Hong Kong with limited liability and indirectly wholly-owned by Mr. Tong as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Tong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	a committee under the Board, which will be established for the purpose of advising the Independent Shareholders on the terms of the VIE Agreements and the transactions contemplated thereunder, including independent non-executive Directors, Mr. Cheung Chiu Tung, Mr. Poon Yick Pang Philip and Ms. Huang Yumin.

DEFINITIONS

“Independent Financial Adviser”	Messis Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the VIE Agreements and the transactions contemplated thereunder
“Independent Shareholder(s)”	any Shareholder(s) that is not required to abstain from voting at a general meeting of the Company, if necessary, to approve a connected transaction
“Independent Third Party(ies)”	person(s) or company(ies) which is or are independent of and not connected with any of the connected persons (as defined under the Listing Rules) of the Company and any of its subsidiaries or any of their respective associates
“Intellectual Property License Agreement”	the intellectual property license agreement (知識產權授權協議) entered into among the WFOE, the OPCO and Mr. Tong, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (6) The Intellectual Property License Agreement” in this circular
“Latest Practicable Date”	17 March 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Loan”	a non-interest bearing loan in an aggregate amount of RMB10,000,000 provided by the WFOE to Mr. Tong subject to the terms of the Loan Agreement, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (3) The Loan Agreement” in this circular
“Loan Agreement”	the loan agreement (借款協議) entered into between the WFOE and Mr. Tong, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (3) The Loan Agreement” in this circular
“Long Stop Date”	30 June 2021 (or such other date as the parties to the Sale of Purchase Agreement may agree in writing)

DEFINITIONS

“Mr. Tong”	Mr. Tong Xin* (同心), an executive Director and the general manager of the Company and the ultimate beneficial owner of the Vendor and the OPCO as at the Latest Practicable Date
“OPCO” or “Honggao Technology”	Tianjin Honggao Technology Co., Ltd.* (天津洪高科技有限公司), a company established under the laws of the PRC with limited liability
“PRC”	the People’s Republic of China, which for the sole purpose of this circular excludes Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
“PRC Legal Adviser”	W&H Law Firm (北京煒衡(天津)律師事務所), being the PRC legal adviser to the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 14 December 2020 entered into among the Company, the Vendor and the Guarantor in relation to the Acquisition
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.0025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Spousal Consent Letter”	the spousal consent letter (配偶同意函) entered into by the spouse of Mr. Tong, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (7) The Spousal Consent Letter” in this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 5 March 2021 entered into among the Company, the Vendor and the Guarantor to amend and supplement certain terms of the Sale and Purchase Agreement
“Target Company”	Good Productive Limited, a company incorporated in BVI with limited liability and indirectly wholly-owned by Mr. Tong through his wholly-owned subsidiaries, namely Charming Expert and the Vendor, as at the Latest Practicable Date

DEFINITIONS

“Target Group”	the Target Company and its subsidiaries, including the OPCO
“Vendor”	Famous Brightness Limited, a company incorporated under the laws of BVI with limited liability, which holds entire issued share capital of the Target Company as at the Latest Practicable Date
“VIE”	variable interest entity
“VIE Agreements”	collectively, the Exclusive Business Consultation and Technical Services Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Authorisation Agreement, the Intellectual Property License Agreement, and the Spousal Consent Letter, details of which are set out in the section headed “INFORMATION OF THE VIE AGREEMENTS” in this circular
“WFOE”	Tianjin Jinsheng International Trade Co., Ltd.* (天津金聖國際貿易有限責任公司), a wholly-owned subsidiary of the Target Company, is a special purpose company established in the PRC with limited liability
“%”	per cent

* *For identification purpose only*

LETTER FROM THE BOARD



CHINA FORDOO HOLDINGS LIMITED

中國虎都控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2399)

Executive Directors:

Mr. Kwok Kin Sun (*Chairman*)
Mr. Kwok Hon Fung (*Chief Executive Officer*)
Mr. Peng Zuncheng
Mr. Tong Xin

Registered office:

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Independent non-executive Directors:

Mr. Cheung Chiu Tung
Mr. Poon Yick Pang Philip
Ms. Huang Yumin

*Headquarters and principal place
of business in the PRC:*

Fordoo Industrial Zone E12
Xunmei Industrial Zone, Fengze District
Quanzhou City, Fujian Province, China

Principal place of business in Hong Kong:

Unit 1104A, 11/F,
Kai Tak Commercial Building,
No. 317–319 Des Voeux Road
Central, Hong Kong

Investor relations contact:

Unit 1104A, 11/F,
Kai Tak Commercial Building,
No. 317–319 Des Voeux Road
Central, Hong Kong

24 March 2021

To the Shareholders,

Dear Sir or Madam,

- (1) DISCLOSABLE TRANSACTION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE
CAPITAL OF THE TARGET COMPANY; AND**
**(2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE
ENTRY OF THE VIE AGREEMENTS**

LETTER FROM THE BOARD

INTRODUCTION

References are made to the announcement of the Company dated 14 December 2020 and the supplemental announcement of the Company dated 5 March 2021.

On 14 December 2020 (after trading hours), the Company, the Vendor and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of the Target Company for a consideration to be satisfied by way of allotment and issue of consideration shares to the Vendor (or its nominee) credited as fully paid (the “**Previous Consideration**”). On 5 March 2021, the Company, the Vendor and the Guarantor entered into the Supplemental Agreement to amend and supplement the Sale and Purchase Agreement, pursuant to which, among other things, the Consideration is changed from the Previous Consideration to HK\$9.70 million, which shall be satisfied in cash by the Company to the Vendor within 10 days upon Completion. Upon Completion, the Company will hold the entire issued share capital of the Target Company.

The purpose of this circular is to provide you, among other things, (i) further information on the Sale and Purchase Agreement and VIE Agreements, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

THE SALE AND PURCHASE AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

The principal terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) are summarised as follows:

Dates

- (i) 14 December 2020 (after trading hours) (Sale and Purchase Agreement)
- (ii) 5 March 2021 (after trading hours) (Supplemental Agreement)

Parties

- (i) the Company (as Purchaser);
- (ii) Famous Brightness Limited (as Vendor); and
- (iii) Mr. Tong Xin (as Guarantor).

As at the Latest Practicable Date, Mr. Tong, an executive Director, is the ultimate beneficial owner of the Vendor. Accordingly, the Vendor is an associate of Mr. Tong, and therefore a connected person of the Company.

LETTER FROM THE BOARD

Subject matters of the Acquisition

The Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of the Target Company.

Consideration

The Consideration for the Acquisition shall be HK\$9,700,000 and shall be paid in cash by the Company to the Vendor within 10 days upon Completion.

Basis for determination of the Consideration

The Consideration is determined with reference to, among other things, (i) the unaudited consolidated net asset value of the Target Group as at 30 November 2020, being approximately RMB12.1 million (which is equivalent to approximately HK\$14.6 million); (ii) the financial performance of the Target Group; (iii) the business development and future prospects of the Target Group; (iv) the prospect of the automobile industry and e-commerce in the PRC; and (v) the arm's length negotiations between the Company and the Vendor.

The Board (including its independent non-executive Directors, but excluding Mr. Tong, who abstained from voting on the resolutions in relation to the Sale and Purchase Agreement and the Supplemental Agreement) is of the view that the Consideration is fair and reasonable and in the best interest of the Company and its Shareholders as a whole.

Reasons for the change in Consideration

Prior to entering into the Sale and Purchase Agreement, the Board notes that the OPCO has a relatively short operation track record. In order to address the potential concerns over the limited track record of the OPCO, a mechanism was built in the Sale and Purchase Agreement that the Company is not required to allot any consideration shares to the Vendor (or its nominee) if the Target Group fails to record any profit in the financial year of 2021 or 2022; and the number of consideration shares is calculated based on the achieved profits by the Target Group in order to protect the interest of the Company. It is one of the conditions precedent of the Sale and Purchase Agreement that the Company has to satisfy with the due diligence review of the Target Group on various aspects, including commerce and trade. During the due diligence process, the Company was given to understand that there may be a delay in the launch of the trading services and sales services of Honggao Technology, which was targeted to be launched by the end of the first quarter of 2021. Based on the communication between the management of the Target Group and a PRC bank, there will be a delay in the launch of the payment platform on the part of the aforesaid bank as it has to upgrade and enhance the payment system in light of the recent change in the regulatory environment as The People's Bank of China (中國人民銀行) issued the Measures for the Administration of Credit Investigation Industry (Consultant Draft)* (《徵信業務管理辦法(徵求意見稿)》) in January 2021. As such, the management of the Target Group expects that the launch of the Target Group's new businesses will delay to the second quarter of 2021, which will

LETTER FROM THE BOARD

increase uncertainty in achieving the performance target of the Target Group. For details of the new businesses, please refer to the section headed “INFORMATION OF THE TARGET GROUP AND THE OPCO — Business model of the Target Group.”

Since there would be greater uncertainty on the future performance of the Target Group in light of the delay brought by the recent change in regulatory environment, in order to avoid such uncertainty and to address the concern from stakeholders on the potential dilution effect on the existing Shareholders’ shareholding as the number of consideration shares to be issued is dependent on the Target Group’s future performance, the Directors are of the view that it would be in the interest of the Company and the Shareholders as a whole to fix and pay the Consideration by cash at this stage instead of issuing consideration shares depending on the future performance of the Target Group.

Apart from the new businesses, Honggao Technology is currently providing advertising services and ordering services. For details of the current businesses, please refer to the section headed “INFORMATION OF THE TARGET GROUP AND THE OPCO — Business model of the Target Group.”

Upon taking into consideration the performance of the current businesses of the Target Group, the Directors (including the independent non-executive Directors but excluding Mr. Tong, who abstained from voting on the resolutions in relation to the Sale and Purchase Agreement and the Supplemental Agreement) are of the opinion that the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole, notwithstanding the delay in the launch of the new businesses of Honggao Technology.

In addition, apart from Mr. Tong, other members of the Board do not possess the relevant expertise to establish a business similar to the Target Group. The Board is of the view that the Acquisition can offer the Group an opportunity to immediately tap into the success of an on-going business and enable the Group to acquire its readily available resources and core competencies, including the e-commerce mobile applications, clientele, business networks, intellectual property rights, business licences (such as Internet Content Provider Licence), and experienced management team. This, in turn, can help save start-up costs and time, thus allowing the Company to seize the market opportunity in a timely manner. Moreover, selected senior management and core staff of the OPCO have agreed to remain in the OPCO upon the Acquisition and would assist in the management of the automobile e-commerce business of the Group under the leadership of the Directors. For details of their background, please refer to the section headed “INFORMATION OF THE TARGET GROUP AND THE OPCO — Management team of the Target Group”.

LETTER FROM THE BOARD

Conditions precedent

Completion is conditional upon:

- (A) all necessary internal authorisations and approvals for or in connection with the Acquisition (including the transactions contemplated under the VIE Agreements) having been obtained by the Company and the Vendor, including the written Shareholders' approval or Shareholders' approval at the general meeting of the Company for the VIE Agreements and the transactions contemplated thereunder has been obtained in accordance with the Listing Rules;
- (B) the Stock Exchange granting the waiver or no objection in relation to the Acquisition (including the transactions contemplated under the VIE Agreements);
- (C) save for the VIE Agreements, there having been no lien or other encumbrances attached to the interests in the Target Company, Golden Maxwell, the WFOE and the OPCO, and there having been no dispute or potential dispute in any form concerning the ownership of such interests;
- (D) the VIE Agreements enabling the financial results, the economic benefits and the risks of the business of the OPCO to flow into the WFOE and enabling the WFOE to gain 100% controlling right of the OPCO having been duly executed and remaining valid and subsisting;
- (E) the equity interest of the OPCO held by Mr. Tong having been true and complete shareholding of the OPCO, and there having been no holding of equity interest on trust or any lien or other encumbrances attached to the interests being held by Mr. Tong, and there having been no dispute or potential dispute in any form between the Mr. Tong and the OPCO or any third party, concerning the ownership of such interests;
- (F) selected senior management and core staff of the OPCO having entered into an employment declaration and undertaking in the form as agreed by the Company;
- (G) the Company being satisfied with the results of the due diligence review of the Target Group on commerce, trade, legal, finance, taxation, asset and other conditions (regardless of legal, accounting, financial, operational, property or other aspects that the Company may consider necessary) deemed necessary by the Company's agent or professional party appointed by the Company;
- (H) there having been no change that would have a material and adverse effect on the assets, business or prospects of the Target Group, and the warranties given by the Vendor under the Sale and Purchase Agreement remaining true and accurate in all material respects and not misleading in any respects as at the Completion Date and throughout the period from 30 November 2020 to the Completion Date;

LETTER FROM THE BOARD

- (I) there having been no change to the share capital or the registered capital of the OPCO, the WFOE, the Target Company, and Golden Maxwell throughout the period from 30 November 2020 to the Completion Date;
- (J) none of the Vendor nor the Guarantor having any dispute with any third party which may prevent the completion of the transactions contemplated under the Sale and Purchase Agreement;
- (K) no governmental authority having promulgated, issued or implemented any validly subsisting laws, regulations, administrative orders, decrees, judgments, interlocutory or permanent injunctions or other orders, that may prohibit or otherwise prevent the completion of the transactions contemplated under the Sale and Purchase Agreement; and
- (L) there having been no breach by any party to the Sale and Purchase Agreement from the date of the Sale and Purchase Agreement to the Completion Date.

If any of the above conditions precedent is not satisfied or otherwise waived (except condition (A) (B), (C) and (D) set out above, which cannot be waived) on or before the Long Stop Date or such later date as the Company and the Vendor may agree in writing, the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) shall be terminated.

As at the Latest Practicable Date, save for conditions (A), (D) and (F) set out above, none of the above conditions have been fulfilled.

Guarantee

The Guarantor, in consideration of the Company entering into the Sale and Purchase Agreement, unconditionally and irrevocably guarantees the full performance of all obligations of the Vendor under the Sale and Purchase Agreement. The Company has the right to oblige the Guarantor to fulfil his obligations as guarantor without initiating any legal action against the Vendor. In any event that the Vendor fails to fulfill any of its obligations under the Sale and Purchase Agreement by whatsoever reason, the Company has the right to oblige the Guarantor to fulfill his obligation as guarantor.

Completion

Subject to the fulfilment (and/or waiver as the case maybe) of all the conditions precedent mentioned above, Completion shall take place on the Completion Date.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP AND THE COMPANY

The Group is principally engaged in the design, sourcing, manufacturing and sales of its branded menswear in the PRC. The Company is incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange. The principal activity of the Company is investment holding.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, in early 2020, Mr. Tong was introduced by a business consultant to the Board as the Company was exploring business opportunities in relation to the automobile industry in the PRC, which includes sales, exhibition and display services, international freight forwarding, and custom clearance. On one hand, the Board considers that Mr. Tong's education background, qualifications, skills, work experiences, and other factors, in particular, his experience in automobile e-commerce platform are valuable to the long-term development of the Group. On the other hand, Mr. Tong learnt that the Company has been trying to diversify its business to e-commerce and marketing and sales of automobile since 2018 and considered it a good opportunity to achieve his career aspiration at the Company. As such, both the Company and Mr. Tong are of the view that it would be mutually beneficial if Mr. Tong would join the Company. Accordingly, Mr. Tong joined the Company as an executive Director and general manager on 30 September 2020.

INFORMATION OF THE VENDOR

Famous Brightness is a company established under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, Famous Brightness is indirectly wholly-owned by Mr. Tong.

INFORMATION OF THE TARGET GROUP AND THE OPCO

The Target Company is a company incorporated under the laws of BVI with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company is indirectly wholly-owned by Mr. Tong.

Golden Maxwell is a company incorporated under the laws of Hong Kong with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, Golden Maxwell is directly wholly-owned by the Target Company.

The WFOE is a company established under the laws of the PRC with limited liability which will enjoy the economic interests and benefits of the OPCO through the VIE Agreements. It is directly wholly-owned by Golden Maxwell as at the Latest Practicable Date.

LETTER FROM THE BOARD

The OPCO is a company established by Mr. Tong's personal resources on 7 May 2020 under the laws of the PRC with limited liability. The initial shareholder of the OPCO is Li Min* (李敏). Since Mr. Tong was not able to complete the relevant procedures to start up Honggao Technology personally in the PRC as he stayed in Hong Kong at the material time due to the outbreak of COVID-19, Li Min helped Mr. Tong to start up Honggao Technology and subsequently transferred 100% equity interest in Honggao Technology to Mr. Tong at nil consideration in November 2020. Li Min, who is a friend of Mr. Tong, was introduced to Mr. Tong by his colleague, apart from assisting with the start up of Honggao Technology and being a friend of Mr. Tong, as advised by Mr. Tong, Mr. Tong has no other relationship with Li Min. The OPCO is principally engaged in the business of sales and marketing of automobiles through an online e-commerce platform combined with ancillary financing, auto parts sales, offline auto trading services and other business in the PRC. The OPCO is directly wholly-owned by Mr. Tong as at the Latest Practicable Date. As at the Latest Practicable Date, the registered capital of the OPCO is RMB3 million, of which RMB200,000 has been settled. Mr. Tong shall bear the obligation to pay up the remaining unpaid registered capital of the OPCO of RMB2.8 million and the deadline of payment is 1 January 2070.

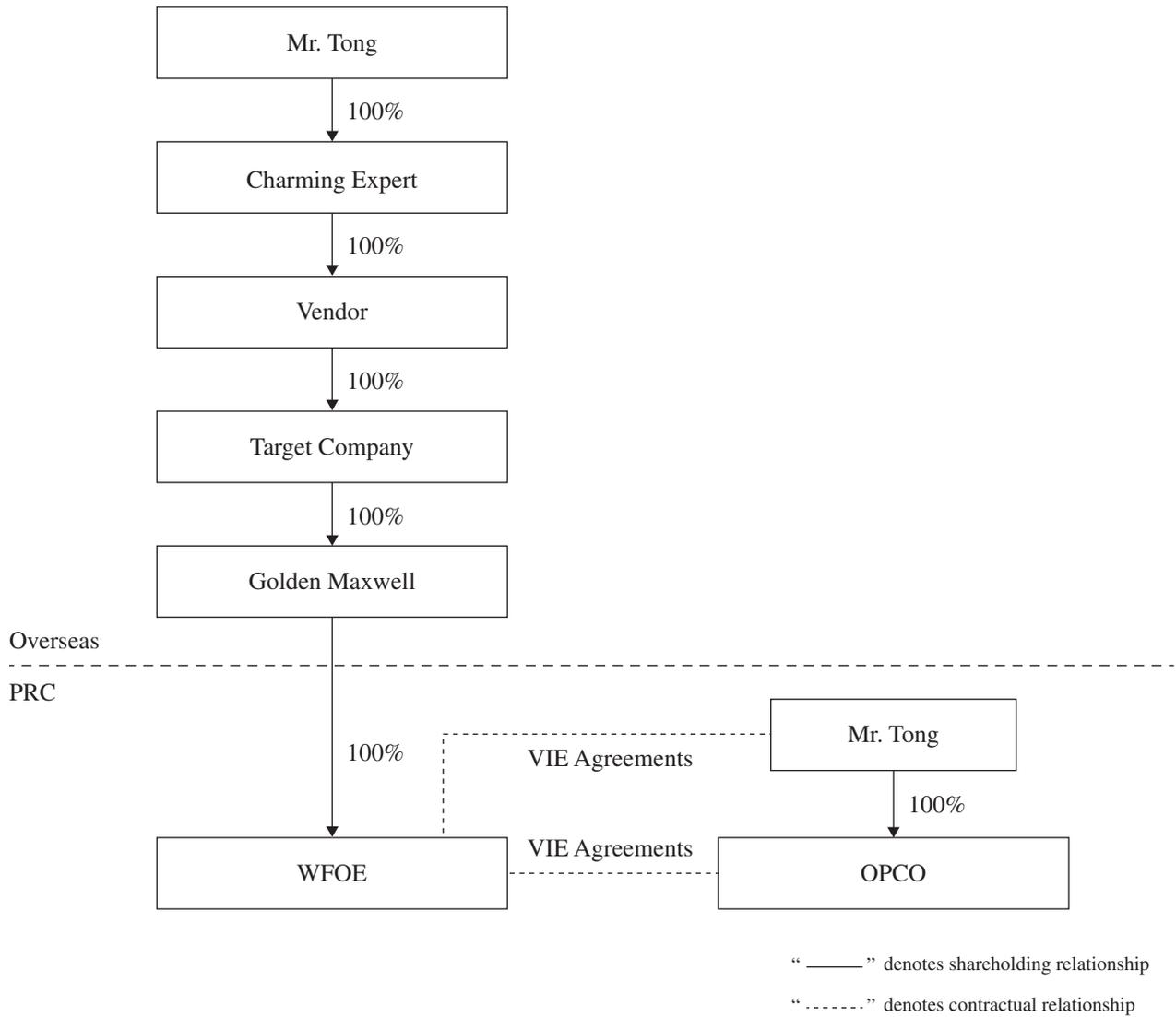
According to Mr. Tong, he has contributed a total sum of RMB5 million to the OPCO up to the Latest Practicable Date, which were used in the development of mobile apps and hiring employees, for the development of the business of the Target Group.

According to the PRC Legal Adviser, save as the equity pledge pursuant to the Equity Pledge Agreement, there is no other encumbrance on the OPCO's assets or equity interest held by Mr. Tong. According to the PRC Legal Adviser, there is no encumbrance on the WFOE's assets or equity interest based on public information. Mr. Tong further confirmed that there is no other encumbrance on the Target Group's assets or equity interest held by himself, save as disclosed.

LETTER FROM THE BOARD

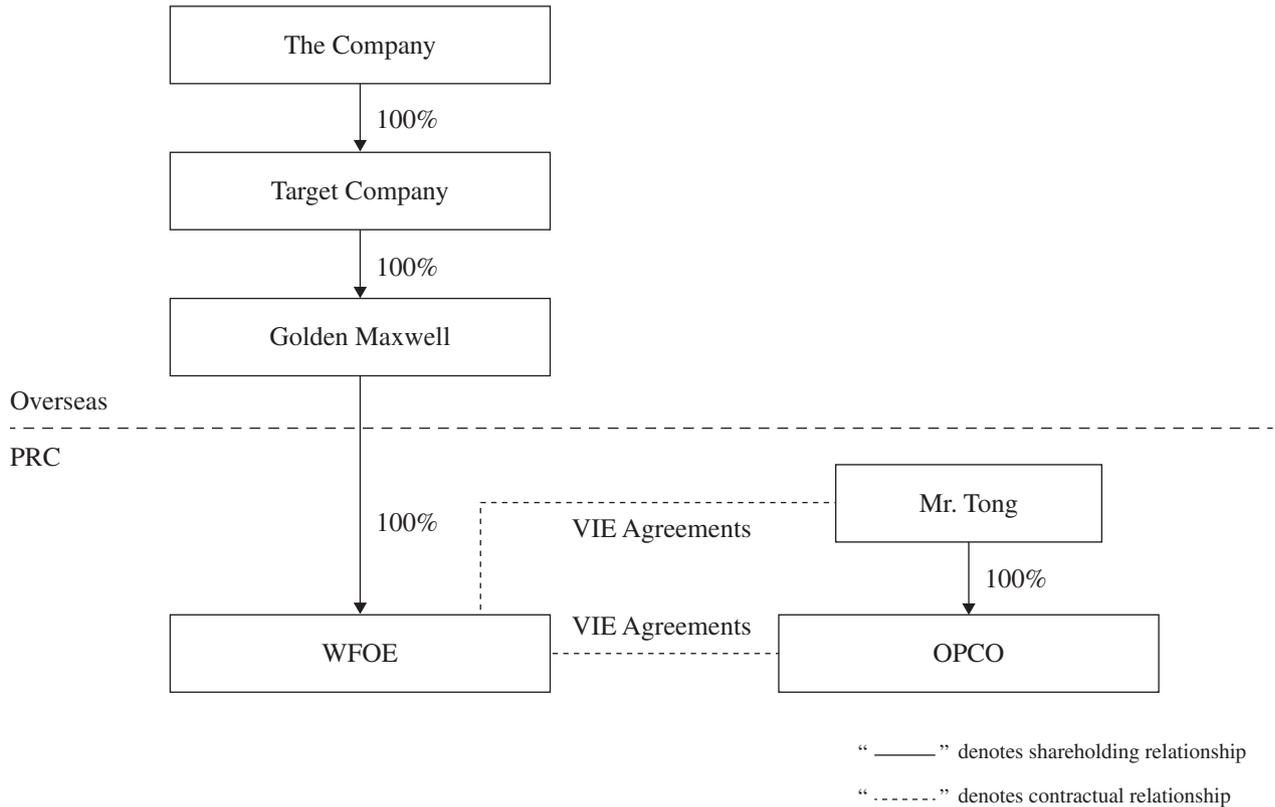
Shareholding structure of the Target Group

(1) Shareholding structure of the Target Group before Completion



LETTER FROM THE BOARD

(2) Shareholding structure of the Target Group after Completion



Financial information of the Target Group

Set out below is the unaudited financial information of the Target Group for the seven months ended 30 November 2020:

	For the seven months ended 30 November 2020 <i>(RMB'000)</i>
Revenue	19,326
— Ordering services	3,328
— Advertising services	15,998
Net profit before taxation	15,655
Net profit after taxation	11,741

LETTER FROM THE BOARD

**For the seven months ended
30 November 2020**

	<i>(RMB'000)</i>	<i>(Gross profit margin %)</i>
Gross profit		
— Ordering services	3,137	94
— Advertising services	13,477	84

During the seven months ended 30 November 2020, the total costs of sales amounted to approximately RMB2,711,000, which was mainly comprised of staff costs. During the same period, the selling and distribution expenses (including marketing expenses) and finance costs amounted to approximately RMB945,000 and approximately RMB22,000, respectively.

The consolidated net asset value of the Target Group as at 30 November 2020 was approximately RMB12.07 million.

The OPCO was incorporated in May 2020, and hence it did not have the full financial information for the two financial years immediately preceding the Acquisition.

Upon Completion, the Company will hold the entire issued share capital of the Target Company which indirectly holds the entire issued share capital of the WFOE and through the VIE Agreements, has effective control over the financing and operations of the OPCO, and enjoy the economic interest and benefits of the OPCO.

Pursuant to the VIE Agreements, the WFOE is able to control the finance and operation of the OPCO so as to obtain the economic interest and benefits from its business activities despite the lack of registered equity ownership. The Company has discussed with the auditors of the Company which have confirmed that under the prevailing accounting principles of the Company, the Company has the right to consolidate the financial results of the OPCO in its consolidated accounts as if it were a subsidiary of the Target Company.

Industry overview

The national economy of the PRC maintained stable growth in 2019. The gross domestic product of 2019 was RMB99,086.5 billion, up by 6.1% over the previous year. Based on the statistics published by the National Bureau of Statistics of China (“NBSC”), the disposable income nationwide per capita in the PRC has shown a steady growth between 2015 and 2019. The disposable income nationwide per capita increased from approximately RMB21,966 in 2015 to approximately RMB23,821 in 2016 by approximately 8.4%, increased to approximately RMB25,974 in 2017 by approximately 9.0%, increased to approximately RMB28,228 in 2018 by approximately 8.7%, and increased to approximately RMB30,733 in 2019 by approximately 8.9%.

According to the statistics published by the NBSC, the total number of vehicles in the PRC increased from 91 million in 2010 to 262 million in 2019. Despite the large automobile population in the PRC, its automobile density of approximately 187 vehicles per 1,000 people

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is relatively low as compared to approximately 610 vehicles per 1,000 habitants in the European Union in 2018 and approximately 840 vehicles per 1,000 people in United States in 2019, which indicates a significant room for growth for the automotive business in the PRC.

Despite the automobile sales in the PRC have been increasing for over a decade, the industry saw a first-time drop in sales since 2018, which may due to PRC's slower economic growth and the effect of the US-China trade dispute. In addition, owing to the effect of COVID-19, the total sales of new and used passenger vehicles decreased by approximately 21% year-on-year during the first half of 2020. On 28 April 2020, the PRC government rolled out the Notice on Several Measures to Stabilize and Expand the Purchase of Vehicles* (《關於穩定和擴大汽車消費若干措施的通知》), specifying measures to promote the purchase of vehicles, speed up replacement of older diesel vehicles, and open up second-hand vehicle markets to boost sales of new vehicles. The PRC government has also scrapped the vehicle purchase tax and provided subsidies for sales of new-energy vehicles as part of her effort to reduce air pollution. According to China Association of Automobile Manufacturers, the overall sales of vehicles in China rose 29.5% year-on-year in January 2021, which indicated that the government policies have started to take effect and helped the market to recover to a pre-COVID-19 demand. As such, it is anticipated that favourable policies promote growth in the PRC automobile industry in the long run.

Based on the statistics published by QuestMobile, a business intelligence services provider in China's mobile internet market, both the number of daily active users and the daily usage time per person for mobile shopping in China has increased from 2019 to 2020. The number of daily active users increased from 375 million to 426 million and the daily usage time per person increased from 29.2 minutes per day to 33.7 minutes per day during normal times. Further, according to the Global Automotive Executive Survey (21st edition) published in June 2020, 85% of the Chinese consumers claims that they are open to online car purchases, which is slightly higher than the global average of 80%. The survey results indicate that the increase in number of daily active users and daily usage time per person for mobile shopping in the PRC is considerable and online automotive sales platform is popular across the nation.

The Board takes the view that the prospect of automotive industry in the PRC is promising upon taking into account (i) the historical growth of the disposable income nationwide per capita in PRC; (ii) the historical growth of the automotive market in PRC; and (iii) the favourable policies adopted by the PRC government. Through its online e-commerce platform, the Board is of the view that Honggao Technology will be able to seize the business growth opportunities in the automotive industry in the PRC.

Competitive landscape and development strategy

The market of e-commerce platform for automobile sales in PRC is competitive. According to the management of Honggao Technology, there are two main types of e-commerce platforms for automobile sales in China: one is B2B, such as Chehang168 (車行168), maihaoche (賣好車) and nuiuiqiche (牛牛汽車); and the other type is B2C, such as Autohome (汽車之家) and Chexiang (車享網). Despite the fact that the Target Group is operating in a competitive market, the management is confident the Honggao Technology will survive albeit the stiff competition. At present, most platforms have only developed in aspects

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including advertising, media and supply chain financing, but are not able to provide comprehensive sales services to car buyers as they do not have offline service center for settlement of the vehicle, sufficient car supplies and third-party payment system. Honggao Technology has been working on these aspects to fulfill the market's demand by developing an all-inclusive sales experience for car purchasers. For details, please see the section headed "INFORMATION OF THE TARGET GROUP AND THE OPCO — Business model of the Target Group".

Key risks and challenges

The Target Group's business may face the following key risks and uncertainties that are beyond the control of its management, among other things:

- (1) the business of the Target Group depends highly on China's automotive industry, the prospects of which are subject to many uncertainties, including government regulations and policies. Any change in the regulatory environment may pose significant impact on the performance of the Target Group;
- (2) the Target Group is in its initial stage as it was established in less than one year. It may not be able to maintain its current level of growth and there is no guarantee that expected business expansion will achieve the results as anticipated by the management; and
- (3) the market of the automotive industry is competitive, and there are competitors with longer operating histories and stronger financial, management, technological, sales, marketing capacities and other resources than the Target Group. If Honggao Technology fails to compete effectively, there may be adverse effect on its business, prospects and results of operations.

Business model of the Target Group

Honggao Technology has developed an online e-commerce platform known as "Changyou Car* (暢遊汽車)" (hereinafter referred to as "**Changyou Car**"), which materializes car sales by integrating mobile apps with offline trading service centres of distributors across the nation. The development and application of this platform benefitted from the "Measures for the Administration of Automobile Sales"* (《汽車銷售管理辦法》) promulgated by the Ministry of Commerce of the People's Republic of China in 2017, whereby the PRC allows car sales to be conducted across a wider spectrum in terms of brands and geography, providing car dealers with enormous business opportunities. According to the statistics of the China Association of Automobile Manufacturers, the annual sales volume of vehicles for 2019 in the PRC amounted to 25.77 million, signifying a huge consumer-oriented automobile market in China.

Changyou Car comprises two mobile apps, one of which is for B2B wholesale e-commerce business among car dealers in various regions, and the other one is for B2C retail e-commerce business between car dealers and end-users. These mobile apps allow car vendors to disseminate relevant marketing information and car buyers to have a better understanding of the car they are going to buy in terms of brands, performances and prices, thereby facilitating the cross-regional transactions between buyers and sellers across the nation. Upon a sales

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contract between the vendor and the buyer being concluded and the buyer having paid a deposit to a third-party payment platform, the vendor will deliver the car to the trading service centres of distributors designated by the buyer where the buyer may proceed with inspection and acceptance before paying the outstanding balance and close the deal by completing the related procedures. While Changyou Car provides car vendors with a nationwide sales channel, it also provides buyers with more affordable options, hence attracting car dealers and individual consumers to transact on this platform.

Changyou Car has established a network covering trading service centres of distributors from more than 300 cities which are above prefecture-level for the purpose of providing on-site acceptance of cars, attracting more local car dealers to sign in as a user of this platform, and boosting car sales derived from it. Pursuant to the agreements entered into between Honggao Technology and various distributors, the distributors agreed to become Honggao Technology's distributors at specific region(s) or area(s), including but not limited to provinces of Guangdong, Jiangxi, Hunan and Fujian and cities of Zhanjiang, Xiangxi, Shaoxing, Shenzhen, Jingdezhen and Shangrao; and Honggao Technology would, among others, grant access to the distributor to Changyou Car and provide training for the distributor's staff. The arrangement with the distributor is on a non-exclusive basis.

Changyou Car has formulated a complete set of trading rules covering the dissemination and acquisition of information, facilitation of deals, delivery and settlement, which are effectively implemented by a team of seasoned professionals, to turn this platform into a real e-commerce platform for materializing car sales.

Honggao Technology has been authorized by two large-scale car manufacturers, which were introduced by business referrals, to aggregate bulk-buying demand through this platform and procure bulk-purchase shipments from them at favourable prices, achieving a win-win situation for both consumers who will enjoy affordable prices and car dealers who will materialize sizable sales. Honggao Technology has been authorized by Car Manufacturer A to sell its products through Changyou Car and provide sales services through Honggao Technology distributors' trading service centres until October 2030; and Car Manufacturer B to promote its cars through Changyou Car or any other partnered platforms of Changyou Car and provide display services in Honggao Technology distributors' trading service centres under the guidance of Car Manufacturer B until October 2022. Under the current arrangements with the two car manufacturers, Honggao Technology is not required to achieve any sales targets and will further negotiate the terms and arrangements with the two car manufacturers depending the model of the car and quantity of the bulk-purchase on an order-by-order basis. Honggao Technology will engage in the trading of the cars manufactured by these two car manufacturers (i.e. trading services). For details of the business model of the trading services, please refer to the latter part of this subsection.

Honggao Technology has entered into a cooperation agreement with one of the largest e-commerce platform in China, which is owned by a company which is dually listed on the Nasdaq Stock Market and the Stock Exchange. Honggao Technology approached the holding company of the e-commerce platform directly. Pursuant to the cooperation agreement, Honggao Technology is an authorized business partner of the e-commerce platform and is authorized to use the trademarks of the e-commerce platform. The cooperation agreement is

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valid until the year end of 2021. Based on the discussion between Honggao Technology and the aforesaid e-commerce platform, the customers of the aforesaid e-commerce platform may choose to use Honggao Technology's offline sales services despite the sale and purchase of automobile was conducted through the aforesaid e-commerce platform. The seller can deliver the cars to Honggao Technology distributor's trading service centres designated by the buyer, where the buyer may inspect the car before completing the transaction. Honggao Technology is still finalising the arrangements and terms with the aforesaid e-commerce platform and it is expected to commence its sales services in the second quarter of 2021. The management of the Honggao Technology believes that partnering with one of the largest e-commerce platform in China will greatly enhance the branding and reputation of Honggao Technology and thus help attract more car buyers and business users to use Changyou Car, given Honggao Technology is in its initial stage and was established in less than a year as at the Latest Practicable Date. Honggao Technology will engage in negotiations with other major e-commerce platforms at home on cooperation for the purpose of boosting sales volume for Changyou Car by providing trading services to these e-commerce platforms in the area of car sales information.

Honggao Technology derives its income mainly from advertising services (廣告服務), ordering services (訂單服務), and is expected to derive revenue from trading services (銷售服務), sales services (交易服務) and value-add services (增值服務) as part of its business expansion plan.

Advertising Services

In respect of advertising services, the customer may purchase advertising packages, which allows the customer to place different advertisements including pop-up advertisement, display of logo or information at top or bottom, inclusion of advertising articles, priority in display of car seller's product and the like, over certain period of time and/or to appear in a fixed frequency, as well as placing advertising order one by one. Honggao Technology charges advertising fees from the customers based on the advertising services they order and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is approximately 85%. The OPCO does not normally enter into long-term contract with customers in respect of the ordering services and advertising services, as these services are provided on an order-by order basis.

Ordering Services

In respect of the ordering services, Honggao Technology charges an ordering fee on the seller once the buyer and seller entered into a sales contract through Changyou Car and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is approximately 95%. The ordering fee is a fixed fee uniform to all transactions.

Trading Services

In respect of the trading services, Changyou Car allows (i) car dealers of various regions to bulk-purchase automobile from other car dealers as well as from car manufactures (i.e. B2B wholesale); and (ii) end users to directly purchase automobile from Honggao Technology (i.e. B2C retail). Honggao Technology will charge a fee on a cost plus basis in respect of the number of cars bulk purchased through Changyou Car and will make profit through the

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reselling of the automobile purchased from car manufactures and/or car dealers to end users and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is approximately 10%. For B2C retail, the difference between the ordering services and trading services is that transactions under ordering services are made between two app users (i.e. one being a car seller, be it an individual or a car distributor, posting details of the car to be sold in Changyou Car, while the other one being the end-user); while the trading services involves cars being sold by Honggao Technology to the end-user. Once the end-user placed an order, Honggao Technology will then directly purchase the requested car from the car manufacturer or distributor then re-sell it to the end-user.

Sales Services

In respect of the sales services, Honggao Technology will provide services so as to assist car buyers to complete the transaction smoothly. Once a sales contract is entered either conducted through the ordering services or the trading service, the car buyers may choose to use the sales services, which the seller will deliver the car to the service centers of distributors designated by the buyer, where the buyer may inspect the car before paying the outstanding balance and closing. Also, through Changyou Car, the seller and buyer can monitor the status of the transaction and the location of the car. Honggao Technology will charge a service charge and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is approximately 90%. Honggao Technology will charge a fixed fees for the sales services provided.

Value-added Services

In respect of the value-added services, Honggao Technology is currently undergoing negotiation with a PRC bank for it to act as a third-party payment agent that allows the user to link bank account to Changyou Car, obtain financing and loan and other related services including insurance. The pricing mechanism depends on the value-added services involved, subject to the negotiation with the third party service provider.

As at the Latest Practicable Date, the OPCO has not received any committed order nor entered into any long-term contract in relation to its trading services, sales services and value-added services as these services are provided on an order-by-order basis.

Honggao Technology entered into an Interbank Express Payment Business Agreement (跨行快付業務協議) with the aforesaid bank in November 2020, pursuant to which the Honggao Technology will be able to settle payment on an interbank basis through internet banking. It is originally expected that Changyou Car will link with the bank's payment system within the first quarter of 2021. However, based on the communications between the management of the Target Group and the aforesaid bank, there will be a delay in the launch of the payment platform on the part of the aforesaid bank as it has to upgrade and enhance the payment system in light of the recent change in the regulatory environment as The People's Bank of China (中國人民銀行) issued the Measures for the Administration of Credit Investigation Industry (Consultant Draft)* (《徵信業務管理辦法(徵求意見稿)》) in January 2021. As such, the management of the Target Group expects that the launch of the Target Group's new businesses will delay to the second quarter of 2021.

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Customers of the Target Group

During the seven months ended 30 November 2020, the OPCO had over 100 customers, most of which was car dealer, car trading company, car-related service provider, and individual. The top five customers of the OPCO accounted for approximately 12.7%, 5.6%, 5.6%, 4.1% and 3.4% of the OPCO's total revenue during the seven months ended 30 November 2020. The background of customers is diverse as they come from different parts of China, including Hunan, Changsha, Tianjin, Xinjiang, Guangzhou, Dongguan, and Huizhou etc. According to Mr. Tong, some of the customers approached the OPCO directly, while some were introduced via business referrals and Mr. Tong's business relationship. Details of the top five customers of the OPCO's ordering services and advertising services during the seven months ended 30 November 2020 are as follows:

Name of customers	Background ¹	Approximate percentage of revenue contributed to the respective revenue stream
Ordering services		
Customer A	A company incorporated in the PRC and engaged in sales of cars (except second-hand cars) and auto parts etc.	6.19%
Customer B	A company incorporated in the PRC and engaged in automobile and spare parts wholesale; automobile retail, automobile leasing, and automobile licensing agency service etc.	5.80%
Customer C	A company incorporated in the PRC and engaged in sales of new energy vehicles, commercial vehicles, branded vehicle and second-hand vehicle, wholesale of automobiles and spare parts, and car maintenance service etc.	5.69%

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Name of customers	Background¹	Approximate percentage of revenue contributed to the respective revenue stream
Customer D	A company incorporated in the PRC and engaged in car maintenance service, vehicle insurance, traffic insurance, car leasing, second-hand car brokerage, sales of cars and accessories etc.	5.59%
Customer E	A company incorporated in the PRC and engaged in car rental and sales of cars, auto parts, building materials, and hardware products etc.	5.27%
Advertising services		
Customer F	A company incorporated in the PRC and engaged in sales of new automobiles, used car and car decoration products, wholesale of auto parts and accessories, and sales of new energy vehicles etc.	15.37%
Customer G	A company incorporated in the PRC and engaged in sales of automobile retail, branded automobiles and automobile interior products, second-hand car operation, automobile leasing, and automobile cleaning services etc.	6.76%
Customer H	A company incorporated in the PRC and engaged in repair and maintenance of automobiles and motorcycles, retail of automobiles, automobile licensing agency services, car parts manufacturing, and car rental etc.	6.76%

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Name of customers	Background¹	Approximate percentage of revenue contributed to the respective revenue stream
Customer I	A company incorporated in the PRC and engaged in sales of automobiles and auto supplies, retail of electric vehicles, wholesale of auto parts and accessories, second-hand car management, and car leasing etc.	4.92%
Customer J	A company incorporated in the PRC and engaged in automobile technology research and development, technology transfer, sales of automobiles, auto parts, auto supplies etc.	4.13%

Note 1: The businesses of the customers mentioned above are based on the business scope (經營範圍) of these customers in the search reports of them obtained through a PRC search agent (i.e. TianYanCha (天眼查)) and are not exhaustive. The Company has not done any further due diligence work to ascertain whether the customers indeed carried out the businesses mentioned in the search reports.

Based on the search reports of the aforesaid major customers obtained through TianYanCha (天眼查), the ultimate beneficial owners of the aforesaid major customers are Independent Third Parties and the Company is not aware of any relationship among the customers.

During the seven months ended 30 November 2020, Honggao Technology recorded over 50,000 orders in its ordering services from over 90 customers and over 300 orders in its advertising services from over 40 customers.

Owing to the nature of the OPCO's business, it did not have any major supplier.

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Expected capital requirement for the development of the Target Group's business

The total capital requirement of the Target Group by the end of 2025 is expected to be RMB80 million, of which RMB30 million will be used in developing partnership with distributors in 300 cities, RMB20 million will be used in online and offline marketing, and RMB30 million will be used in research and development, upgrading the e-commerce platform, purchase of fixed assets, and hiring etc. The Company plans to fund the expected expenditures by the Group's internal resources and net profits generated from the operation of the Target Group. The Target Group recorded a total net profit after taxation of approximately RMB11.7 million during the seven months ended 30 November 2020 and the estimated capital contribution of RMB80 million will be used to further develop the business of the OPCO (including developing partnership with distributors, marketing, research and development and hiring etc.). Such estimate is not an obligation imposed on the Group but the Group's intention to further develop the business of the Target Group and will be funded by the Group's internal resources and profits generated from the operation of the Target Group throughout the years until 2025. The estimate capital contribution of business development is subject to adjustment if there is any unexpected change in circumstances in relation to the business of the Target Group.

Management team of the Target Group

As at the Latest Practicable Date, the OPCO had 20 employees. The OPCO plans to hire 10 additional staff by first quarter of 2021. The employees are generally divided into six function: senior management, management (headquarters), management (regional), technology (research and development), administration, and finance. The senior management team lead by Mr. Tong comprised of five persons, including, Mr. Tong, Mr. Qiao bin* (喬斌), the general manager, who has 20 years of experience in the automobile industry and previously worked as general manager in Beiqi Pengloung Carrier (Tianjin) Automobile Service Co., Ltd.* (北汽鵬龍開利(天津)汽車服務有限公司); Mr. Ding Feng* (丁峰), the director of technology (research and development), who possesses over 15 years of experience in software development gained through working in various technology companies; Mr. Song Jiabin* (宋嘉斌), the director of system development, who worked in the car industry for 15 years and experienced in leading his team to meet sales targets; and Mr. Lu Jinjin* (呂津津), who is responsible for managing the accounting and financial matters of the OPCO. As at the Latest Practicable Date, each of Mr. Qiao Bin* (喬斌), Mr. Ding Feng* (丁峰), Mr. Song Jiabin* (宋嘉斌) and Mr. Lu Jinjin* (呂津津) entered into an employment declaration and undertaking in the form as agreed by the Company, which is condition precedent (F) to the Sale and Purchase Agreement. The expected remuneration payable to the senior management members of the OPCO is around RMB900,000 per annum in aggregate.

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Intellectual property rights of the Target Group

(a) Trademark

As of the Latest Practicable Date, the OPCO has registered the following trademarks which are related to the OPCO's business:

No.	Trademark	Registered owner	Registration number	Place of registration	Class	Date of registration	Expiry date
1.		Shishou City Swan Island Development Zone Taopinqu E-commerce Studio* (石首市天鵝洲開發區淘品趣電子商務工作室) ^(Note1)	40495845	PRC	09	14 April 2020	13 April 2030
		Shishou City Swan Island Development Zone Taopinqu E-commerce Studio* (石首市天鵝洲開發區淘品趣電子商務工作室) ^(Note1)	40514192	PRC	42	14 April 2020	13 April 2030

Note:

- (1) The rights of the two trademarks were assigned by the registered owner to the OPCO from 22 October 2020 until the completion of the transfer of the trademarks; and the OPCO filed the applications on 26 November 2020 to the Trademark Office of National Intellectual Property Administration of PRC to register the transfer of the two trademarks.

(b) Mobile application

As at the Latest Practicable Date, the OPCO has owned, operated and/or developed the following mobile applications which are related to the OPCO's business:

No.	Name of mobile application	Registered owner	Registration number	Place of registration	Registration date
1.	暢遊汽車APP	OPCO	2020SR0818928	PRC	23 July 2020
2.	暢遊星空APP	OPCO	2020SR0818921	PRC	23 July 2020

According to Mr. Tong, both of the mobile applications were developed by an outsourced supplier (which is not related to Mr. Tong or his associate) and the costs/expenses of developing and maintaining the two mobile applications incurred up to 30 November 2020 was approximately RMB5 million and RMB0.9 million, respectively. It is anticipated that the maintenance costs of the two mobile applications is around RMB2 million per year.

One unique feature that makes Changyou Car outstanding from other e-commerce platforms is that it will provide an online cross-regional B2B trading of automobiles supported with offline delivery and acceptance services. According to the management of the OPCO, (i) the professionally produced content of the two mobile applications include but not limited to car quotation upload, car source upload, group purchase arrangement, online car search, car source matching with the online library, automobile industry information upload and the third-

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party payment platform; (ii) the user generated contents include but not limited to details of e-shop of the users, cars put on sale, and automobile industry information; (iii) two mobile applications will list out the following information of the subject automobile: specification, model, color, price, status, purchase procedures, configuration, VIN code, location of vehicle, and production date; (iv) the average number of daily unique visitors is around 900, the average time spent per user is around 20 minutes per day, and the average daily page view is 21 quotations; and (v) as at 30 November 2020, the automobile library of the two mobile applications recorded over 2800 car models, over 22000 cars, and over 4500 registered car sellers.

(c) Domain name

As of the Latest Practicable Date, the OPCO has registered the following domain name which are related to the OPCO's business:

No.	Domain name	Registered owner	Registration/filing number	Registration/filing date
1.	honggaotech.com	OPCO	津ICP備20004519號-1	16 June 2020

As advised by the OPCO and the PRC Legal Adviser, there is no other intellectual properties which are required by the OPCO in order to obtain the relevant license and qualification for carrying out its business.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the design, sourcing, manufacturing and sales of its branded menswear in the PRC. As disclosed in the 2020 interim report of the Company, the Group's revenue and gross profit generated from continuing operations decreased by approximately 32.5% and 40.0% from RMB140.5 million and RMB53.6 million in the first half of 2019 to RMB94.9 million and RMB32.2 million in the first half of 2020, respectively. The Group recorded a loss for period of RMB67.1 million for the first half of 2020, as compared to a loss of RMB46.1 million for the same period in 2019. As disclosed in the 2020 interim report of the Company, due to the combined effect of the COVID-19 pandemic and the slowdown of China's economic growth, PRC consumer's interest in branded products has been declining and customers are more inclined to buy fast fashion, which has made the business environment more complicated. Hence, the Directors are of the view that the operating environment of PRC's branded menswear industry is very difficult.

As set out in the announcements of the Company dated 25 September 2020 and 28 October 2020, the Group has been looking for business opportunities in China in respect of online e-commerce platform combined with an offline trading service system, which coordinate with China's major e-commerce platforms and major distributors to carry out automotive sales business.

The Company has been exploring business opportunities in the automobile industry in the PRC since 2018. One of the ways to gain access to the PRC automobile industry quickly is through acquisition and the Company has been looking for potential acquisition from time to time. For example, on 31 August 2018, the Company entered into a memorandum of

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understanding to acquire Chedana (Tianjin) Import and Export Trade Co., Limited* (車大拿(天津)進出口貿易有限公司), which operates in the PRC with its primary business operation in the selling of parallel imported car, providing custom declaration service and logistic service. On 23 September 2019, the Company entered into a memorandum of understanding to acquire the controlling interest in Shanghai Netstore E-commerce Co., Ltd.* (上海網商電子商務有限公司), which is principally engaged in the business of sales and marketing of automobiles through Internet in the PRC. However, the Company was not able to complete the potential acquisitions aforementioned due to different reasons, including the parties were not able to agree on the consideration as the Board considered that the consideration proposed by the seller was too high.

Having considered the (i) the financial performance of the Group and the challenging business environment of the PRC's branded menswear industry; (ii) the prospect of automotive industry in the PRC as supported by the historical growth of the disposable income nationwide per capita in PRC, the historical growth of the automotive market in PRC, and the favourable policies adopted by the PRC government, details of which are set out in the section headed "INFORMATION OF THE TARGET GROUP AND THE OPCO — Industry overview"; and (iii) the e-commerce business model (including two mobile apps), financial performance and the prospects of the Honggao Technology despite the short operating period, details of which are set out in the section headed "INFORMATION OF THE TARGET GROUP AND THE OPCO", the Board is of the view that the Acquisition will be a major step taken by the Company to expand and diversify its business and activities to share the results of development of China's huge automotive market, with a view to create new sources of income stream and to maximize the return to the Company and the Shareholders in the long run.

The Directors have used their best endeavors to conduct due diligence works on the Target Group, including the following:

- (a) engaged the PRC Legal Adviser to advise the Board on the laws and regulations in relation to the business of the OPCO and the VIE Agreements;
- (b) engaged the PRC Legal Adviser to consult the approving regulatory authority of the OPCO;
- (c) engaged the PRC Legal Adviser to conduct due diligence on certain aspect of the OPCO, including but not limited to due incorporation, shareholders, directors, related-party transactions and competing business, business scope and licences, major assets, intellectual property rights, tax, employment, and litigation etc, and no major adverse finding was observed;
- (d) engaged the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements and the transactions contemplated thereunder;
- (e) discussed with the auditors of the Company which have confirmed that under the prevailing accounting principles of the Company, the Company has the right to consolidate the financial results of the OPCO in its consolidated accounts as if it were a subsidiary of the Target Company;

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- (f) discussed with the management of the OPCO on matters including the current business status, business model, future business plan, potential future co-operation partners and the like; and
- (g) reviewed the financial information of the OPCO.

As disclosed in the Company's announcement dated 23 October 2020, the Company acquired 100% equity interest in Tianjin Free Trade Pilot Zone Blue High-Tech Co. Ltd.* (天津自貿試驗區藍高科技有限公司) (“**Tianjin Blue**”) from Mr. Shi Wenlin* (石文琳) (“**Mr. Shi**”) (the “**2020 Acquisition**”). To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, immediately prior to the completion of 2020 Acquisition, Tianjin Blue (including its then ultimate beneficial owner, being Mr. Shi) are Independent Third Parties. Mr. Shi and Tianjin Blue were identified by Mr. Tong through his business connections. As Mr. Tong possesses the relevant experiences and knowledge in the business which Tianjin Blue operates in, he was responsible to negotiate on behalf of the Company in the 2020 Acquisition. Prior to approving the 2020 Acquisition, the Board conducted due diligence review on aspects including financial and tax, and no issue was found. The consideration of approximately RMB1.46 million was determined primarily with reference to the net asset value of Tianjin Blue. As such, the Board is of the view that the terms of the 2020 Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Tianjin Blue is engaged in, among others, software development, internet operations, sales of automobiles and parts and equipment thereof, as well as the provision of information consulting services and property management, exhibition and display services. Tianjin Blue has a management team of 12 persons which is experienced in automotive marketing management and network platform operations management. Mr. Shi is currently a director and the general manager of Tianjin Blue and part of the management team. In addition, selected senior management and core staff of the OPCO have agreed to remain in the OPCO upon the Acquisition. As such, upon completion of the Acquisition, the management team of the Tianjin Blue and the OPCO will assist in the management of the automobile e-commerce business of the Group under the leadership of the Directors. Among the Directors, leveraging on Mr. Tong's experiences in e-commerce and automobile industry in the PRC, he would be specifically tasked to develop and contribute to the success of the automobile e-commerce business of the Group. On the other hand, Mr. Kwok Kin Sun, the founder of the Group and chairman of the Board, will continue to lead and focus the Company's branded menswear business. As at the Latest Practicable Date, the Company had no intention to dispose or downsize its branded menswear business within the next 12 months.

Having considered that (a) the party to the acquisition agreement regarding Tianjin Blue (i.e. the seller being Mr. Shi) and the party to the Sale and Purchase Agreement and the Supplemental Agreement (i.e. the ultimate beneficial owner of the Vendor and guarantor being Mr. Tong) are different; (b) the management of Tianjin Blue will not receive any additional compensation upon Completion; (c) none of the senior management members of Tianjin Blue are related to Mr. Tong and his associates; and (d) Mr. Shi is an Independent Third Party and not connected to Mr. Tong nor the OPCO, the Board is of the opinion that Acquisition should not be aggregated with the acquisition of Tianjin Blue under Chapter 14 and/or 14A of the Listing Rule.

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In light of the above, the Directors (including the independent non-executive Directors but excluding Mr. Tong, who abstained from voting on the resolutions in relation to Sale and Purchase Agreement and the Supplemental Agreement) consider that the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INFORMATION OF THE VIE AGREEMENTS

The OPCO is principally engaged in the operation of sales and market of automobiles through an online e-commerce platform and holds certain licenses and permits that are essential to the operation of such business, such as Internet Content Provider Licence (“**ICP Licence**”). Under the PRC laws, the OPCO is considered to be engaged in the provision of value-added telecommunications services.

(1) The Exclusive Business Consultation and Technical Services Agreement

- Parties: (a) the OPCO;
- (b) the WFOE; and
- (c) Mr. Tong.
- Term: Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term in accordance with PRC laws.
- Subject: The OPCO shall engage the WFOE on an exclusive basis to provide the following technical support, consulting services and other services:
- (i) consulting services in relation to the sales, management, market information of the automobile industry;
 - (ii) research and development, operation, software update, upgrade, maintenance and technical consulting services in relation to mobile app;
 - (iii) purchase of hardware equipment and technical consulting services, installation, daily management, maintenance and upgrade of hardware equipment and database;
 - (iv) e-commerce technical consulting services;
 - (v) brand marketing, product promotion strategies, customer maintenance services and manage consulting services;
 - (vi) employee technical trainings and management consulting services; and

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(vii) other related business support and services permissible under the PRC laws as agreed by the WFOE and the OPCO.

Fee: For the services provided by the WFOE under the Exclusive Consultation and Technical Services Agreement, the OPCO shall pay, to the WFOE, at the end of each financial year, a services fee that is equal to the profits (including accumulated profits from the prior financial years) after compensating the losses recorded in the prior year (if needed) and deducting all necessary costs, expenses or taxes as required under the PRC laws.

(2) The Exclusive Purchase Right Agreement

Parties: (a) the OPCO;
(b) the WFOE; and
(c) Mr. Tong.

Term: Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term of operation in accordance with the PRC laws.

Subject: Mr. Tong irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase all or part of their equity interests in the OPCO at RMB1 or the lowest price permissible under the PRC laws and the relevant government authorities.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC laws.

Mr. Tong shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of his equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders' meetings and the meetings of the board of directors.

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The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

Undertakings and covenants:

Mr. Tong and the OPCO jointly and severally agree and undertake that, without the prior written consent from the WFOE, the OPCO would not (and Mr. Tong would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to the following:

- (i) Conducting business beyond the usual and normal scope or inconsistent with past practice of the OPCO;
- (ii) Approving merger, consolidation, acquisition or restructuring of the OPCO's main business or assets, or otherwise any kind of acquisition or investment;
- (iii) Providing loan to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of the OPCO;
- (iv) Incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, and providing any form of guarantee in favour of any third party with its assets or creating any other encumbrance on any of its assets;
- (v) Supplementing or modifying the articles of association of the OPCO, increasing or decreasing the OPCO's registered capital or otherwise changing the OPCO's registered capital structure;
- (vi) Distributing dividends or equity entitlements unless with written request from WFOE. After such distribution, Mr. Tong shall within three business days inform the WFOE of such distribution and transfer all such dividends or equity entitlements to the WFOE at nil consideration;
- (vii) Entering into any material agreements (it is at the WFOE's discretion to determine what constitute "material agreements" and any agreements involving an amount of RMB100, 000 or above will be deemed as material agreements);

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- (viii) Selling, transferring, securing or otherwise disposing of the OPCO's business or income;
- (ix) Terminating, dissolving or liquidating the OPCO and distributing its remaining assets; or
- (x) Procuring any OPCO's subsidiary or associated company to enter into any above-mentioned transaction or agreement, or executing other document that may result in the above-mentioned transaction.

In addition, the OPCO agrees and covenants to the WFOE that it shall, among others:

- (i) Unconditionally accept proposals raised by the WFOE, including but not limited to the engagement and replacement of employees, daily operations, dividend distribution and financial management systems of the OPCO and the OPCO shall strictly abide by and perform accordingly;
- (ii) Unconditionally transfer the business licence, company's seal and other important documents of the OPCO to the directors designated by the WFOE;
- (iii) Maintain the OPCO's corporate existence in accordance with good financial and business standards and usual practices by prudently and effectively operating its business and handling its affairs;
- (iv) Conducting the OPCO's business in the ordinary course of business to maintain the asset value of the OPCO and refraining from any act or omission that may adversely affect the OPCO's operation and asset value;
- (v) Permit the WFOE to inspect the OPCO's accounts regularly and at any time, and at the WFOE's request, providing the WFOE with relevant information, providing information regarding the OPCO's operation, business, customers, finance, staffing, etc. for the WFOE, its auditors and/or other professionals for any audit and due diligence exercise, and allowing the WFOE and its shareholders to disclose such information in accordance with relevant securities regulations;

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- (vi) If requested by the WFOE, purchase and maintain insurance in respect of the OPCO's assets and business from an insurer acceptable to the WFOE, at an amount and type of coverage which are typical for companies that operate similar business;
- (vii) If requested by the WFOE in writing, pledge all receivables and all other assets as security for performing its obligations to pay the services fees under the Exclusive Business Consultation and Technical Services Agreement;
- (viii) Immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the OPCO's assets, business or revenue;
- (ix) Immediately notify the WFOE of the occurrence or possible occurrence of any circumstances which may have a material adverse effect on the OPCO's business and operations, and try its best to avoid such circumstances and/or mitigate the loss arising thereof; and
- (x) Executing all necessary or appropriate documents, taking all necessary or appropriate actions, and filing all necessary or appropriate complaints or raising necessary and appropriate defences against all claims so as to maintain OPCO's ownership of all its assets.

(3) The Loan Agreement

Parties:

- (a) the WFOE (as lender); and
- (b) Mr. Tong (as borrower).

Principal:

The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB10,000,000 to Mr. Tong. The Loan has to be injected by Mr. Tong to the OPCO for the OPCO's research and development of mobile app, operation and providing services. As at the Latest Practicable Date, the WFOE has not provided any loan pursuant to the Loan Agreement to Mr. Tong.

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Term: Ten (10) years from the date of provision of loan from the WFOE to Mr. Tong, unless the WFOE informs Mr. Tong in writing 30 days before the expiry date that it will not extend the term, the term will be renewed automatically every ten (10) years. Mr. Tong unconditionally agrees and accepts such renewal.

Repayment: When exercising the exclusive purchase right granted by the Exclusive Purchase Right Agreement, the WFOE may set off the consideration against the outstanding amount of loan owned by Mr. Tong. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of loan, WFOE has agreed to waive the obligation of Mr. Tong to repay the residual outstanding amount of loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of loan, the discrepancy would be treated as interests or costs of borrowing of the loan and waived by Mr. Tong. Accordingly, the WFOE is not required to pay extra consideration to Mr. Tong for the transfer under the loan arrangement.

(4) The Equity Pledge Agreement

Parties: (i) the WFOE (as pledgee); and
(ii) Mr. Tong (as pledgor).

Term: Effective upon execution and shall remain binding until Mr. Tong discharges all his obligations under the other VIE Agreements in full.

Subject: Mr. Tong agrees to pledge all of their shares in the OPCO to the WFOE to secure the performance of all his obligations and the obligations of the OPCO under the VIE Agreements.

Any dividend and/or other distribution generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

(5) The Authorisation Agreement

Parties: (a) the OPCO;
(b) the WFOE; and
(c) Mr. Tong.

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Term: Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term of operation in accordance with the PRC laws.

Subject: Mr. Tong irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase all or part of their equity interests in the OPCO at RMB1 or the lowest price permissible under the PRC laws and the relevant government authorities.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC laws.

Mr. Tong shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of his equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders' meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

Undertakings and covenants: Mr. Tong unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of his rights as shareholder of the OPCO under PRC Laws, including but not limited to:

- (i) Convening, attending and participating shareholder's meetings of the OPCO, receiving relevant notice or document relating to the shareholders' meetings;
- (ii) Discussing and voting in shareholder's meetings of the OPCO;

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- (iii) Signing and delivering any written resolutions and minutes of shareholder's meetings of the OPCO and any other documents required to be signed by the shareholder of the OPCO, and submitting documents with relevant companies registry for filing purpose;
- (iv) Selling, transferring, securing or disposing of the shares held by Mr. Tong in the OPCO;
- (v) Supervising the economic performance of the OPCO;
- (vi) Exercising full usage right of the OPCO's financial information;
- (vii) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders;
- (viii) Approving annual budget or declaring dividend;
- (ix) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO;
- (x) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and
- (xi) Exercising all other shareholder's rights under laws and regulations and articles of association of the OPCO.

Mr. Tong irrevocably undertakes that:

- (i) Unless with written consent from the WFOE, he will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of the OPCO, its holding shareholder or its ultimate holding shareholder;
- (ii) In case Mr. Tong is also a director or senior management of the WFOE, its holding company or its ultimate holding company, a director or member of the senior management, other than Mr. Tong, as designated or authorized by the WFOE or its the ultimate holding company, shall be assigned to exercise the rights under this Authorisation Agreement;

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(iii) None of his actions or omissions will give rise to conflict of interests between himself and the WFOE (including the shareholders of the WFOE); and

(iv) In the event of any conflict of interests between himself and the WFOE or its holding company (including its respective holding company) or the ultimate holding company, he will give priority to protect and cause no harm to the interests of the WFOE, its holding Company, or its ultimate holding company.

(6) The Intellectual Property License Agreement

Parties: (a) the OPCO;
(b) the WFOE; and
(c) Mr. Tong.

Term: Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term of operation in accordance with the PRC Laws. The Intellectual Property License Agreement shall be terminated automatically upon transfer of all equity interest or assets of the OPCO to the WFOE (and/or other foreign-owned or foreign entity designated by its ultimate parent company) pursuant to the VIE Agreements.

Subject: The WFOE agrees to grant to the OPCO the non-transferrable right to use certain intellectual property rights in the PRC in relation to the development, operation, and maintenance of online platform, if any. The OPCO may only use such intellectual property rights in operating its business.

Fee: The fees shall be included in the services fees payable by the OPCO to the WFOE under the Exclusive Business Consultation and Technical Services Agreement.

(7) The Spousal Consent Letter

Parties: The spouse of Mr. Tong.

Subject: The spouse of Mr. Tong irrevocably agrees that, among others:

(i) All the equity interests held by Mr. Tong in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;

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- (ii) No consent or rectification is needed from her in case Mr. Tong executes any legal document to perform, amend, or supplement the VIE Agreements;
- (iii) All the benefits generated from the equity interests in the OPCO belong Mr. Tong and can be dealt with in any way without the consent of his spouse;
- (iv) She shall be bound by the relevant VIE Agreements in the event that she obtains any equity interest in the OPCO held by Mr. Tong for any reason; and
- (v) She shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by Mr. Tong's obligations under the VIE Agreements.

The VIE Agreements will be made available on the Company's websites, www.fordoo.cn, from the date of this circular.

DISPUTES RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE VIE AGREEMENTS

Dispute Resolutions

The VIE Agreements are governed by and will be constructed in accordance with the PRC Laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within thirty (30) days, any party may submit the said dispute to Tianjin Arbitration Commission (天津仲裁委員會) in accordance with its then effective arbitration rules. The place of arbitration shall be in Tianjin and the language of arbitration shall be Chinese. As per the VIE Agreements, the arbitrators may award remedies over the business operation of the OPCO, the equity interest or assets of the OPCO, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the OPCO. The results of the arbitration shall be final and binding on the parties. In addition, the VIE Agreements contain provisions to the effect that parties may seek interim remedies from any courts of competent jurisdiction. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, BVI (being the place of incorporation of the Target Company), Cayman Islands, the PRC.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of Mr. Tong, as if the successor were a signing party to the VIE Agreements. Although the VIE Agreements do not specify the identity of successors to Mr. Tong, under the succession law of

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the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements.

In addition, the spouse of Mr. Tong has made certain consents, confirmations and the undertakings, including an undertaking to be bound by the relevant VIE Agreements in the event that she obtains any equity interest in the OPCO held by Mr. Tong for any reason, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (7) Spousal Consent Letter” in this circular.

Mr. Tong has undertaken to the Company that, subject to the relevant PRC laws and regulations, he must return to the Company any consideration he receives in the event that the Company acquires the OPCO’s shares when terminating the VIE Agreements.

Mechanism to deal with death or divorce of the shareholder of the OPCO

Appropriate provisions have been incorporated in the VIE Agreements to protect the Group’s interests in the event of death or divorce of the sole shareholder of the OPCO, Mr. Tong. The VIE Agreements have certain provisions which set out that the respective agreement shall be binding on the assignees or successors of Mr. Tong, details of which are set out in the section above headed “INFORMATION OF THE VIE AGREEMENTS”.

Bankruptcy

The PRC Legal Adviser has advised that under the PRC laws, there is no concept of bankruptcy of a natural person and hence it is impossible for Mr. Tong to become bankrupt.

Liquidation

Pursuant to the Exclusive Purchase Right Agreement, when the WFOE exercises its right to dissolve and liquidate the OPCO, if Mr. Tong receives any residual assets and proceeds upon dissolution or liquidation, they shall return such residual assets and proceeds to the WFOE at nil consideration.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between Mr. Tong and the Group. Mr. Tong has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “INFORMATION OF THE VIE AGREEMENTS — (5) The Authorisation Agreement” in this circular.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The VIE Agreements contain certain provisions in order to exercise effective control over and to safeguard the assets of the OPCO.

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In addition to the internal control measures as provided in the VIE Agreements, it is the intention of the Company, following completion of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) to adopt, through the WFOE to adopt additional internal control measures against the OPCO as appropriate, having regard to the internal control measures to be adopted by the Group from time to time, which may include but not limited to:

Management controls

- (a) the Group will appoint one representative (the “**Representative**”) to the board of the OPCO mainly responsible for exercising all management controls of the OPCO. The Representatives are required to express opinions on behalf of the Company in the board of the OPCO and decide on major issues based on the Company’s opinions;
- (b) the Representative shall report any major events of the OPCO to the chief financial officer of the Company (the “**CFO**”), who must in turn report to the Board through the secretary of the Company (the “**Company Secretary**”);
- (c) the CFO shall conduct regular site visits to the OPCO and conduct personnel interviews quarterly and submit reports to the Board; and
- (d) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of the OPCO must be kept at the office of the WFOE or any other proper locations as specified by the Company.

Financial controls

- (a) the CFO shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO within 15 days after each month end for review. Upon discovery of any suspicious matters, the CFO must report to the Board through the Company Secretary;
- (b) if the payment of the services fees by the OPCO to WFOE is delayed, the CFO must meet with Mr. Tong to investigate, and should report any suspicious matters to the Board through the Company Secretary. In extreme cases, Mr. Tong will be removed and replaced;
- (c) the OPCO must submit copies of latest bank statements for every bank accounts of the OPCO within 15 days after the end of each month; and
- (d) the OPCO must assist and facilitate the Company to conduct all on-site internal audits on the OPCO if required by the Company.

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Legal review

- (a) the Representative will consult the Company's PRC Legal Adviser from time to time to keep track of any legal developments in relation to the arrangement contemplated under the VIE Agreements, and should immediately report to the Board so as to allow the Board to determine if any actions are required to be taken;
- (b) as part of the internal control measures, the Board shall review on a regular basis of the implementation and performance of the VIE Agreements. The Board may engage legal advisors and/or other professionals to deal with specific issues arising from the VIE Agreements, if necessary; and
- (c) the Company shall review on a regular basis the compliance of the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the VIE Agreements.

COMPLIANCE OF VIE AGREEMENTS WITH PRC LAWS, RULES AND REGULATIONS

Laws and regulations relating to the value-added telecommunications services business in the PRC

According to the Foreign Investment Law of the People's Republic of China* (the "**Foreign Investment Law**") (中華人民共和國外商投資法實施條例) which took effect on 1 January 2020, the state shall implement the management systems of pre-establishment national treatment and negative list for foreign investment. Foreign investors shall not invest in any field forbidden by the negative list for access of foreign investment. For any field restricted by the negative list for access of foreign investment, foreign investors shall conform to the investment conditions provided in the negative list. According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020) ("**Negative List 2020**") which became effective on 23 July 2020, foreign investment in value-added telecommunications services business in the PRC is restricted to less than 50% equity interests holding.

As advised by the PRC Legal Adviser, according to Article 6 of the Regulations on the Administration of Foreign-invested Telecommunications Enterprises* (中華人民共和國外商投資電信企業管理規定) (the "**Regulations on Foreign-invested Telecommunications Enterprises**") and Negative List 2020, the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%; and according to Article 10 of the Regulations on Foreign-invested Telecommunications Enterprises, a foreign investor who invests in a value-added telecommunications services company shall have a good track record and expertise in operating value-added telecommunications business in the PRC (the "**Qualification Requirement**"). According to the PRC Legal Adviser, and as confirmed by the section chief of the industries division* (產業處科長) the Tianjin Commission of Commence* (天津市商務局) on 14 December 2020, there is no law, rule or regulation under the PRC laws that provides guidance as to the interpretation of the Qualification Requirement.

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Despite there is no clear interpretation as to the Qualification Requirement, the Company will take the following steps, including but not limited to set up a subsidiary in Hong Kong for the purpose of engaging in the business of running online electronic platform and providing value-added services, rent an office to expand such businesses overseas and acquire three domain names for promotion to ensure the Company will be able to fulfil the Qualification Requirement.

The PRC Legal Adviser is of the view that, according to the Regulations on Foreign-invested Telecommunications Enterprises, and the Negative List 2020, and as having consulted the section chief of the industries division* (產業處科長) of the Tianjin Commission of Commence* (天津市商務局) on 14 December 2020, the Company, as a foreign entity, is not allowed to hold over 50% direct interest in the OPCO, and further, since the Company (or its subsidiaries) does not possess the relevant operation experience in the value-added telecommunications services business in the PRC, and therefore not satisfying the Qualification Requirement and it is not allowed to hold any direct interest in the OPCO.

As confirmed by the PRC Legal Adviser, the Tianjin Commission of Commence* (天津市商務局) is the competent and authorised government authority to regulate foreign investment and e-commerce business and to interpret the relevant PRC laws regarding the entry into the value-added telecommunication services business in Tianjin and the officer is in the capacity to give the above confirmation.

According to the PRC Legal Adviser, the business of the OPCO (including conducting advertising services, ordering services, sales services, trading services and value-added services through internet) falls within the definition of value-added telecommunication services and therefore restricted under the PRC laws and regulations. In light of the PRC laws and regulations, the Company is restricted to directly hold interest in the OPCO and a VIE structure has to be adopted according to the PRC Legal Adviser.

In light of the above, the WFOE, the OPCO and Mr. Tong have entered into the VIE Agreements to enable the financial results, the economic benefits and the risks of the businesses of the OPCO to flow into the WFOE and to enable the WFOE to gain control over the OPCO.

The PRC Legal Adviser, after taking reasonable actions and steps to reach its legal conclusions, is of the legal opinions that, among others:

- (1) the OPCO and the WFOE are duly established and validly existing under the PRC laws; none of the VIE Agreements violates any provisions of the existing articles of association of the OPCO;
- (2) the execution of the VIE Agreements do not require any approvals from any PRC governmental authority, except that (a) the Equity Pledge Agreement is subject to registration requirements with the relevant authorities, and the exercising of the exclusive option by the WFOE according to the Exclusive Purchase Right Agreement shall be subject to the then effective PRC laws and regulations and relevant approval

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procedures (if applicable); and (b) the authorization granted by the WFOE to the OPCO to use certain intellectual property rights in the PRC is subject to registration requirements with the relevant authorities;

- (3) each of the VIE Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and will be enforceable under applicable PRC laws and regulations except that (a) the arbitration commission has no power to restrict the operations of the OPCO, impose restrictions on the OPCO's asset, nor able to order the winding up of the OPCO pursuant to the current PRC laws; and (b) interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognized or enforceable in the PRC;
- (4) the VIE Agreements are subject to the Foreign Investment Law and Regulations for the Implementation of the Foreign Investment Law* (中華人民共和國外商投資法實施條例), but there is no prohibition of the VIE Agreements in the aforesaid laws and regulation;
- (5) as confirmed by the Tianjin Commission of Commerce (天津市商務局), being a regulatory body of the OPCO's business, on 14 December 2020, (a) the Company, as a foreign entity, is not allowed to hold over 50% direct interest in the OPCO, and further, since the Company (or its subsidiaries) does not possess the relevant operation experience in the value-added telecommunications services business in the PRC, it is not allowed to hold any direct interest in the OPCO; (b) there is no clear procedure or guidance on how a foreign entity can fulfill the restrictions on foreign ownership; and (c) there is no restriction on the use of VIE structure under the VIE Agreements in the PRC laws and regulations;
- (6) the OPCO and has obtained or completed requisite licences, applications, registrations or filings for carrying out its existing business operations as required by the applicable PRC laws, regulations and rules; and
- (7) the VIE Agreements do not, individually or collectively, violate the mandatory provisions under clause 52 of the PRC Contract Law* (中華人民共和國合同法) and would not be deemed as "concealing illegal intentions with a lawful form" and void under the VIE Agreements.

REASONS FOR ADOPTING THE VIE STRUCTURE

The primary purpose for the Group to adopt the VIE structure is to enable the Group to provide the sales and market of automobiles through an online e-commerce platform indirectly through the OPCO, thereby deepening the Group's reach to the business segment of services as well as widening the Group's customer base. However, due to the foreign ownership restrictions under the PRC laws as outlined above, the Group was not able to engage in the value-added telecommunications services business directly without first adopting the VIE structure.

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In order to comply with the PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and Mr. Tong. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, in particular the advice provided by the PRC Legal Adviser, the Board (excluding Mr. Tong, who abstained from voting on the resolutions to the VIE Agreements proposed to the Board) is of the view that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and minimize the potential conflicts with and are enforceable under the relevant PRC Laws. The VIE Agreements enable the WFOE to gain control over the OPCO and to be entitled to the economic interests and benefits of the OPCO.

Pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO.

The Directors (excluding Mr. Tong, who abstained from voting on the resolutions to the VIE Agreements proposed to the Board) further believe that save as disclosed, the VIE Agreements are enforceable under the relevant PRC Laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO.

To the best of the knowledge, information and belief of the Directors (excluding Mr. Tong, who abstained from voting on the resolutions to the VIE Agreements proposed to the Board), having made all reasonable enquiries, and advised by the Company's PRC Legal Adviser as at the date of the circular, the WFOE has not encountered any interference or encumbrance from any governing bodies in operating of the OPCO's business.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

The PRC government may find that the VIE Agreements do not comply with the applicable PRC laws and regulations, which the Target Group may subject to severe penalties or be forced to relinquish our interests received through the VIE Agreements.

The Foreign Investment Law

On 15 March 2019, the National People's Congress approved the Foreign Investment Law, which has come into effect on 1 January 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to unify the corporate legal requirements for both foreign and domestic investments and by way of having a Negative List ("Negative List"). The Negative List, which will be issued by or upon approval by the State Council, refers to special administrative measures for access of foreign investment in specific fields in PRC. A foreign investor shall not invest in any field prohibited from foreign investment under the Negative List.

LETTER FROM THE BOARD

A foreign investor shall meet the investment conditions stipulated under the Negative List for any restricted fields under the Negative List. For fields not mentioned in the Negative List, domestic and foreign investments shall be treated equally. However, the Foreign Investment Law does not stipulate that “foreign investment” as defined thereunder shall include contractual arrangements (which include the VIE structure). Instead, it adds a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes “investments made by foreign investors in China through other means stipulated under laws or administrative regulations or provisions of the State Council” without elaboration on the meaning of “other means”.

The Potential Impact of the Foreign Investment Law on the Target Group

If there is no applicable law or regulation that explains “other means” of foreign investment under which the Foreign Investment Law refers to, or if “other means” of foreign investment are specified under applicable laws or regulations not to include contractual arrangements, it is unlikely that the contractual arrangements (including the arrangements under the VIE Agreements) will be deemed as “foreign investments” under the Foreign Investment Law and therefore shall neither be subject to the Negative List nor be regulated by relevant authorities in accordance with the requirements of the Negative List.

If the business of the OPCO is on the Negative List, unless applicable laws or regulations define contractual arrangements as one of the “other means” of foreign investment, the probability that contractual arrangements are deemed as “foreign investment” under the Foreign Investment Law and be regulated by relevant authorities in accordance with the requirements of the Negative List, which results in the contractual arrangements being deemed as invalid or being required to meet the requirements of the Negative List is low.

If there are other related regulations defining “other means” of foreign investment to include contractual arrangements, the regulations above will not only apply to the OPCO, but also apply to other entities which operate under contractual arrangements.

Measures adopted by the Target Group to mitigate against any potential risk arising from the Foreign Investment Law

Foreign Investment Law does not contain a concrete guidance to deal with the existing VIE structures. As such, the Board will monitor the implementation of the Foreign Investment Law and discuss with the PRC Legal Adviser on a regular basis in order to assess any possible impact arising from the implementation of the Foreign Investment Law on the VIE Agreements and the business operation of the Target Group. In case there would be material and adverse effect on the Target Group or the business of the OPCO arising from the Foreign Investment Law, the Company will timely publish announcements in relation to any amendments to or interpretations of the Foreign Investment Law; and any material impact of the Foreign Investment Law on the Target Group’s operations and financial position.

LETTER FROM THE BOARD

The VIE Agreements may not be as effective in providing control over the OPCO as direct ownership

The Target Company relies on the contractual arrangements under the VIE Agreements with the OPCO to operate the principal business of the OPCO in the PRC. The VIE Agreements may not be as effective as direct ownership in providing the Target Group with control over the OPCO. If the Target Company was the controlling shareholder of the OPCO with direct ownership, it would be able to exercise its rights as a shareholder to effect changes to its board of directors of the OPCO, which in turn could implement changes at the management and operational level. However, under the current contractual arrangements in the VIE Agreements, if the OPCO or its shareholder, Mr. Tong fails to perform its or his respective obligations under the VIE Agreements, the Target Company cannot direct the corporate action of the OPCO as the direct ownership would otherwise entail, and therefore we will be unable to maintain an effective control over the operations of the OPCO.

The VIE Agreements may be subject to scrutiny of the PRC tax authorities and additional taxes may be imposed.

The Target Group may face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into on an arm's length basis. If the PRC tax authorities determine that the VIE Agreements were not entered into on an arm's length basis, they may adjust income and expenses of the OPCO and/or the WFOE for PRC tax purposes, which could result in higher tax liabilities on the OPCO and/or the WFOE. As a result, the financial results of the Target Group may be materially and adversely affected if the PRC tax authorities impose additional taxes or penalties on late payments.

The shareholder of the OPCO may have conflicts of interest with the Target Group, which may materially and adversely affect the Target Group's business and financial conditions

Mr. Tong is the beneficial owner of the OPCO and his interests may differ from the interests of the Target Group as a whole. There is no assurance that when conflicts of interest arise, Mr. Tong will act in the best interests of the Target Group or that such conflicts will be resolved in the Target Group's favour. In addition, Mr. Tong may breach, or cause the OPCO to breach the VIE Agreements. If the Target Company cannot resolve any conflict of interest or dispute with the OPCO, it would have to rely on legal proceedings, which could result in disruption of its business and subject itself to substantial uncertainties as to the outcome of any such legal proceedings. These uncertainties may impede the Target Company's ability to enforce the VIE Agreements. If the Target Company is unable to resolve any such conflicts, or if it experiences significant delays or other obstacles or subject to claims from third parties as a result of such conflicts, its business and operations could be severely disrupted, which could materially and adversely affect its results of operations and damage its reputation.

LETTER FROM THE BOARD

Certain terms of the VIE Agreements may not be enforceable under PRC law

The VIE Agreements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the Tianjin Arbitration Commission (天津仲裁委員會) in Tianjin, the PRC. The language of arbitration shall be Chinese. The results of the arbitration shall be final and binding on the parties. In addition, the VIE Agreements contain provisions to the effect that parties may seek interim remedies from any courts of competent jurisdiction. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, BVI, Cayman Islands, the PRC. However, under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any equity interest in the OPCO in case of disputes. Therefore, such remedies may not be available to the Target Group, notwithstanding the relevant contractual provisions contained in the VIE Agreements.

The Target Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Target Company does not cover the risks relating to the VIE Agreements and the contractual arrangements contemplated thereunder and the Target Company has no intention to purchase any insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the operation of the OPCO, the financial results of the Target Company may be adversely affected. In addition, the Target Company will implement relevant internal control measures to reduce the operational risk.

The WFOE bears economic risks as the primary beneficiary of the OPCO, financial and potential exposure of the Target Company to record losses

As the primary beneficiary of the OPCO, the WFOE will share both profit and loss of the OPCO and bear economic risks which may arise from difficulties in the operation of the OPCO's businesses. The Target Company may have to provide financial support to the OPCO in the event of financial difficulty. In that case, the Target Company's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to it.

There are limitations in exercising the option to acquire ownership in the OPCO

In case the WFOE exercises its option to acquire all or part of the equity interests in the OPCO owned by Mr. Tong under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC Laws and will be subject to necessary approvals and relevant procedures under the applicable PRC Laws. In addition, a substantial amount of costs, expenses or time may be required in transferring the ownership of the OPCO, which may have a material adverse impact on the Target Company's operation.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

Disclosable Transaction

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 5% but all of them are below 25%, the Acquisition constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting and announcement but is exempted from Shareholders' approval requirements.

Connected transaction and continuing connected transactions

As at the Latest Practicable Date, Mr. Tong, being the executive Director, is the ultimate beneficial owner of the Vendor and OPCO. Accordingly, each of the Vendor and the OPCO is an associate of Mr. Tong, and therefore a connected person of the Company. As such, the transactions contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) and VIE Agreements constitute connected transaction and continuing connected transactions of the Company, respectively, under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) exceeds 0.1% but all of them are below 25% and the Consideration is below HK\$10 million, the transactions contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) are subject to the reporting, announcement and annual review requirements but exempted from the circular and the Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the VIE Agreements may exceed 5%, the transactions contemplated under the VIE Agreements are subject to the reporting, announcement, annual review, circular and Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange may waive the general meeting requirement and accept a written shareholders' approval on the conditions that (i) no Shareholder is required to abstain from voting if a general meeting of the Company is held to approve the transactions contemplated under the VIE Agreements; and (ii) approval has been given by a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the Shares in issue giving the right to vote at general meetings to approve the VIE Agreements and the transactions contemplated thereunder.

Incentives

In order to provide incentives to Mr. Tong (being the Guarantor) and other management members as the key management team of the Target Group and retain them for the continual operation and development of the Target Group, the Company may grant share options, award restricted shares and/or provide other incentives to them. As at Latest Practicable Date, there is no binding agreement among the Company, the Vendor and Mr. Tong (being the Guarantor), that obliges the Company to provide such incentives to the Vendor, Mr. Tong or the key

LETTER FROM THE BOARD

management team of the Target Group. In other words, the Company is under no binding obligation to issue any of such incentives to them. In the future, in case the Company decides to provide such incentives, the Company shall comply with the applicable Listing Rules (including Chapter 17 of the Listing Rules), and obtain recommendation from the remuneration committee and the Shareholders' approval, make further announcement where applicable.

APPLICATION FOR WAIVERS

The Company has applied for, and the Stock Exchange has granted, a waiver from the requirement for the Company to convene a general meeting under Rule 14A.37 of the Listing Rules on the basis that: (i) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder had a material interest in the VIE Agreements and the transactions contemplated thereunder, and no Shareholder would be required to abstain from voting if the general meeting of the Company was convened to approve VIE Agreements and the transactions contemplated thereunder; and (ii) a written approval jointly given by Everkept Limited (which is owned as to 70% by Mr. Kwok Kin Sun (who is the spouse of Ms. Wong Tung Yam and father of Mr. Kwok Hong Fung) and 30% by Ms. Wong Tung Yam (who is the spouse of Mr. Kwok Kin Sun and mother of Mr. Kwok Hong Fung) and Equal Plus Limited (which is wholly-owned by Mr. Kwok Hong Fung (who is the son of Mr. Kwok Kin Sun and Ms. Wong Tung Yam)), being a closely allied group of Shareholders, which was interested in an aggregate of 1,087,032,000 Shares in issue (representing approximately 56.51% of the total number of the issued share capital of the Company) as at the Latest Practicable Date, had been obtained by the Company for approving to the VIE Agreements and the transactions contemplated thereunder in lieu of convening a general meeting.

Since the Stock Exchange has granted the aforesaid waiver, no extraordinary general meeting of the Company will be convened for the purposes of considering and approving the VIE Agreements and the transactions contemplated thereunder.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the service fees payable by the OPCO to the WFOE under the Exclusive Business Consultation and Technical Services Agreement, subject to the following conditions:

- (a) *No Change without Independent non-executive Directors' Approval:* No changes to the terms of any of the VIE Agreements will be made without the approval of the independent non-executive Directors;
- (b) *No Change without Shareholders' Approval:* Save as described in paragraph (d) below, no changes to the terms of any of the VIE Agreements will be made without the approval of the Shareholders. Once Shareholders' approval for entering into transactions contemplated under the VIE Agreements has been obtained, no further announcement, circular or approval of the Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The

LETTER FROM THE BOARD

periodic reporting requirement regarding the VIE Agreements in the annual reports of the Company (as set out in paragraph (d) below) will however continue to be applicable;

- (c) *Economic benefit flexibility:* the VIE Agreements shall continue to enable the Group to receive the economic benefits derived by the OPCO through: (i) the WFOE's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in the OPCO; (ii) the business structure under which the revenue generated by the OPCO is substantially retained by the WFOE; and (iii) the WFOE's right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO;
- (d) *Renewal and reproduction:* On the basis that the VIE Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has equity interest, on the one hand, and the OPCO, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business in the PRC as that of the OPCO which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing VIE Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business that the Company may establish upon renewal and/or reproduction of the VIE Agreements will be treated as the connected persons of the Company and transactions between these connected persons and the Company other than those under similar VIE Agreements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws and approvals from the relevant PRC authorities;
- (e) *Ongoing Reporting and Approvals:* the Group will disclose details relating to the VIE Agreements on an ongoing basis as follows:
 - (i) The VIE Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
 - (ii) The independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that a service fee, to be determined at the sole discretion of the WFOE having regard to a series of consideration, such as the operating condition of the OPCO, is payable on a monthly basis by the OPCO to the Group; (ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or

LETTER FROM THE BOARD

reproduced between the Group and the OPCO during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;

- (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten (10) business days before the Company bulk prints its annual report, confirming that the transactions carried out pursuant to the VIE Agreements have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group;
- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the OPCO and its subsidiaries will be treated as the Company's subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the OPCO and their respective associates will be treated as the Company's "connected persons". As such, the transactions between these connected persons and the Group (including for this purpose, the OPCO), other than those under the VIE Agreements, shall comply with Chapter 14A of the Listing Rules; and
- (v) OPCO undertakes that, during the term of the relevant VIE Agreements, it will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review on the continuing connected transactions.

RECOMMENDATIONS

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreements and the transactions contemplated thereunder. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements and the transactions contemplated thereunder. In accordance with Rule 14A.52 of the Listing Rules, the Independent Financial Adviser will also explain why the duration of the VIE Agreements, which exceeds three years, constitutes a special circumstance under Rule 14A.52 of the Listing Rules and is required for the nature of the transactions, and whether it is normal business practice for contracts of this type to be of such duration.

The letter from the Independent Board Committee is set out on pages 54 to 55 of this circular. The letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 56 to 85 of this circular. The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the terms of the VIE Agreements and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, although they are not in the ordinary and usual course of the

LETTER FROM THE BOARD

Group's business. Therefore, the Independent Board Committee would recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the VIE Agreements and the transactions contemplated thereunder if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the VIE Agreements and the transactions contemplated thereunder.

The Board (including the independent non-executive Directors) would recommend the Shareholders (including the Independent Shareholders) to vote in favour of the VIE Agreements and the transactions contemplated thereunder if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the VIE Agreements and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
China Fordoo Holdings Limited
Kwok Kin Sun
Chairman and executive Director



CHINA FORDOO HOLDINGS LIMITED
中國虎都控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2399)

24 March 2021

To the Independent Shareholders,

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS IN
RELATION TO THE ENTRY OF THE VIE AGREEMENTS**

We refer to the circular of the Company dated 24 March 2021 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall carry the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the VIE Agreements and the transactions contemplated thereunder and whether such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board on pages 6 to 53 of the Circular, which sets out details of the transactions contemplated under the VIE Agreements. We also wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 56 to 85 of the Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the VIE Agreements and the transactions contemplated thereunder.

Having considered details of the transactions contemplated under the VIE Agreements, the principal factors and reasons considered by, and the advice of Independent Financial Adviser, we are of the opinion that, the terms of the VIE Agreements are on normal commercial terms, fair and reasonable and so far as the interests of the Shareholders are concerned, and the VIE Agreements and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole, although they are not in the ordinary and usual course of the business of the Group.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As stated in the “Letter from the Board”, the Stock Exchange has granted its approval to waive the physical general meeting requirement. We would recommend the Independent Shareholders to vote in favour of the VIE Agreements and the transactions contemplated thereunder if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the VIE Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee of
China Fordoo Holdings Limited

Mr. Cheung Chiu Tung
*Independent non-executive
Director*

Mr. Poon Yick Pang Philip
*Independent non-executive
Director*

Ms. Huang Yumin
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements and the transactions contemplated thereunder, for inclusion in this circular.



24 March 2021

*To: The Independent Board Committee and the Independent Shareholders
of China Fordoo Holdings Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTRY OF THE VIE AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 24 March 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 14 December 2020 (after trading hours), the Company, the Vendor and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of the Target Company for a consideration to be satisfied by way of allotment and issue of the consideration shares to the Vendor (or its nominee) credited as fully paid (the “**Previous Consideration**”). On 5 March 2021, the Company, the Vendor and the Guarantor entered into the Supplemental Agreement to amend and supplement the Sale and Purchase Agreement, pursuant to which, among other things, the Consideration is changed from the Previous Consideration to HK\$9.70 million, which shall be satisfied in cash by the Company to the Vendor within 10 days upon Completion. Upon Completion, the Company will hold the entire issued share capital of the Target Company.

As at the Latest Practicable Date, the Target Company is an investment holding company which indirectly holds the entire issued share capital of the WFOE and through the VIE Agreements, has effective control over the financing and operations of the OPCO, and enjoy the economic interest and benefits of the OPCO. The Company has discussed with the auditors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Company and it has confirmed that under the prevailing accounting principles of the Company, the Target Company has the right to consolidate the financial results of the OPCO in its consolidated accounts as if it were a subsidiary of the Target Company.

As at the Latest Practicable Date, Mr. Tong, being the executive Director, is the ultimate beneficial owner of the Vendor and the OPCO. Accordingly, each of the Vendor and the OPCO is an associate of Mr. Tong, and therefore a connected person of the Company. As such, the transactions contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) and the VIE Agreements constitute connected transaction and continuing connected transactions of the Company, respectively, under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) exceeds 0.1% but all of them are below 25% and the Consideration is below HK\$10 million, the transactions contemplated under the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) are subject to the reporting, announcement and annual review requirements but exempted from the circular and Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the VIE Agreements exceeds 5%, the transactions contemplated under the VIE Agreements are subject to the reporting, announcement, annual review, circular and the Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.37 of the Listing Rules, the Stock Exchange may waive the general meeting requirement and accept a written Shareholders' approval on the conditions that (i) no Shareholder is required to abstain from voting if a general meeting of the Company is held to approve the transactions contemplated under the VIE Agreements; and (ii) approval has been given by a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the Shares in issue giving the right to vote at general meetings to approve the VIE Agreements and the transactions contemplated thereunder. The Company has applied for, and the Stock Exchange has granted, a waiver from the requirement for the Company to convene a general meeting under Rule 14A.37 of the Listing Rules on the basis that: (i) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder had a material interest in the VIE Agreements and the transactions contemplated thereunder, and no Shareholder would be required to abstain from voting if the general meeting of the Company was convened to approve VIE Agreements and the transactions contemplated thereunder; and (ii) a written approval jointly given by Everkept Limited (which is owned as to 70% by Mr. Kwok Kin Sun (who is the spouse of Ms. Wong Tung Yam and father of Mr. Kwok Hong Fung) and 30% by Ms. Wong Tung Yam (who is the spouse of Mr. Kwok Kin Sun and mother of Mr. Kwok Hong Fung) and Equal Plus Limited (which is wholly-owned by Mr. Kwok Hong Fung (who is the son of Mr. Kwok Kin Sun and Ms. Wong Tung Yam), being a closely allied group of Shareholders, which was interested in an aggregate of 1,087,032,000 Shares in issue (representing approximately 56.51% of the total number of the issued share

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

capital of the Company) as at the Latest Practicable Date, had been obtained by the Company for approving to the VIE Agreements and the transactions contemplated thereunder in lieu of convening a general meeting.

Since the Stock Exchange has granted the aforesaid waiver, no extraordinary general meeting of the Company will be convened for the purposes of considering and approving the VIE Agreements and the transactions contemplated thereunder.

Mr. Tong had abstained from voting at the Board meeting in respect of the resolutions approving the Acquisition and the VIE agreements. To the best of the Directors' knowledge, information and belief, save for Mr. Tong, no other Director had a material interest in the transactions contemplated under the Sale and Purchase Agreement, the Supplemental Agreement and the VIE Agreements and thus was required to abstain from voting at the Board meeting for considering and approving the same.

Notwithstanding that the transactions contemplated under the VIE Agreements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for all transactions contemplated under the VIE Agreements to be subject to strict compliance with the requirements set forth under Rule 14A.52 and Rule 14A.53 of the Listing Rules. The Company has applied to the Stock Exchange, and the Stock Exchange has granted, the waiver from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the service fees payable by the OPCO to the WFOE under the Exclusive Consultation and Technical Services Agreement subject to certain conditions as described in the Letter from the Board.

The Independent Board Committee (comprising all of the independent non-executive Directors namely Mr. Cheung Chiu Tung, Mr. Poon Yick Pang Philip and Ms. Huang Yumin) has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreements and the transactions contemplated thereunder. We, Messis Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we did not have any engagement with the Company or the Directors, chief executives and substantial shareholders of the Company or any of their associates. We are independent of the Company pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION AND RECOMMENDATIONS

In arriving at our recommendations, we have reviewed, amongst others, (i) the VIE Agreements; (ii) the Company's annual report for the year ended 31 December 2019 (the "**2019 Annual Report**"); (iii) the Company's interim report for the six months ended 30 June 2020 (the "**2020 Interim Report**"); and (iv) other information as set out in this letter. We have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the document misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the terms of the VIE Agreements and the transactions contemplated thereunder.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the VIE Agreements and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

1.1 Principal business of the Group

The Group is principally engaged in the design, sourcing, manufacturing and sales of its branded menswear in the PRC.

1.2 Financial performance of the Group

Set out below is a summary of the consolidated key financial information of the Group for the years ended 31 December 2018 and 2019 (the “FY2018” and “FY2019”) and the six months ended 30 June 2019 (the “HY2019”) and 30 June 2020 (the “HY2020”), which is extracted from the 2019 Annual Report and the 2020 Interim Report.

	For the six months ended		For the year ended	
	30 June		31 December	
	2020	2019	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)		(audited)
	(unaudited)	(Re-presented)	(audited)	(Re-presented)
Continuing operations				
Revenue	94,857	140,463	358,987	580,560
Gross profit	32,168	53,636	135,217	194,535
(Loss) for the period/year from continuing operations	<u>(67,115)</u>	<u>(46,073)</u>	<u>(303,743)</u>	<u>(45,204)</u>

Note: The financial figures for the six months ended 30 June 2019 and 31 December 2018 have been re-presented due to the re-classification of the financial performance of Rich Smooth Investment International Limited as discontinued operations as a result of the disposal of its entire interests by the Group at total cash consideration of RMB17 million.

For the FY2019

According to the 2019 Annual Report, revenue and gross profit from continuing operations in FY2019 decreased by approximately 38.2% and 30.5% to approximately RMB359.0 million and RMB135.2 million from approximately RMB580.6 million and RMB194.5 million for the FY2018, respectively. The decrease in revenue and gross profit was primarily due to (i) the cessation of the Group’s export trading business which was loss making; (ii) the Group’s consolidation strategy on its retail outlet network and hence recorded a net decrease of 174 retail outlets to 498 retail outlets as at 31 December 2019; and (iii) the

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decrease in wholesale orders as a result of the termination of distribution relationships with some of the Group's distributors who had slow repayment history. The loss for year from continuing operations in FY2019 substantially surged by approximately 571.9% to approximately RMB303.7 million from approximately RMB45.2 million for the FY2018. Such increase was mainly attributable to (i) the decline in Group's revenue and gross profit as discussed above; (ii) the recognition of an impairment loss on goodwill of approximately RMB46.9 million and intangible assets of approximately RMB6.5 million, which arose from its acquisition of the menswear retail business in the PRC in 2017; and (iii) the recognition of an impairment loss of construction in progress of approximately RMB147.3 million in relation to the construction of the Fordoo commercial centre which was mainly due to value of the construction in progress is lower than the combined carrying amount of construction in progress and prepayment of construction in progress, as a result of the progress of construction was not as expected due to the departure of the officials in the local government authorities responsible for construction of the supporting facilities such as water pipes and electricity connection networks for the commercial centre and their successors would require further time to revisit the situation and communicate with the Group before resuming the construction. As such, the supporting facilities had yet been completed and hence some buildings of the Fordoo commercial centre could not be finalised nor further developed which hindered the progress of construction of the project. As advised by the Directors, the Fordoo commercial centre is for commercial usage and as at the Latest Practicable Date, the Fordoo commercial centre was still under construction and the completion date would be subject to the completion of the supporting facilities.

For the HY2020

According to the 2020 Interim Report, revenue and gross profit from continuing operations decreased by approximately 32.5% and 40.0% from RMB140.5 million and RMB53.6 million in HY2019 to RMB94.9 million and RMB32.2 million in HY2020, respectively. The decrease was mainly due to (i) the consumers' desire for the Group's products was low as a result of the outbreak of COVID-19; (ii) the Group's continued consolidation strategy on its retail outlet network by reducing 101 retail outlets to 397 retail outlets as at 30 June 2020; and (iii) the decrease in wholesale orders as a results of the termination of distribution relationships with some of the Group's distributors which had slow repayment history. The loss for period from continuing operations in the HY2020 increased by approximately 45.7% from approximately RMB46.1 million for HY2019 to approximately RMB67.1 million for the HY2020. Such increase was mainly attributable to the significant decline in the Group's revenue and gross profit due to the combining effect of COVID-19 pandemic and decline in the domestic demand for the Group's products, as well as an increase in allowance for expected credit losses on trade receivables under IFRS 9 "Financial Instruments".

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1.3 Financial position of the Group

	As at 30 June	As at 31 December	
	2020	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Current assets	632,641	701,887	893,874
Total assets	1,701,261	1,794,352	2,262,368
Current liabilities	578,561	588,465	687,923
Total liabilities	675,581	700,178	852,642
Net current assets	54,080	113,422	205,951
Net assets	1,025,680	1,094,174	1,409,726
Gearing ratio ¹	50.5%	46.0%	37.5%

Note:

1. Gearing ratio is defined as total interest-bearing borrowings divided by the Group's total equity.

As set out in the table above, the net assets of the Group decreased to approximately RMB1,094.1 million as at 31 December 2019 and further decreased to RMB1,025.7 million as at 30 June 2020. The decrease in net assets as at 31 December 2019 was mainly due to the decrease in total assets from RMB2,262.4 million as at 31 December 2018 to RMB1,794.4 million as at 31 December 2019, as a result of the decrease in (i) lease prepayments of approximately RMB253.9 million; (ii) prepayment for construction in progress of approximately RMB150 million; and (iii) the decrease in trade, bills and other receivables and cash and cash equivalents of approximately RMB37.8 million and RMB70.0 million, respectively. As at 30 June 2020, the decrease in net assets was mainly attributable to the decrease in total assets to RMB1,701.3 million, as a result of the decrease in (i) intangible assets of approximately RMB22.2 million; (ii) trade, bills and other receivables of approximately RMB12.6 million; and (iii) cash and cash equivalents of approximately RMB36.6 million.

The gearing ratio of the Group also increased from 37.5% as at 31 December 2018 to approximately 46.0% as at 31 December 2019 and further increased to 50.5% as at 30 June 2020, which was mainly due to the combined effect of (i) the increase in borrowings as a result of increase in issuing corporate bonds and increase in bank borrowings and (ii) the decrease in total equity of the Group.

1.4 Outlook of the Group

As discussed in the 2020 Interim Report, the business environment of the menswear industry was very difficult. Due to the COVID-19 pandemic and the slowdown in China's economic growth, consumers' interest in well-known branded products has been reduced, they are more inclined to buying more affordable products, such as fast fashion, which has made the business environment more complicated. To cope with the intense competition in the retail market and weak consumer sentiment, the Group continued to

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rationalize its distribution network by closing some of the underperforming retail outlets and to strengthen the corporation with its distributors and sub-distributors in order to improve operating efficiency. Despite the abovementioned strategies implemented, the Group's financial performance and financial positions has been deteriorating in recent years. As such, the management has been since 2018 actively looking for new business opportunities to diversify its business and to strengthen the long-term growth potential and shareholder value.

Based on our discussion with the management of the Company, we are given to understand that upon the Completion, the management team of the OPCO will manage the automobile e-commerce business of the Group under the leadership of the Directors. Among the Directors, leveraging on Mr. Tong's experiences in e-commerce and automobile industry in the PRC, he would be specifically tasked to develop and contribute to the success of the automobile e-commerce business of the Group; on the other hand, Mr. Kwok Kin Sun, the founder of the Group and chairman of the Board, will continue to lead the Company's branded menswear business. As advised by the management of the Company, the Company has no intention to dispose of or further downsize its existing menswear business in the next 12 month period after the Completion.

2. Background information on the parties of the VIE Agreements

2.1 Background information of the Target Group and the OPCO

The Target Company is a company incorporated under the laws of BVI with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company is indirectly wholly-owned by Mr. Tong.

Golden Maxwell is a company incorporated under the laws of Hong Kong with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, Golden Maxwell is directly wholly-owned by the Target Company.

The WFOE is a company established under the laws of the PRC with limited liability which will enjoy the economic interests and benefits of the OPCO through the VIE Agreements. It is directly wholly-owned by Golden Maxwell as at the Latest Practicable Date

The OPCO is a company established by Mr. Tong's personal resources on 7 May 2020 under the laws of the PRC with limited liability and principally engaged in the business of sales and marketing of automobiles through an online e-commerce platform combined with ancillary financing, auto parts sales, offline auto trading services and other business in the PRC. The OPCO is directly wholly-owned by Mr. Tong as at the Latest Practicable Date.

For more background information of the OPCO and the shareholding structure of the Target Group, please refer to the Letter from the Board for details.

2.2 Business model of the Target Group

Honggao Technology has developed an online e-commerce platform known as “Changyou Car* (暢遊汽車)” (hereinafter referred to as “**Changyou Car**”), which materializes car sales by integrating mobile apps with offline trading service centres of distributors across the nation. The development and application of this platform benefitted from the “Measures for the Administration of Automobile Sales”* (《汽車銷售管理辦法》) promulgated by the Ministry of Commerce of the People’s Republic of China in 2017, whereby the PRC allows car sales to be conducted across a wider spectrum in terms of brands and geography, providing car dealers with enormous business opportunities.

Honggao Technology is principally engaged in providing (i) ordering services and (ii) advertising services through Changyou Car, which comprises two mobile apps, one of which is for B2B wholesale e-commerce business among car dealers in various regions, and the other one is for B2C retail e-commerce business between car dealers and end-users. These mobile apps allow car vendors to disseminate relevant marketing information and car buyers to have a better understanding of the car they are going to buy in terms of brands, performances and prices, thereby facilitating the cross-regional transactions between buyers and sellers across the nation. Upon a sales contract between the vendor and the buyer being concluded and the buyer having paid a deposit to a third-party payment platform, the vendor will deliver the car to the trading service centres of distributors designated by the buyer where the buyer may proceed with inspection and acceptance before paying the outstanding balance and close the deal by completing the related procedures. While Changyou Car provides car vendors with a nationwide sales channel, it also provides buyers with more affordable options, hence attracting car dealers and individual consumers to transact on this platform.

Changyou Car has formulated a complete set of trading rules covering the dissemination and acquisition of information, facilitation of deals, delivery and settlement, which are effectively implemented by a team of seasoned professionals, to turn this platform into a real e-commerce platform for materializing car sales. Changyou Car has established a network covering trading service centres of distributors from more than 300 cities for the purpose of providing onsite acceptance of cars, attracting more local car dealers to sign in as a user of this platform, and boosting car sales derived from it. Pursuant to the agreements entered into between Honggao Technology and various distributors, the distributors agreed to become Honggao Technology’s distributors at a specific region(s) or area(s) including but not limited to provinces of Guangdong, Jiangxi, Hunan and Fujian and cities of Zhanjiang, Xiangxi, Shaoxing, Shenzhen, Jingdezhen and Shangrao; and Honggao Technology would, among others, grant access to the distributor to Changyou Car and provide training for the distributor’s staff. The arrangement with the distributor is on a non-exclusive basis.

Honggao Technology derives its income mainly from advertising services (廣告服務), ordering services (訂單服務), and is expected to derive revenue from trading services (銷售服務), sales services (交易服務) and value-add services (增值服務) as part of its business expansion plan.

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In respect of the ordering services, Honggao Technology charges an ordering fee from the seller once the buyer and seller entered into a sales contract through Changyou Car and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is 95%. The ordering fee is a fixed fee uniform to all transactions.

In respect of advertising services, the customer may purchase advertising packages, which allows the customer to place different advertisements including pop-up advertisement, display of logo or information at top or bottom, inclusion of advertising articles, priority in display of car seller's product and the like, over certain period of time and/or to appear in a fixed frequency, as well as placing advertising order one by one. Honggao Technology charges advertising fees from the customers based on the advertising services they order and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is 85%. The OPCO does not normally enter into long-term contract with customers in respect of the ordering services and advertising services, as these services are provided on an order-by order basis.

In respect of the trading services, Changyou Car allows (i) car dealers of various regions to bulk-purchase automobile from other car dealers as well as from car manufactures (i.e. B2B wholesale); and (ii) end users to directly purchase automobile from Honggao Technology (i.e. B2C retail). Honggao Technology will charge a fee on a cost plus basis in respect of the number of cars bulk purchased through Changyou Car and will make profit through the reselling of the automobile purchased from car manufactures and/or car dealers to end users and the expected gross profit margin of this revenue stream for the financial year ending 31 December 2021 is 10%. For B2C retail, the difference between the ordering services and trading services is that transactions under ordering services are made between two app users (i.e. one being a car seller, be it an individual or a car distributor, posting details of the car to be sold in Changyou Car, while the other one being the end-user); while the trading services involves cars being sold by Honggao Technology to the end-user. Once the end-user placed an order, Honggao Technology will then directly purchase the requested car from the car manufacturer or distributor then re-sell it to the end-user.

In respect of the sales services, Honggao Technology will provide services so as to assist car buyers and sellers to complete the transaction smoothly. Once a sales contract is entered either conducted through the ordering services or the trading service, the car buyers and sellers may choose to use the sales services, which the seller will deliver the car to the service centres of distributors designated by the buyer, where the buyer may inspect the car before paying the outstanding balance and closing. Also, through Changyou Car, the seller and buyer can monitor the status of the transaction and the location of the car. Honggao Technology will charge a service charge and the expected profit margin of this revenue stream for the financial year ending 31 December 2021 is 90%. Honggao Technology will charge a fixed fees for the sales services provided.

In respect of the value-added services, Honggao Technology is currently undergoing negotiation with a major bank in China for it to act as a third-party payment agent that allows user to link bank account to Changyou Car, obtain financing and loan and other related services including insurance. The pricing mechanism depends on the value-added

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services involved, subject to the negotiation with the third party service provider. Honggao Technology entered into an Interbank Express Payment Business Agreement (跨行快付業務協議) with the aforesaid bank in November 2020, pursuant to which the Honggao Technology will be able to settle payment on an interbank basis through internet banking. It is originally expected that Changyou Car will link with the bank's payment system within the first quarter of 2021. However, based on the communications between the management of the Target Group and the aforesaid bank, there will be a delay in the launch of the payment platform on the part of the aforesaid bank as it has to upgrade and enhance the payment system in light of the recent change in the regulatory environment as The People's Bank of China (中國人民銀行) issued the Measures for the Administration of Credit Investigation Industry (Consultant Draft)* (《徵信業務管理辦法(徵求意見稿)》) in January 2021. As such, the management of the Target Group expects that the launch of the Target Group's new businesses will delay to second quarter of 2021.

As at the Latest Practicable Date, the OPCO has not received any committed order nor entered into any long-term contract in relation to its trading services, sales services and value-added services as these services are provided on an order-by-order basis.

During the seven months ended 30 November 2020, the OPCO had over 100 customers, most of which was car dealer, car trading company, car-related service provider, and individual. The top five customers of the OPCO accounted for approximately 12.7%, 5.6%, 5.6%, 4.1% and 3.4% of the OPCO's total revenue during the seven months ended 30 November 2020. The background of customers is diverse as they come from different parts of China, including Hunan, Changsha, Tianjin, Xinjiang, Guangzhou, Dongguan, and Huizhou etc. According to Mr. Tong, some of the customers approached the OPCO directly, while some were introduced via business referrals and Mr. Tong's business relationship. For further details of the OPCO's customers (including top 5 customers of the OPCO's ordering services and advertising services for the seven months ended 30 November 2020), please refer to the Letter from the Board. Owing to the nature of the OPCO's business, it did not have any major supplier.

The total capital requirement of the Target Group by the end of 2025 is expected to be RMB80 million of which RMB30 million will be used in developing partnership with distributors in 300 cities, RMB20 million will be used in online and offline marketing, and RMB30 million will be used in research and development, upgrading the e-commerce platform, purchase of fixed assets, and hiring etc. The Company plans to fund the expected expenditures by the Group's internal resources and net profits generated from the operation of the Target Group. The Target Group recorded a total net profit after taxation of approximately RMB11.7 million during the seven months ended 30 November 2020 and the estimated capital contribution of RMB80 million will be used to further develop of the business of the OPCO (including developing partnership with distributors, marketing, research and development and hiring etc.). Such estimate is not an obligation to be imposed on the Group but the Group's intention to further develop the business of the Target Group and will be funded by the Group's internal resources and net profits generated from the operation of the Target Group throughout the years until 2025. The estimate capital contribution of business development is subject to adjustment if there is any unexpected change in circumstances in relation to the business of the Target Group.

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As at the Latest Practicable Date, the OPCO had 20 employees. The OPCO plans to hire 10 additional staff by first quarter of 2021. The employees are generally divided into six function: senior management, management (headquarters), management (regional), technology (research and development), administration, and finance. The senior management team lead by Mr. Tong comprised of five persons, including, Mr. Tong, Mr. Qiao Bin* (喬斌), the general manager, who has 20 years of experience in the automobile industry and previously worked as general manager in Beiqi Penglong Carrier (Tianjin) Automobile Service Co., Ltd.* (北汽鵬龍開利(天津)汽車服務有限公司); Mr. Ding Feng* (丁峰), the director of technology (research and development), who possesses over 15 years of experience in software development gained through working in various technology companies; Mr. Song Jiabin* (宋嘉斌), the director of system development, who worked in the car industry for 15 years and experienced in leading his team to meet sales targets; and Mr. Lu Jinjin* (呂津津), who is responsible for managing the accounting and financial matters of the OPCO.

For further details of the background information of the Target Group, please refer to the Letter from the Board — Information of the Target Group and the OPCO.

3. Information of the VIE Agreements

The OPCO is principally engaged in the operation of sales and market of automobiles through an online e-commerce platform and holds certain licenses and permits that are essential to the operation of such business, such as Internet Content Provider Licence (“**ICP Licence**”). Under the PRC laws, the OPCO is considered to be engaged in the provision of value-added telecommunications services. Set out below are the major terms of the VIE Agreements, details of which are set out in the Letter from the Board.

(i) *The Exclusive Business Consultation and Technical Services Agreement*

Parties: (a) the OPCO;
(b) the WFOE; and
(c) Mr. Tong

Terms: Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term in accordance with PRC laws.

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Subject: The OPCO shall engage the WFOE on an exclusive basis to provide the following technical support, consulting services and other services:

- (i) consulting services in relation to the sales, management, market information of the automobile industry;
- (ii) research and development, operation, software update, upgrade, maintenance and technical consulting services in relation to mobile app;
- (iii) purchase of hardware equipment and technical consulting services, installation, daily management, maintenance and upgrade of hardware equipment and database;
- (iv) e-commerce technical consulting services;
- (v) brand marketing, product promotion strategies, customer maintenance services and manage consulting services;
- (vi) employee technical trainings and management consulting services; and
- (vii) other related business support and services permissible under the PRC laws as agreed by the WFOE and the OPCO.

Fee: For the services provided by the WFOE under the Exclusive Consultation and Technical Services Agreement, the OPCO shall pay, to the WFOE, at the end of each financial year, a services fee that is equal to the profits (including accumulated profits from the prior financial years) after compensating the losses recorded in the prior year (if needed) and deducting all necessary costs, expenses or taxes as required under the PRC laws.

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(ii) The Exclusive Purchase Right Agreement

- Parties:** (a) the WFOE;
(b) the OPCO; and
(c) Mr. Tong
- Terms:** Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term of operation in accordance with the PRC laws.
- Subject:** Mr. Tong irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase all or part of their equity interests in the OPCO at RMB1 or the lowest price permissible under the PRC laws and the relevant government authorities.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC laws.

Mr. Tong shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of his equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders' meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

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(iii) The Loan Agreement

- Parties:** (a) the WFOE (as lender); and
(b) Mr. Tong (as borrower);
- Principals:** The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB10,000,000 to Mr. Tong. The Loan has to be injected by Mr. Tong to the OPCO for the OPCO's research and development of mobile app, operation and providing services. As at the Latest Practicable Date, the WFOE has not provided any loan pursuant to the Loan Agreement to Mr. Tong.
- Terms:** Ten (10) years from the date of provision of loan from the WFOE to Mr. Tong, unless the WFOE informs Mr. Tong in writing 30 days before the expiry date that it will not extend the term, the term will be renewed automatically every ten (10) years. Mr. Tong unconditionally agrees and accepts such renewal.
- Repayment:** When exercising the exclusive purchase right granted by the Exclusive Purchase Right Agreement, the WFOE may set off the consideration against the outstanding amount of loan owned by Mr. Tong. If the consideration of the transfer is determined to be lower than the amount of the outstanding balance of loan, WFOE has agreed to waive the obligation of Mr. Tong to repay the residual outstanding amount of loan. If the consideration of the transfer is determined to be higher than the amount of the outstanding balance of loan, the discrepancy would be treated as interests or costs of borrowing of the loan and waived by Mr. Tong. Accordingly, the WFOE is not required to pay extra consideration to Mr. Tong for the transfer under the loan arrangement.

(iv) The Equity Pledge Agreement

- Parties:** (i) the WFOE (as pledgee); and
(ii) Mr. Tong (as pledgor);
- Term:** Effective upon execution and shall remain binding until (i) Mr. Tong discharges all his obligations under the other VIE Agreements in full.
- Subject:** Mr. Tong agrees to pledge all of their shares in the OPCO to the WFOE to secure the performance of all their obligations and the obligations of the OPCO under the VIE Agreements. Any dividend and/or other distribution generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

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(v) *The Authorisation Agreement*

- Parties:** (a) the WFOE;
(b) Mr. Tong; and
(c) the OPCO.
- Term:** Effective upon execution and shall remain in effect during the term of operation of the OPCO and the extendable term of operation in accordance with the PRC laws.
- Subject:** Mr. Tong irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase all or part of their equity interests in the OPCO at RMB1 or the lowest price permissible under the PRC laws and the relevant government authorities.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC laws.

Mr. Tong shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of his equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders' meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

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- Subject:** Mr. Tong unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of his rights as shareholder of the OPCO under PRC Laws, including but not limited to:
- (i) Convening, attending and participating shareholder's meetings of the OPCO, receiving relevant notice or document relating to the shareholders' meetings;
 - (ii) Discussing and voting in shareholder's meetings of the OPCO;
 - (iii) Signing and delivering any written resolutions and minutes of shareholder's meetings of the OPCO and any other documents required to be signed by the shareholder of the OPCO, and submitting documents with relevant companies registry for filing purpose;
 - (iv) Selling, transferring, securing or disposing of the shares held by Mr. Tong in the OPCO;
 - (v) Supervising the economic performance of the OPCO;
 - (vi) Exercising full usage right of the OPCO's financial information;
 - (vii) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders;
 - (viii) Approving annual budget or declaring dividend;
 - (ix) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO;
 - (x) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and
 - (xi) Exercising all other shareholder's rights under laws and regulations and articles of association of the OPCO.

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Mr. Tong irrevocably undertakes that:

- (i) Unless with written consent from the WFOE, he will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of the OPCO, its holding shareholder or its ultimate holding shareholder;
- (ii) In case Mr. Tong is also a director or senior management of the WFOE, its holding company or its ultimate holding company, a director or member of the senior management, other than Mr. Tong, as designated or authorized by the WFOE or its the ultimate holding company, shall be assigned to exercise the rights under this Authorisation Agreement;
- (iii) None of his actions or omissions will give rise to conflict of interests between himself and the WFOE (including the shareholders of the WFOE); and
- (iv) In the event of any conflict of interests between himself and the WFOE or its holding company (including its respective holding company) or the ultimate holding company, he will give priority to protect and cause no harm to the interests of the WFOE, its holding Company, or its ultimate holding company.

(vi) Intellectual Property License Agreement

- Parties:** (i) the WFOE;
(ii) the OPCO; and
(iii) Mr. Tong
- Term:** Effective upon execution and shall remain in effect during the term of operation of the OPCO and extendable term of operation in accordance with the PRC Laws. The Intellectual Property License Agreement shall be terminated automatically upon transfer of all equity interest or assets of the OPCO to the WFOE (and/or other foreign-owned or foreign entity designated by its ultimate parent company) pursuant to the VIE Agreements
- Subject:** The WFOE agrees to grant to the OPCO the non-transferrable right to use certain intellectual property rights in the PRC in relation to the development, operation, and maintenance of online platform, if any. The OPCO may only use such intellectual property rights in operating its business.

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Fee: The fees shall be included in the services fees payable by the OPCO to the WFOE under the Exclusive Business Consultation and Technical Services Agreement.

(vii) The Spousal Consent Letter

Party: The Spouse of Mr. Tong

Subject: The spouse of Mr. Tong irrevocably agrees that, among others:

- (i) All the equity interests held by Mr. Tong in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;
- (ii) No consent or rectification is needed from her in case Mr. Tong executes any legal document to perform, amend, or supplement the VIE Agreements;
- (iii) All the benefits generated from the equity interests in the OPCO belong Mr. Tong and can be dealt with in any way Mr. Tong without the consent of their spouses;
- (iv) She shall be bound by the relevant VIE Agreements in the event that she obtains any equity interest in the OPCO held by Mr. Tong for any reason; and
- (v) She shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance Mr. Tong's obligations under the VIE Agreements.

3.1 Reasons for and benefits of the VIE Agreements

Industry prospect of the business of the OPCO

As discussed in the section headed "1.4 Outlook of the Group", despite the business strategies and measures implemented by the Group on its apparel business in recent years, the financial performance and position of the Group was worsening. As such, the management of the Company has been since 2018 actively looking for new business opportunities to diversify its business and to strengthen the long-term growth potential and shareholder value. As disclosed in the announcement dated 25 September 2020 and 23 October 2020, the Company has entered into an acquisition agreement to acquire the entire equity interests in Tianjin Free Trade Pilot Zone Blue High-Tech Co., Ltd.* (天津自貿試驗區藍高科技有限公司) (the "Tianjin Blue") (the "2020 Acquisition") primarily engages in, among others, software

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development, internet operations, sales of automobiles and parts and equipment thereof, as well as the provision of information consulting services and property management, exhibition and display services. Based on our discussion with the management of the Company, we are given to understand that to the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, immediately prior to the completion of 2020 Acquisition, Tianjin Blue (including its then ultimate beneficial owner, being Mr. Shi, and his connected persons) are Independent Third Parties; and Mr. Shi and Tianjin Blue was identified by Mr. Tong through his business connections. As Mr. Tong possesses the relevant experiences and knowledge in the business which Tianjin Blue operates in, he was responsible to negotiate on behalf of the Company in the 2020 Acquisition.

As stated in the letter from the Board, the Group has been looking for business opportunities in China in respect of online e-commerce platform combined with an offline trading service system, which coordinate with China's major e-commerce platforms and major distributors to carry out automotive sales business. After our discussion with the management of the Company, we are given to understand that the automotive industry is one of the pillar industries in the PRC and the management of the Company is optimistic on the prospect of the automotive market taken into account (i) the historical growth of the disposable income nationwide per capita in PRC; (ii) the historical growth of the PRC's automotive market and (iii) the favourable policies adopted by the PRC government and the prospect of online e-commerce platform. Through its online e-commerce platform, the Board is of the view that Honggao Technology will be able to seize the business growth opportunities in the automotive industry in the PRC. As such, the management considers that Acquisition will be a major step taken by the Company to expand and diversify its business and activities to share the results of development of China's huge automotive market, with a view to create new sources of income and to maximize the return to the Company and the Shareholders in the long run, despite the fact that the Target Group operates in a short period and is engaging in a business different from that of the Group.

We understand from the management that the disposable income nationwide per capita is one of the key factors contributing to the demand of automotive business in the PRC. The table below summarises the recent trend in PRC's disposable income nationwide per capita from 2015 to 2019:

	2015	2016	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Disposable income nationwide per capita	21,966	23,821	25,974	28,228	30,733

Source: National Bureau of Statistics of China

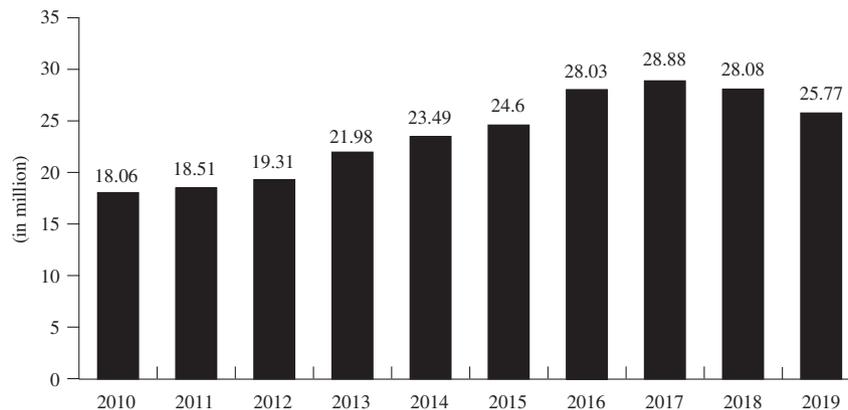
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According to the statistics published by the National Bureau of Statistics of China as set out in the table above, the disposable income nationwide per capita in the PRC has shown a steady growth between 2015 to 2019. We note that the amount increased by approximately 8.4% to approximately RMB23,821 between 2015 and 2016 which further grew by approximately 9.0% to approximately RMB25,974 in 2017, 8.7% to approximately RMB28,228 in 2018 and 8.9% to approximately RMB30,733 in 2019.

The car parc in the PRC has been increasing and stood at 262 million in 2019 according to the statistics published by the National Bureau of Statistics of China, compared to 91 million in 2010 and the numbers are expected to be on the rise. Despite the large vehicle population, the automobile density of approximately 187 vehicles per 1,000 people is relatively low compared to approximately 610 vehicles per 1,000 habitants in the European Union in 2018 and approximately 840 vehicles per 1,000 people in United States in 2019, indicating room for growth for the automotive business in the PRC.

Set out below is the chart of total automobile sales volume in the PRC from 2010 to 2019:

Automobile sales volume in PRC in 2010–2019



Source: China Association of Automobile Manufacturers (“CAAM”)

According to the statistics of CAAM, the automobile sales have been increasing for over a decade, however, as a result of PRC’s slower economic growth which reduced consumer’s purchasing incentive and the effect of the US-China trade dispute, the industry saw a first time drop in sales since 2018. Furthermore, COVID-19 had undeniably brought on an adverse global hit which also impacted the PRC automobile industry. According to the data from CAAM and China Automobile Dealers Association, during 1H2020, with lockdown restrictions, China’s total sales of new and used passenger vehicles decreased by approximately 21% year-on-year.

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In March 2020, the National Development and Reform Commission of the PRC government rolled out “Implementation Opinions on Promoting Consumption Expansion and Quality Improvement and Accelerating the Creation of a Strong Domestic Market”* (《關於促進消費擴容提質加快形成強大國內市場的實施意見》) which offered a series of opinions including, among others, to promote the policy transformation from restricting car purchases to guide car consumption, and encourage regions that have car plate quota restrictions to appropriately increase their quotas. Further, in order to stabilise and expanding the purchase of vehicles to overcome the challenges caused by COVID-19, the PRC government has rolled out “Notice on Several Measures to Stabilize and Expand the Purchase of Vehicles”* (《關於穩定和擴大汽車消費若干措施的通知》) on 28 April 2020, specifying the measures to promote the purchase of vehicles, aiming to strengthen consumer sentiment for vehicles such as the auto replacement plan to speed up the replacement of older diesel vehicles and further opening up of second-hand vehicle markets to boost sales of new vehicles. The PRC government has also scrapped the vehicle purchase tax and provided subsidies for sales of new-energy vehicles as part of its effort to reduce air pollution.

According to CAAM, the overall sales of vehicles in China rose 29.5% year-on-year to approximately 2,503,000 units in January 2021 while the sales of passenger cars also rose 26.8% year-on-year to approximately 2,045,000 units in January 2021, which indicated that the government policies has started to take effect and has helped the market to recover to a pre-COVID-19 demand. As such, it is anticipated that favourable policy support shall promote growth in the PRC automobile industry in the long run.

As discussed in section “2.2 Business model of the Target Group” above, the utmost important feature of the business model of the Target Group is the online e-commerce platform (i.e. Changyou Car) which materializes car sales by integrating mobile apps with offline trading service centres of distributors across the nation. According to the Global Automotive Executive Survey (21st edition) published in June 2020, a survey conducted by one of the big 4 accounting firm which gathered opinions from more than 1,100 executives and 2,000 consumers from 30 countries, 85% of the Chinese consumers state that they are open to online car purchases, slightly higher than the global average (80%) and other large markets, which indicates that online automotive sales platform is popular across the nation. Further, according to the statistics published by QuestMobile, an independent professional business intelligence services provider in China’s mobile internet market, both the number of daily active users and the daily usage time per person for mobile shopping in China has increased from 2019 to 2020. The number of daily active users increased from 375 million to 426 million and the daily usage time per person increased from 29.2 minutes per day to 33.7 minutes per day during normal times. Hence the Target Group which has obtained the ICP Licence and developed an online e-commerce platform with two mobile applications may be able to enjoy the benefits from its self-developed online car purchase platform.

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In addition, as stated in the Letter from the Board, Honggao Technology continues to grow its business by (i) obtaining authorisation from two large-scale car manufacturers, which were introduced by business referrals, to aggregate bulk-buying demand through this platform and procure bulk-purchase shipments from them at favourable prices; (ii) entering into a cooperation agreement with one of the largest e-commerce platform in China, which is owned by a company dually listed on the Nasdaq and the Stock Exchange. Honggao Technology approached the holding company of the e-commerce platform directly. Pursuant to the cooperation agreement, Honggao Technology is an authorized business partner of the e-commerce platform and is authorized to use the trademarks of the e-commerce platform. The cooperation agreement is valid until the year end of 2021; and (iii) will engage in negotiations with other major e-commerce platforms at home on cooperation by providing trading services to these e-commerce platforms in the area of car sales information with an aim to boost sales volume for Changyou Car.

Having considered (i) steady growth in the car parc and nationwide disposable income in the PRC; (ii) potential growth in the PRC automobiles market considering the relatively low automobile density in the PRC as compared to other major economies; (iii) aforementioned favourable policies which are expected to promote growth in the PRC automobile industry in the long run; (iv) Chinese consumers are open to online car purchases; and (v) the continuing development of the Target Group, we concur with the Directors' view that the Acquisition will provide a good opportunity for the Group to diversify its existing business portfolio by tapping into the automobiles markets in the PRC which in general shows positive prospects as a whole.

Reasons for adopting the VIE Structure

According to the PRC Legal Adviser, the business of the OPCO (including conducting advertising services, ordering services, sales services, trading services and value-added services through internet) falls within the definition of value-added telecommunication services and therefore restricted under the PRC laws and regulations. In light of the PRC laws and regulations, the Company is restricted to directly hold interest in the OPCO and a VIE structure has to be adopted according to the PRC Legal Adviser.

Under the PRC laws and as advised by the PRC Legal Adviser, the OPCO is considered to be engaged in the provision of value-added telecommunications services and is subject to the Article 6 of the Regulations on the Administration of Foreign-invested Telecommunications Enterprises* (中華人民共和國外商投資電信企業管理規定) (the “**Regulations on Foreign-invested Telecommunications Enterprises**”) and Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020)* (外商投資准入特別管理措施(負面清單) (2020年版)), under which the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%; and according to Article 10 of the Regulations on Foreign-invested Telecommunications Enterprises, a foreign investor who invests in a value-added telecommunications services company

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shall have a good track record and expertise in operating value-added telecommunications business in the PRC. According to the PRC Legal Adviser, and as confirmed the section chief of the industries division* (產業處科長) the Tianjin Commission of Commence* (天津市商務局) on 14 December 2020, there is no law, rule or regulation under the PRC laws that provides guidance as to the interpretation of the qualification requirement. Further, as advised by the PRC Legal Adviser, according to the Regulations on Foreign-invested Telecommunications Enterprises, and the Negative List 2020, and as having consulted the section chief of the industries division* (產業處科長) of the Tianjin Commission of Commence* (天津市商務局) on 14 December 2020, the Company, as a foreign entity, is not allowed to hold over 50% direct interest in the OPCO, and further, since the Company (or its subsidiaries) does not possess the relevant operation experience in the value-added telecommunications services business in the PRC and therefore not satisfying the qualification requirement and it is not allowed to hold any direct interest in the OPCO. Therefore, in practice, it is not possible for the Company to acquire the maximum permitted interest in the Target Company.

As advised by the PRC Legal Adviser, the business of the OPCO (including conducting advertising services) ordering services, trading services, sales service and value-added services through internet fall within the definition of value-added telecommunication services, which is prohibited business under the foreign ownership laws and regulations in the PRC such that a VIE structure is warranted. In order to comply with the PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and Mr. Tong. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

Based on the above, having taken into account (i) the loss-making financial performance of the Group due to the difficult operating environment in menswear business in PRC; (ii) the Company's strategy and development to look for new business opportunities in the automobile industry to diversify its business and to strengthen the long-term growth potential and shareholder value; (iii) the business model and prospects of the Target Group and its plan to expand and grow its business; (iv) the e-commerce business model (including two mobile apps) of the Target Group; (v) favourable policies which are expected to promote growth in the PRC automobile industry in the long run; and (vi) the Company is not allowed to hold any direct interest in the OPCO in accordance to the PRC Laws, we concur with the view of the Directors that the entering into of the VIE Agreements could bring potential benefits to the Company and is in line with the Company's business plan and hence is in the interests of the Group and the Shareholders as a whole.

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3.2 Assessment on the VIE Agreements

In order to assess the terms of the VIE Agreements, we have obtained and reviewed the VIE Agreements and the PRC legal opinion issued by the PRC Legal Adviser and through our discussion with the management of the Company, we are given to understand that:

- (1) the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and minimise the potential conflicts with and are enforceable under the relevant PRC Laws;
- (2) the OPCO and the WFOE are duly established and validly existing under the PRC laws and the OPCO has obtained or completed requisite licences, applications, registrations or filings for carrying out its existing business operations as required by the applicable PRC laws, regulations and rules;
- (3) none of the VIE Agreements violates any provisions of the existing articles of association of the OPCO;
- (4) the execution of the VIE Agreements do not require any approvals from any PRC governmental authority, except that (a) the Equity Pledge Agreement is subject to registration requirements with the relevant authorities, and the exercising of the exclusive option by the WFOE according to the Exclusive Purchase Right Agreement shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable); and (b) the authorization granted by the WFOE to the OPCO to use certain intellectual property rights in the PRC is subject to registration requirements with the relevant authorities;
- (5) each of the VIE Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and will be enforceable under applicable PRC laws and regulations except that (a) the arbitration commission has no power to restrict the operations of the OPCO, impose restrictions on the OPCO's asset, nor able to order the winding up of the OPCO pursuant to the current PRC laws; and (b) interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognized or enforceable in the PRC;
- (6) the VIE Agreements are subject to the Foreign Investment Law and Regulations for the Implementation of the Foreign Investment Law* (中華人民共和國外商投資法實施條例), but there is no prohibition of the VIE Agreements in the aforesaid laws and regulation;
- (7) as confirmed by the Tianjin Commission of Commerce (天津市商務局), being a regulatory body of the OPCO's business, on 14 December 2020, (a) the Company, as a foreign entity, is not allowed to hold over 50% direct interest in the OPCO, and further, since the Company (or its subsidiaries) does not possess the relevant operation experience in the value-added telecommunications

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services business in the PRC, it is not allowed to hold any direct interest in the OPCO; (b) there is no clear procedure or guidance on how a foreign entity can fulfill the restrictions on foreign ownership; and (c) there is no restriction on the use of VIE structure under the VIE Agreements in the PRC laws and regulations; and

- (8) the VIE Agreements do not, individually or collectively, violate the mandatory provisions under clause 52 of the PRC Contract Law* (中華人民共和國合同法) and would not be deemed as “concealing illegal intentions with a lawful form” and void under the VIE Agreements.

We also understood from the VIE Agreements and the management of the Company that:

- (1) pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO;
- (2) according to the Authorisation Agreement, Mr. Tong unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of his rights as shareholder of the OPCO under PRC Laws including but not limited to the rights to vote in a shareholders’ meeting, sign minutes, file documents with the relevant companies registry and does not give rise to any potential conflicts of interest;
- (3) pursuant to the VIE Agreements, any disputes arising from the VIE Agreements between the parties should first be resolved through negotiation. In case of the dispute cannot be resolved within thirty (30) days, any party may submit the said dispute to Tianjin Arbitration Commission (天津仲裁委員會) in accordance with its then effective arbitration rules;
- (4) the VIE Agreements contains provisions to the effect that parties may seek interim remedies from any courts of competent jurisdiction. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, BVI (being the place of incorporation of the Target Company), Cayman Islands, the PRC;
- (5) pursuant to the Exclusive Purchase Right Agreement, when the WFOE exercises its right to dissolve and liquidate the OPCO, if Mr. Tong receives any residual assets and proceeds upon dissolution or liquidation, they shall return such residual assets and proceeds to the WFOE at nil consideration;
- (6) the Company has discussed with the auditors of the Company which have confirmed that under the prevailing accounting principles of the Company, the Company has the right to consolidate the financial results of the OPCO in its consolidated accounts as if it were a subsidiary of the Company; and

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- (7) the Group will adopt the internal control measures as set out under the section headed “Internal control measures to be implemented by the Group” of the Letter from the Board to exercise effective control over and to safeguard the assets of the OPCO.

Having considered the above, we are of the view that the VIE Agreements complies with all requirements as set out in the Stock Exchange’s guidance letter HKEx-GL-77-14.

3.3 Duration of the VIE Agreements

Under the VIE Agreements, the financial results of the OPCO will be consolidated into the financial results of the Group and the entire economic benefits and the risks of the businesses of the OPCO will be effectively flowed to the WFOE. Given that the Group has the intention to expand the automobiles online e-commerce platform business, currently operating by the OPCO, the Directors are of the view that the VIE structure will be a long term arrangement of the Group. The Directors are also of the view that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of the Group for a renewal of the VIE Agreements for a fixed term periodically. It is commercially reasonable for the WFOE to enter into the VIE Agreements without a fixed duration in order to secure revenue generated from the automobiles online e-commerce platform business and develop a stable business relationship with the clients in the medium to long term until the current restriction on the foreign ownership restriction in the value-added telecommunications service business is removed under the PRC laws.

In assessing the fairness and reasonableness of the duration of the VIE Agreements, on a best effort basis, we have conducted a research on variable-interest-entity structures adopted by companies (the “**Comparable Companies**”) listed on the Stock Exchange which enable the relevant listed company to obtain control over a PRC company operating businesses in which foreign investment is restricted by relevant PRC laws and regulations

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(the “Comparable Transactions”). Set out below is an exhaustive list of the 5 Comparable Transactions that we identified during the period of 1 year from 14 December 2019 to the date of the VIE Agreements:

Date of announcement	Company name (stock code)	Businesses contemplated under the VIE agreements	Duration of the VIE agreements	Reasons to establish the VIE structure
26/05/2020	Huifu Payment Limited (1806)	value-added telecommunication services and payment services	No fixed term	In order to comply with the PRC laws and regulation on foreign ownership in the telecommunications industry and of internet cultural industries in the PRC and foreign investors conducting value-added telecommunications services
26/06/2020	Grandshores Technology Group Limited (1647)	operation of internet data centre	No fixed term	In order to comply with the PRC laws and regulations on value-added telecommunications business and foreign investor who invests in a value-added telecommunications company
27/08/2020	Sheng Ye Capital Limited (6069)	online operation of a cloud-based factoring platform	10 years (automatically renew) to no fixed term	In order to comply with the PRC laws and regulations on e value-added telecommunications business, profitable internet information service business and foreign investor who invests in a value-added telecommunications company

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Date of announcement	Company name (stock code)	Businesses contemplated under the VIE agreements	Duration of the VIE agreements	Reasons to establish the VIE structure
25/09/2020	Inke Limited (3700)	(i) operating live streaming platforms with the focus on online dating segment (ii) operating live streaming platforms with the focus on e-commerce segment	10 years (automatically renew) to no fixed term	In order to comply with the PRC laws and regulation on foreign ownership in the telecommunications industry and of internet cultural industries in the PRC and foreign investors conducting value-added telecommunications services
09/11/2020	7 Road Holdings Limited (797)	operation of online and mobile games and holds certain licenses and permits that are essential to the operation of the mobile game business	no fixed term	In order to comply with the PRC laws and regulation on foreign ownership in the telecommunications industry and of internet cultural industries in the PRC and foreign investors conducting value-added telecommunications services

As shown above, the durations of the VIE agreements entered into by the Comparable Companies ranging from 10 years to an indefinite term. In view of the above, we consider that it is a normal business practice and required for contracts of similar nature to the VIE agreements to be of a term of more than three years.

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4. Possible financial effects of the VIE Agreements

Upon Completion, the Company will hold the entire issued share capital of the Target Company which indirectly holds the entire issued share capital of the WFOE and through the VIE Agreements, has effective control over the financing and operations of the OPCO, and enjoy the economic interest and benefits of the OPCO. The Company has discussed with the auditors of the Company and it has confirmed that under the prevailing accounting principles of the Company, the Target Company has the right to consolidate the financial results of the OPCO in its consolidated accounts as if it were a subsidiary of the Target Company. As such, the Group will have additional revenue stream from the operation of the OPCO, which potentially improve the profitability of the Group.

RECOMMENDATION

Having taken into account the principal factors discussed above, we are of the view that, although entering into of the VIE Agreements are not in the ordinary and usual course of the business of the Group, (i) the entering into of the VIE Agreements is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the VIE Agreements and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the duration of the VIE Agreements, which is longer than three years, is required and it is normal business practice to be of such duration.

As stated in the Letter from the Board, the Stock Exchange has granted its approval to waive the physical general meeting requirement. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the VIE Agreements and the transactions contemplated thereunder if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the VIE Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Vincent Cheung
Managing Director

Note: Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporations

(i) The Company

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

Name	Nature of interest	Interest in Shares	Interest in Shares under the share options held ^(Note 5)	Approximately percentage of shareholder (%) ^(Note 2)
Mr. Kwok Kin Sun ^(Note 3)	Interest in a controlled corporation	888,400,000 (L)	—	46.18
Mr. Kwok Hon Fung ^(Note 4)	Interest in a controlled corporation	198,632,000 (L) 93,246,000 (S)	—	10.33 4.85
Mr. Cheung Chiu Tung	Beneficial owner	—	1,200,000 (L)	0.0624

Notes:

- (1) The letter (L) denotes long positions, and letter (S) denotes short positions.
- (2) As at the Latest Practicable Date, the total number of issued Shares is 1,923,600,000.
- (3) Mr. Kwok Kin Sun, the chairman of the Board and an executive Director, is deemed to be interested in all the Shares held by Everkept Limited (“Everkept”) by reason of his 70% interest in the share capital of Everkept

- (4) Mr. Kwok Hon Fung, an executive Director and the son of Mr. Kwok Kin Sun, is deemed to be interested in all the Shares held by Equal Plus Limited (“**Equal Plus**”) by reason of his 100% interest in the share capital of Equal Plus.
- (5) These are Shares subject to the exercise of the share options granted by the Company under the Share Option Scheme on 7 October 2015.

(ii) *Associated corporations of the Company*

Name of Director	Name of associated corporations	Nature of interest	Number of share(s) held	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation (%)
Mr. Kwok Hon Fung	Equal Plus	Beneficial owner	1	—	100
Mr. Tong	Tianjin Honggao Technology Co., Ltd. <i>(Note 2)</i>	Nominee shareholder whose shareholder's rights are subject to the VIE Agreements <i>(Note 1)</i>	—	3,000,000	100

Notes:

- (1) Tianjin Honggao Technology Co., Ltd. is controlled through the VIE Agreements, and is treated as a subsidiary of the Company.
- (2) The entire equity interest of Tianjin Honggao Technology Co., Ltd. is wholly-owned by Mr. Tong.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Substantial shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or,

who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Nature of interest	Interest in Shares	Approximate percentage of shareholding (%) ^(Note 2)
Donghai International Financial Holdings Company Limited	Security interest in Shares	823,400,000 (L)	42.81
東海證券股份有限公司 ^(Note 3)	Interest in controlled corporation	823,400,000 (L)	42.81
Ms. Wong Tung Yam ^(Note 4)	Interest of spouse	888,400,000 (L)	46.18
Everkept	Beneficial owner	888,400,000 (L)	46.18
Equal Plus	Beneficial owner	198,632,000 (L)	10.33
		93,246,000 (S)	4.85

Notes:

- (1) The letter (L) denotes long positions, and letter (S) denotes short positions.
- (2) As at the Latest Practicable Date, the total number of issued Shares is 1,923,600,000.
- (3) 東海證券股份有限公司, being the controlling shareholder of Donghai International Financial Holdings Company Limited, is deemed to be interested in all the Shares in which Donghai International Financial Holdings Company Limited is interested by virtue of the SFO.
- (4) Ms. Wong Tung Yam, being the spouse of Mr. Kwok Kin Sun, the chairman of the Board and an executive Director, is deemed to be interested in all the Shares in which Mr. Kwok Kin Sun is interested by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

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

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they appear respectively.

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

As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, in any asset which have been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

5. MATERIAL ADVERSE CHANGE

As disclosed in the Company's Interim Report 2020 dated 28 August 2020, the Group recorded a net loss of approximately HK\$67.1 million for the six months ended 30 June 2020, as compared to approximately RMB46.1 million for the six months ended 30 June 2019. The increase in loss was mainly attributable to a drastic drop in revenue due to the combined effect of COVID-19 pandemic and decline in the domestic demand and the increase in allowance for expected credit losses on trade receivables under the relevant accounting principle.

Save as disclosed, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group was made up.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates were materially interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group and which requires disclosure under Rule 8.10 of the Listing Rules.

7. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACT OR ARRANGEMENTS

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on business days at the office of the Company at Unit 1104A, 11/F, Kai Tak Commercial Building, No. 317–319 Des Voeux Road Central, Hong Kong from the date of this circular up to and including 7 April 2021:

- (a) the memorandum and articles of association of the Company;
- (b) the Sale and Purchase Agreement;
- (c) the Supplemental Agreement;
- (d) the VIE Agreements;
- (e) the letter from the Independent Board Committee to the Shareholders, the text of which is set out on pages 54 to 55 of this circular;
- (f) the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, the text of which is set out on pages 56 to 85 of this circular;
- (g) the written consent of the Independent Financial Adviser as referred to in paragraph headed "4. Expert" of this Appendix; and
- (h) this circular.