
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Wanjia Group Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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



WANJIA GROUP
萬嘉集團

WANJIA GROUP HOLDINGS LIMITED

萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 401)

**(I) PROPOSED SHARE CONSOLIDATION;
(II) PROPOSED CHANGE IN BOARD LOT SIZE;
(III) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(IV) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES
FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE;
(V) RE-ELECTION OF DIRECTOR; AND
(VI) NOTICE OF EGM**

Financial Adviser to the Company



INCUB Corporate Finance Limited

Underwriter of the Rights Issue



GREAT ROC
CAPITAL SECURITIES LIMITED
鴻鵬資本證券有限公司

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



金融有限公司
OCTAL Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular. A letter from the Independent Board Committee is set out on pages 47 to 48 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 IFA-1 to IFA-23 of this circular.

A notice convening the EGM to be held at Room 1902, 19th Floor, 101 King's Road, Hong Kong, on Thursday, 16 January 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or the adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The Consolidated Shares will be dealt in on an ex-rights basis from Tuesday, 21 January 2020. Dealings in the Rights Shares in their nil-paid form will take place from Wednesday, 5 February 2020 to Wednesday, 12 February 2020 (both dates inclusive). It is expected that the conditions referred to in the section headed "Termination of the Underwriting Agreement" in this circular are to be fulfilled on or before 4:00 p.m. on Tuesday, 18 February 2020. If the conditions referred to in that section are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any person contemplating buying or selling Existing Shares or Consolidated Shares (as the case may be) from the Latest Practicable Date and up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form from Wednesday, 5 February 2020 to Wednesday, 12 February 2020 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Existing Shares, the Consolidated Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her own professional adviser. It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company at any time prior to 4:00 p.m. on the Tuesday, 18 February 2020 to terminate its obligations under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section headed "Termination of the Underwriting Agreement" on pages 8 to 9 of this circular.

Upon the delivery of the notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

31 December 2019

CONTENTS

	<i>Page</i>
Definitions	1
Termination of the Underwriting Agreement	8
Expected Timetable	10
Letter from the Board	14
Letter from The Independent Board Committee	47
Letter from The Independent Financial Adviser	IFA-1
Appendix I – Financial Information of the Group	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Details of the Director Proposed to be Re-elected	III-1
Appendix IV – General Information	IV-1
Notice of EGM	EGM-1

DEFINITIONS

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

“Articles”	the articles of association of the Company
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any weekday(s) (other than a Saturday or a day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks are generally open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 5,000 Existing Shares to 20,000 Consolidated Shares
“Companies Miscellaneous Provisions Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Wanjia Group Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company immediately following and arising from the Share Consolidation becoming effective
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EAF(s)”	the form(s) of application for use by the Qualifying Shareholders who wish to apply for the excess Rights Shares
“EGM”	the extraordinary general meeting of the Company to be convened and held at which resolutions will be proposed to consider, and, if thought fit, to approve, among other things, the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue and the re-election of Director
“Excluded Option Holders”	collectively, Mr. Chen Jinshan, Mr. Wang and certain employees, who hold in aggregate 60,680,000 Share Options as at the Latest Practicable Date
“Excluded Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Existing Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company prior to the Share Consolidation having become effective
“Extreme Conditions”	extreme conditions including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons as announced by the government of Hong Kong
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Increase in Authorised Share Capital”	upon the Share Consolidation having become effective, an increase in the authorised share capital of the Company from HK\$20,000,000 divided into 400,000,000 Consolidated Shares to HK\$50,000,000 divided into 1,000,000,000 Consolidated Shares by creating an additional 600,000,000 unissued Consolidated Shares

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board, comprising Mr. Wong Hon Kit, Dr. Liu Yongping and Mr. Ho Man, being all of the independent non-executive Directors, has been established to give recommendation to the Independent Shareholders in respect of the Rights Issue
“Independent Financial Adviser”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under SFO, being the independent financial adviser appointed by the Company with the approval of the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders on the terms of the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s), apart from Power King, Ms. Yung and Mr. Wang who is/are not required to abstain from voting at the EGM under the Listing Rules
“Irrevocable Undertaking”	the irrevocable undertaking given by Power King in favour of the Company and the Underwriter as described in the section headed “Irrevocable Undertaking”
“Last Trading Day”	6 December 2019, being the last trading day of the Existing Shares on the Stock Exchange immediately prior to the publication of the Rights Issue Announcement
“Latest Lodging Time”	4:30 p.m. on Wednesday, 22 January 2020 or such other date as the Underwriter and the Company may agree, being the latest time for the Shareholders to lodge transfer of Consolidated Shares in order to qualify for the Rights Issue
“Latest Practicable Date”	27 December 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Latest Time for Acceptance”	4:00 p.m. on Monday, 17 February 2020, being the latest time for acceptance and payment of the Rights Shares, or such other date as the Company may determine and notify the Underwriter in writing

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on Tuesday, 18 February 2020 or such later time or date as may be agreed between the Underwriter and the Company in writing, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wang”	Mr. Wang Jia Jun, being an executive Director and spouse of Ms. Yung
“Ms. Yung”	Ms. Yung Ka Lai, being an executive Director and spouse of Mr. Wang
“Option Holders”	holders of the outstanding Share Options, other than the Excluded Option Holders
“Optionholders’ Undertaking(s)”	the undertaking executed by each of the Excluded Option Holders, whereby each of them irrevocably undertook, represented and warranted to the Company that he/she will not exercise such Share Options held by him/her up to and including the Record Date
“Overseas Shareholder(s)”	Shareholder(s) whose address(es) on the register of members of the Company on the Record Date are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) for the Rights Issue
“Posting Date”	Monday, 3 February 2020 or such other day as may be agreed between the Company and the Underwriter, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Excluded Shareholders (as the case may be)
“Power King”	Power King Investment Development Limited, a company established in British Virgin Islands, which is the legal and beneficial owner of 11,201,475 Existing Shares or 2,240,295 Consolidated Shares (as the case may be) up to and including the Latest Lodging Time, and is wholly-owned by Ms. Yung

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s) for information only) on the Posting Date in connection with the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL(s) and the EAF(s)
“Qualifying Shareholder(s)”	Shareholder(s), whose names appear on the register of members of the Company as at the Record Date, other than the Excluded Shareholder(s)
“Record Date”	Friday, 31 January 2020, being the record date to determine entitlements to the Rights Issue
“Registrar”	Tricor Investor Services Limited, the Company’s branch share registrar and transfer office in Hong Kong
“Review Period”	the 12-month period from 7 December 2018 up to and including the Last Trading Day
“Rights Issue”	the proposed issue of not less than 373,481,424 Rights Shares and not more than 375,145,424 Rights Shares at the Subscription Price on the basis of two (2) Rights Shares for every one (1) Consolidated Share held at the close of business on the Record Date payable in full on acceptance
“Rights Issue Announcement”	the announcement of the Company dated 6 December 2019 (as supplemented and clarified by the announcement of the Company dated 9 December 2019) in relation to, among other things, the Share Consolidation, Change in Board Lot Size, Increase in Authorized Share Capital and the Rights Issue
“Rights Share(s)”	the new Consolidated Share(s) to be allotted and issued under the Rights Issue

DEFINITIONS

“Settlement Date”	the date being the fifth business day following (but excluding) the Latest Time for Acceptance or such later date as the Company and the Underwriter may agree
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Existing Share(s) or Consolidated Share(s) (as the case may be)
“Share Consolidation”	the consolidation of every five (5) issued and unissued Existing Shares of HK\$0.01 each into one (1) Consolidated Share of HK\$0.05 each
“Share Option(s)”	the 64,840,000 outstanding share options of the Company to subscribe for 64,840,000 Existing Shares at the exercise price of HK\$0.135 per Existing Share granted pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme of the Company adopted on 24 September 2013
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.192 per Rights Share
“substantial shareholder(s)”	has the meaning as ascribed to this term under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers
“Underwriter”	Great Roc Capital Securities Limited, a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, whose ordinary course of business includes underwriting of securities

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 6 December 2019 and entered into among the Company, the Underwriter and Power King in relation to the Rights Issue
“Underwritten Shares”	the number of Rights Shares to be underwritten by the Underwriter of not less than 218,859,521 Rights Shares and not more than 220,523,521 Rights Shares
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

Pursuant to the Underwriting Agreement, if, prior to the Latest Time for Termination (provided that for the purposes of the clause in the Underwriting Agreement if the date of the Latest Time for Termination shall be a business day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
 - (c) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (ii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospect of the Group as a whole; or
- (iv) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (v) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (vi) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Rights Issue Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,
- (vii) the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter be material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

EXPECTED TIMETABLE

The expected timetable for the Share Consolidation, Change in Board Lot Size and the Rights Issue set out below is for indicative purposes only and it has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled. The expected timetable is subject to change. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.

All time and date references contained in this circular shall refer to Hong Kong local time and dates.

Event	Date (Hong Kong time)
Latest time for lodging transfer of shares to qualify for attendance and voting at the EGM	4:30 p.m. on Thursday, 9 January 2020
Closure of register of members of the Company (both days inclusive)	Friday, 10 January 2020 - Thursday, 16 January 2020
Latest time for lodging proxy forms for the EGM	10:00 a.m. on Tuesday, 14 January 2020
Record date for attendance and voting at the EGM	Thursday, 16 January 2020
Expected time and date of the EGM to approve, among other things, the Share Consolidation and the Rights Issue . .	10:00 a.m. on Thursday, 16 January 2020
Announcement of the poll results of the EGM	Thursday, 16 January 2020
Register of members of the Company re-opens	Friday, 17 January 2020
Effective date of the Share Consolidation	Monday, 20 January 2020
Commencement of dealings in the Consolidated Shares	9:00 a.m. on Monday, 20 January 2020
Original counter for trading in the Existing Shares in board lots of 5,000 Existing Shares (in the form of existing share certificates in light pink colour) temporarily closes	9:00 a.m. on Monday, 20 January 2020

EXPECTED TIMETABLE

Temporary counter for trading in board lots of 1,000 Consolidated Shares (in the form of existing share certificates in light pink colour) opens	9:00 a.m. on Monday, 20 January 2020
First day of free exchange of existing share certificates in light pink colour for new share certificates in light blue colour for the Consolidated Shares	Monday, 20 January 2020
Last day of dealings in the Consolidated Shares on cum-rights basis relating to the Rights Issue	Monday, 20 January 2020
First day of dealings in the Consolidated Shares on ex-rights basis relating to the Rights Issue	Tuesday, 21 January 2020
Latest time for the Shareholders to lodge transfer of Consolidated Shares to qualify for the Rights Issue	4:30 p.m. on Wednesday, 22 January 2020
Closure of register of members of the Company for the Rights Issue (both days inclusive)	Thursday, 23 January 2020 - Friday, 31 January 2020
Record date for the Rights Issue	Friday, 31 January 2020
Register of members of the Company re-opens	Monday, 3 February 2020
Despatch of Prospectus, PAL and EAF	Monday, 3 February 2020
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares	9:00 a.m. on Wednesday, 5 February 2020
Original counter for trading in the Consolidated Shares in board lots of 20,000 Consolidated Shares (in the form of new share certificates in light blue colour) re-opens	9:00 a.m. on Wednesday, 5 February 2020

EXPECTED TIMETABLE

Parallel trading in the Consolidated Shares (in the form of both existing share certificates in light pink colour in board lots of 1,000 Consolidated Shares and new share certificates in light blue colour in board lots of 20,000 Consolidated Shares) commences	9:00 a.m. on Wednesday, 5 February 2020
First day of dealings in nil-paid Rights Shares	Wednesday, 5 February 2020
Latest time for splitting the PALs	4:30 p.m. on Friday, 7 February 2020
Last day of dealing in nil-paid Rights Shares	Wednesday, 12 February 2020
Latest time for acceptance of and payment for the Rights Shares and application of excess Rights Shares	4:00 p.m. on Monday, 17 February 2020
Latest time for terminating the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Tuesday, 18 February 2020
Announcement of results of the Rights Issue	Monday, 24 February 2020
Temporary counter for trading in board lots of 1,000 Consolidated Shares (in the form of existing share certificates in light pink colour) closes	4:10 p.m. on Tuesday, 25 February 2020
Parallel trading in Consolidated Shares (represented by both existing share certificates in light pink colour in board lots of 1,000 Consolidated Shares and new share certificates in light blue colour in board lots of 20,000 Consolidated Shares) ends	4:10 p.m. on Tuesday, 25 February 2020
Despatch of share certificates for fully-paid Rights Shares and refund cheques in relation to wholly or partially unsuccessful applications for excess Rights Shares	Tuesday, 25 February 2020

EXPECTED TIMETABLE

Designated broker ceases to provide matching services

for odd lots of the Consolidated Shares 4:10 p.m. on Tuesday,
25 February 2020

Commencement of dealings in fully-paid Rights Shares 9:00 a.m. on Wednesday,
26 February 2020

Last day for free exchange of existing share certificates

in light pink colour for new share certificates

in light blue colour for the Consolidated Shares Thursday, 27 February 2020

EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES AND APPLICATION FOR EXCESS RIGHTS SHARES

The Latest Time for Acceptance will not take place if there is a tropical cyclone warning signal no. 8 or above, Extreme Conditions or a “black” rainstorm warning:

- (1) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- (2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of the abovementioned warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section (including, without limitation, the Latest Time for Termination) may be affected. An announcement will be made by the Company in such event.

Dates or deadlines stated in this circular for events in the expected timetable are indicative only and may be extended or varied between the Company and the Underwriter. Any changes to the anticipated timetable for the Rights Issue will be announced as and when appropriate.

LETTER FROM THE BOARD



WANJIA GROUP
萬嘉集團

WANJIA GROUP HOLDINGS LIMITED

萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 401)

Executive Directors:

Mr. Chen Jinshan

Mr. Wang Jia Jun

Ms. Yung Ka Lai

Independent Non-executive Directors:

Mr. Wong Hon Kit

Dr. Liu Yongping

Mr. Ho Man

Registered office:

P.O. Box 10008,

Willow House,

Cricket Square

Grand Cayman, KY1-1001,

Cayman Islands

Principal place of business in Hong Kong:

Room 1902, 19th Floor

101 King's Road

Hong Kong

31 December 2019

To the Shareholders and, for information only, holders of the Share Options

Dear Sir/Madam,

**(I) PROPOSED SHARE CONSOLIDATION;
(II) PROPOSED CHANGE IN BOARD LOT SIZE;
(III) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(IV) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS
SHARES FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE;
(V) RE-ELECTION OF DIRECTOR; AND
(VI) NOTICE OF EGM**

INTRODUCTION

References are made to (i) the Rights Issue Announcement in relation to, (a) the Share Consolidation, (b) the Change in Board Lot Size, (c) the Increase in Authorised Share Capital, (d) the Rights Issue; and (ii) the announcement of the Company dated 10 December 2019 in relation to the appointment of the Independent Financial Adviser.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further details of (a) the Share Consolidation, (b) the Change in Board Lot Size, (c) the Increase in Authorised Share Capital, (d) the Rights Issue; and (e) the re-election of Director; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Rights Issue; (iv) other information required pursuant to the Listing Rules in relation to the Share Consolidation, Change in Board Lot Size, Increase in Authorised Share Capital and the Rights Issue; (v) information regarding the Director proposed to be re-elected; and (vi) a notice convening the EGM.

(I) PROPOSED SHARE CONSOLIDATION

The Board intends to put forward a proposal to the Shareholders to effect the Share Consolidation which involves the consolidation of every five (5) Existing Shares into one (1) Consolidated Share. The Share Consolidation is conditional upon, among other things, the approval by the Shareholders by way of poll at the EGM. As none of the Shareholders or their associates would have any interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Share Consolidation at the EGM.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following:

- (i) the passing of the necessary resolution(s) by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the compliance with all relevant procedures and requirements under the laws of the Cayman Islands (where applicable) and the Listing Rules to effect the Share Consolidation; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation.

The Share Consolidation will become effective on the next Business Day immediately following the fulfillment of the above conditions.

LETTER FROM THE BOARD

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company amounted to HK\$20,000,000 divided into 2,000,000,000 Existing Shares, of which 933,703,560 Existing Shares had been allotted and issued as fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective and on the basis that no further Existing Shares will be allotted, issued or repurchased prior thereto, the authorised share capital of the Company will become HK\$20,000,000 divided into 400,000,000 Consolidated Shares of HK\$0.05 each, of which 186,740,712 Consolidated Shares will be in issue, which are fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other in accordance with the Articles. No fractional Consolidated Shares will be issued by the Company. Any fractional entitlements of the Consolidated Shares will be aggregated and sold for the benefits of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Group or the interests or rights of the Shareholders, save for any fractional Consolidated Shares to which the Shareholders may be entitled.

Adjustments in relation to other securities of the Company

As at the Latest Practicable Date, there were outstanding Share Options for subscription of 64,840,000 Existing Shares under the Share Option Scheme. Pursuant to the terms of the Share Option Scheme, the Share Consolidation may lead to adjustments to the exercise price and/or the number of Shares falling to be issued upon the exercise of the outstanding Share Options. The Company will announce on such adjustments as and when appropriate.

Save as disclosed above, as at the Latest Practicable Date, the Company had no other outstanding options, warrants or other securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any Shares.

LETTER FROM THE BOARD

Fractional Consolidated Shares

Fractional Consolidated Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company, if feasible and applicable. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Great Roc Capital Securities Limited as an agent to stand in the market to provide matching services, on a best efforts basis, to the Shareholders for the sale and purchase of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share and the matching period commences from 9:00 a.m. on Wednesday, 5 February 2020 to 4:10 p.m. on Tuesday, 25 February 2020 (both dates inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Mr. Herman Chan of Great Roc Capital Securities Limited at 44/F, Convention Plaza Office Tower, 1 Harbour Road, Wan Chai, Hong Kong or by phone at 3423 0010 during office hours.

Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult their professional advisers.

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, during the specified period, submit the existing share certificates in light pink colour for the Existing Shares to the Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange, at the expense of the Company, for new share certificates in light blue colour for the Consolidated Shares. Thereafter, existing share certificates for the Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for the Consolidated Shares at the expense of the Shareholders on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each existing share certificate cancelled or each new share certificate issued for the Consolidated Shares (whichever is higher) but are not acceptable for trading, settlement and registration upon the Share Consolidation becoming effective.

The new share certificates for the Consolidated Shares will be issued in light blue colour in order to distinguish them from the existing light pink colour.

LETTER FROM THE BOARD

Listing and Dealings

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation and all necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC. The Share Consolidation will be conducted in accordance with the provisions of the Articles.

No part of the securities of the Company is listed or dealt in on any other stock exchange, or on which listing or permission to deal is being or is proposed to be sought.

Shareholders holding the Consolidated Shares in odd lots should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is on a best effort basis and successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed.

Shareholders should take note that the Share Consolidation is conditional upon satisfaction of conditions set out in the section headed “Conditions of the Share Consolidation”. Therefore, the Share Consolidation may or may not proceed.

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

(II) PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Existing Shares were traded on the Stock Exchange in board lot size of 5,000 Existing Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 5,000 Existing Shares to 20,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.041 per Existing Share (equivalent to the theoretical closing price of HK\$0.205 per Consolidated Share) as at the Latest Practicable Date, (i) the value of each existing board lot of Existing Shares is HK\$205; (ii) the value of each board lot of 5,000 Consolidated Shares would be HK\$1,025 assuming the Share Consolidation becoming effective; and (iii) the estimated value per board lot of 20,000 Consolidated Shares would be HK\$4,100 assuming that the Change in Board Lot Size had also been effective.

The Change in Board Lot Size will not result in change in the relative rights of the Shareholders.

LETTER FROM THE BOARD

(III) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Subject to the Share Consolidation having become effective, the Board proposes to seek the approval by way of ordinary resolution at the EGM by Shareholders of an increase in its authorised share capital from HK\$20,000,000 divided into 400,000,000 Consolidated Shares to HK\$50,000,000 divided into 1,000,000,000 Consolidated Shares by creating an additional 600,000,000 unissued Consolidated Shares.

Reasons for the Share Consolidation, the Change in Board Lot Size and Increase in Authorised Share Capital

Under Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and updated on 30 August 2019 (the “**Guideline**”), the expected board lot value should be greater than HK\$2,000 per board lot taking into account the minimum transaction costs for a securities trade. As at the Latest Practicable Date, the closing price of each Existing Share is HK\$0.041, with a board lot size of 5,000 Existing Shares, the Company is trading under HK\$2,000 per board lot.

The Share Consolidation will increase the market price of Shares by five (5) times theoretically upon the Share Consolidation becoming effective and increase the nominal value of the Shares to HK\$0.05 each. The Company proposed the ratio of the consolidation of every five (5) issued and unissued Existing Shares of HK\$0.01 each into one (1) Consolidated Share of HK\$0.05 each with the aim to minimize odd lot effect causing to the Shareholders as a result of the Share Consolidation as well as not to increase the nominal value of the Shares to a great extent.

The daily closing prices of the Shares during the Review Period ranged from HK\$0.041 to HK\$0.128. Based on the average daily closing prices of HK\$0.086 during the Review Period and the board lot size of 5,000, the values per board lot during the Review Period were far lower than HK\$2,000. In addition, the value per board lot for all days during the Review Period was lower than HK\$800. Based on the closing price quoted on the Stock Exchange on the Latest Practicable Date of HK\$0.041 per Existing Share and HK\$0.205 per Consolidated Share, the values per board lot of 5,000 Consolidated Shares will be HK\$1,025. To meet the requirement of each board lot value not less than HK\$2,000, it is also proposed that the Consolidated Shares will be traded in board lots of 20,000.

LETTER FROM THE BOARD

The Share Consolidation should bring about a corresponding upward adjustment in the trading price of the Consolidated Shares and an increase in trading price per board lot, and hence reduce the overall transaction and handling costs for dealing in the Consolidated Shares, and thereby attract more investors to Shares. The Directors considered the ratio of the Share Consolidation and proposed board lot size are appropriate and the Share Consolidation and Change in Board Lot Size are in the interests of the Company and the Shareholders as a whole.

In order to accommodate growth of the Group and to provide the Company with greater flexibility to raise funds by the Rights Issue, the Board proposed the Increase in Authorised Share Capital.

Therefore, the Board believes the Share Consolidation, the Change in Board Lot Size and the Increase in Authorised Share Capital are in the interests of the Company and the Shareholders as a whole.

(IV) PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Share Consolidation and the Increase in Authorised Share Capital having become effective, with the terms set out as follows:

Issue statistics

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.192 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$0.184 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	933,703,560 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	186,740,712 Consolidated Shares

LETTER FROM THE BOARD

Number of Rights Shares to be issued pursuant to the Rights Issue	:	Not less than 373,481,424 Rights Shares (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than 375,145,424 Rights Shares (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	Not less than HK\$18,674,071.20 (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than HK\$18,757,271.20 (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	Not less than 560,222,136 Consolidated Shares (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than 562,718,136 Consolidated Shares (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Number of Rights Shares being undertaken by Power King	:	154,621,903 Rights Shares, comprising (i) 4,480,590 Rights Shares, representing its full entitlement under the Rights Issue; and (ii) 150,141,313 Rights Shares by way of excess application

LETTER FROM THE BOARD

Gross proceeds from the Rights Issue	:	not less than approximately HK\$71.708 million before expenses (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than approximately HK\$72.028 million before expenses (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Right of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment
Theoretical dilution impact (Note)	:	-20.95%

Note: Theoretical dilution effect of the Rights Issue is calculated according to Rule 7.27B of the Listing Rules and refers to the discount of the “theoretical dilution price” to the “benchmarked price” of shares. “Theoretical diluted price” refers to the sum of (i) the Company’s total market capitalization (by reference to the “benchmarked price” and the number of issued Existing Shares or the Consolidated Shares immediately before the Rights Issue) and (ii) the total funds raised and to be raised from the Rights Issue, divided by the total number of Existing Shares or the Consolidated Shares as enlarged by the issue. While the “benchmarked price” means the higher of: (i) the closing price on the date of the Underwriting Agreement; and (ii) the average closing price in the 5 trading days immediately prior to the earlier of: (1) the date of Rights Issue Announcement; (2) the date of the Underwriting Agreement; and (3) the date on which the Subscription Price is fixed. If there is a premium or no discount of subscription price over to the closing price per share on the respective last trading day, the dilution impact is deemed to be not applicable.

As at the Latest Practicable Date, there are 64,840,000 outstanding Share Options, which entitle holders thereof to subscribe for 64,840,000 Existing Shares under the Share Option Scheme. The exercise price of the Share Options is HK\$0.135 per Existing Share. The Share Options will be valid from 26 October 2018, being the date of grant, to 26 October 2028 (both days inclusive), unless otherwise lapsed in accordance with the terms of the Share Option scheme. Save for the aforesaid, the Company has no outstanding convertible securities, options or warrants, which confer any right to subscribe for or convert into or exchange for Shares as at the Latest Practicable Date.

Assuming no Shares are issued or repurchased on or before the Record Date, 373,481,424 Rights Shares to be issued pursuant to the terms of the Rights Issue represents 200.00% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and approximately 66.67% of the total number of issued Consolidated Shares as enlarged immediately upon completion of the Rights Issue.

LETTER FROM THE BOARD

Assuming no Shares are issued or repurchased, other than as a result of the issue of new Shares upon exercise of the outstanding Share Options in full by the Option Holders, on or before the Record Date, not more than 375,145,424 Rights Shares will be allotted and issued upon completion of the Rights Issue, representing approximately 200.00% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and approximately 66.67% of the total number of issued Consolidated Shares as enlarged immediately upon completion of the Rights Issue and the issue of new Shares upon full exercise of the outstanding Share Options.

The Subscription Price

The Subscription Price of HK\$0.192 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or where a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 6.34% to the theoretical closing price of HK\$0.205 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.041 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 31.43% to the theoretical closing price of HK\$0.280 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.056 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 29.93% to the theoretical closing price of HK\$0.274 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.0548 per Existing Share as quoted on the Stock Exchange on the Last Trading Day for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 32.63% to the average closing price of approximately HK\$0.285 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Last Trading Day for the ten (10) consecutive trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (v) a discount of approximately 13.12% to the theoretical ex-rights price of approximately HK\$0.221 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.056 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and
- (vi) a discount of approximately 62.72% to the net asset value of the Company of approximately HK\$0.515 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the unaudited net asset value attributable to owners of the Company of approximately HK\$96.181 million as at 30 September 2019 and 186,740,712 Consolidated Shares assuming the Share Consolidation has become effective.

The global economy has been very volatile in 2019 in light of Sino-US trade war. The economy in Hong Kong has been sluggish not only because of the impact of the Sino-US trade war but also as a result of social campaign since June 2019. Due to the Company's poor financial position, in particular its high gearing ratio, the Company was unable to secure debt financing. The Board has considered different means of equity financing, such as placing of new shares, issue of convertible bonds, open offer and rights issue prior to the entering into of the Underwriting Agreement. In August 2019, the Company conducted placing of new shares under general mandate. During the previous placing, the Company was advised by the then placing agent that some placees considered that the discount to the placing price under the general mandate was not attractive. The Board considered that if the Company were offering a greater discount to new subscriber(s) who are not existing Shareholders, it would have been causing a greater dilution impact to the existing Shareholders and such arrangement would not be in the interest of the Shareholders. In addition, any placing of debt securities will further deteriorate the gearing ratio in light of the unpaid Principal Loan (details of which is disclosed in the paragraphs under "Reasons for the Rights Issue" and "Intended use of proceeds"). The Board therefore decided to pursue for rights issue.

Finally, the Company could only manage to secure the Underwriter as the sole underwriter to the Rights Issue. In view of the global investment environment and low market sentiment, the Underwriter requested for higher discount of the subscription price. Hence, the Subscription Price was finally determined at HK\$0.192 per Rights Share. As the Company is in need of fund to repay the Principal Loan as well as to attract more Shareholders to participate in the Rights Issue, the Subscription Price was determined and was set at HK\$0.192 per Rights Share, the basis for the Rights Issue is set at the subscription rate of two (2) Rights Shares for one (1) Consolidated Shares.

LETTER FROM THE BOARD

The Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among others, the market price of the Existing Shares under the prevailing market conditions, the financial condition of the Company and the reasons and benefits of Rights Issue as discussed in the paragraph headed "Reasons for and Benefits of the Rights Issue and Use of Proceeds", in this section. Despite the fact that the Subscription Price represents a discount of approximately 62.72% to the net asset value of the Company of approximately HK\$0.515 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the unaudited net asset value attributable to owners of the Company of approximately HK\$96.181 million as at 30 September 2019, this is not a factor considered by the Board and the Underwriter during the course of negotiation for the Rights Issue. As mentioned above, the parties to the Underwriting Agreement when determined the Subscription Price mainly made reference to, among other matters, the prevailing market conditions and the financial condition of the Company. As the daily closing prices of the Shares during the Review Period ranged from HK\$0.041 to HK\$0.128 and the average daily closing prices of HK\$0.086 during the Review Period, this indicated that the trading price of the Shares was over prolonged period below net asset value, using the lowest trading price during the Review Period of HK\$0.041 per Share (i.e. HK\$0.205 per Consolidated Share) as example, the trading price represents a discount of approximately 60.19% to the net asset value of the Company. In addition, the average trading volume of the Shares was below 1,000,000 Shares during the Review Period. In light of the low trading price and low liquidity, it is commercially not sound to make reference to net asset value of the Company when determining the Subscription Price.

The Directors considered that the Subscription Price which represents a discount of approximately 6.34% to the theoretical closing price of HK\$0.205 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.041 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and (ii) a discount of approximately 31.43% to the theoretical closing price of HK\$0.280 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.056 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; The Board (excluding Ms. Yung and Mr. Wang, who have abstained from voting on the relevant issues in the Board meeting, but including the independent non-executive Directors whose opinion on the matter is set forth in the letter from the Independent Board Committee set out on pages 47 to 48 of this circular) considers that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Conditions of the Rights Issue

The Rights Issue will be conditional upon:

- (i) the passing by the Independent Shareholders at the EGM of ordinary resolution(s) to approve (a) the Underwriting Agreement and the transactions contemplated thereunder, including but not limited to the Rights Issue; and (b) the Increase in Authorised Share Capital;
- (ii) the Share Consolidation and the Increase in Authorised Share Capital having become effective;
- (iii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Miscellaneous Provisions Ordinance not later than the Posting Date;
- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Posting Date;
- (v) the Listing Division of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares by no later than the first day of their dealings;
- (vi) the Shares remaining listed on the Stock Exchange at all times prior to the Settlement Date and the listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 10 trading days at any time prior to the Latest Time for Acceptance;

LETTER FROM THE BOARD

- (vii) the obligations of the Underwriter becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms;
- (viii) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement;
- (ix) compliance with and performance of all undertakings and obligations under the Irrevocable Undertaking by Power King in favour of the Company and the Underwriter;
- (x) compliance with and performance of all undertakings and obligations under the Optionholders' Undertakings by Excluded Options Holders in favour of the Company and the Underwriter; and
- (xi) compliance with the requirements under the applicable laws and regulations of Hong Kong and the Cayman Islands.

The conditions are incapable of being waived. If any of the above conditions is not satisfied at or prior to the Latest Time for Termination, or such other date as the Company and the Underwriter may agree, the Rights Issue will not proceed.

As at the Latest Practicable Date, none of the above conditions have been satisfied. Conditions (i) and (ii) above are expected to have been fulfilled on the date of the EGM and conditions (iii) and (iv) above are expected to have been fulfilled on the Posting Date.

LETTER FROM THE BOARD

Status of the Rights Shares

The Rights Shares (when allotted, fully paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be an Excluded Shareholder. In order to be registered as members of the Company prior to the close of business on the Record Date, all transfers of the Consolidated Shares (together with the relevant share certificate(s) and/or the instrument(s) of transfer) must be lodged with the Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. (Hong Kong time) on Wednesday, 22 January 2020.

It is expected that the last day of dealings in the Consolidated Shares on a cum-rights basis is Monday, 20 January 2020, and the Consolidated Shares will be dealt with on an ex-rights basis from Tuesday, 21 January 2020.

Subject to the Share Consolidation and the Increase in Authorised Share Capital having become effective, the passing of the resolution to approve the Rights Issue by the Independent Shareholders at the EGM and the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Posting Date and will despatch the Prospectus only (without the PAL and the EAF) to the Excluded Shareholders for their information only.

Closure of register of members

The register of members of the Company will be closed from Thursday, 23 January 2020 to Friday, 31 January 2020 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of the Consolidated Shares will be registered during the above book closure period.

LETTER FROM THE BOARD

Basis of provisional allotments

The Rights Shares will be allotted on the basis of two (2) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders as at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made only by completing a PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar by the Latest Time for Acceptance.

Rights of the Overseas Shareholders (if any)

The Prospectus Documents to be issued in connection with the Rights Issue will not be registered or filed under the securities law of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

According to the register of members of the Company as at the Latest Practicable Date, there was one Overseas Shareholder with address in the PRC. In compliance with the necessary requirements of the Listing Rules, the Directors have made enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholder. Based on the advice provided by the legal advisers as to the laws of the PRC, as at the Latest Practicable Date, the laws of the PRC impose no restrictions on extending the Rights Issue to such Overseas Shareholder located in the PRC, and the Company is not required to obtain any approvals for the despatch of the Prospectus Documents to such Overseas Shareholder. Accordingly, there was no Excluded Shareholder as at the Latest Practicable Date.

Application for the Rights Shares

The PALs and the EAFs relating to the Rights Shares will be enclosed with the Prospectus entitling the Qualifying Shareholders to whom it is addressed to subscribe for the Rights Shares as shown therein by completing such form(s) and lodging the same with separate remittance for the Rights Shares being applied for with the Registrar by the Latest Time for Acceptance.

Application for the excess Rights Shares

Qualifying Shareholders shall be entitled to apply, by way of excess application, for (i) any Rights Shares representing the entitlement of the Excluded Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders. Applications for the excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for.

LETTER FROM THE BOARD

The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable on the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- (ii) subject to availability of the excess Rights Shares, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the number of excess Rights Shares applied for by them. No reference will be made to Rights Shares subscribed through PALs, or the number of Shares held by the Qualifying Shareholders.

Beneficial owners of Consolidated Shares whose shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of Consolidated Shares whose Consolidated Shares are registered in name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually and are advised to consider whether they would like to arrange for registration of the relevant Consolidated Shares in the name of the beneficial owner(s) prior to the Record Date.

For those beneficial owners of Consolidated Shares whose Consolidated Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for completion of the relevant registration not later than 4:30 p.m. (Hong Kong time) on Wednesday, 22 January 2020.

Pursuant to the Irrevocable Undertaking, Power King has indicated that it will subscribe for 150,141,313 Rights Shares by way of excess application. Please refer to the paragraph headed "The Irrevocable Undertaking" below for more details.

LETTER FROM THE BOARD

Certificates of the Rights Shares and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be sent on or around Thursday, 25 February 2020, to those entitled thereto by ordinary post, at their own risk, to their registered addresses. Each allottee will receive one share certificate for all fully-paid Rights Shares issued and allotted to the allottee.

If the Underwriting Agreement is terminated or not becoming unconditional, refund cheques will be despatched on or around Thursday, 25 February 2020 by ordinary post, at the respective Shareholders' own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or around Thursday, 25 February 2020, by ordinary post to the applicants, at their own risk, to their registered addresses.

Fractional entitlement to the Rights Shares

On the basis of provisional allotment of two (2) Rights Shares for every one (1) Consolidated Share held on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

The Irrevocable Undertaking

Power King is the legal and beneficial owner of 11,201,475 Existing Shares (equivalent to 2,240,295 Consolidated Shares after taking into account the effect of the Share Consolidation), representing approximately 1.20% of the entire issued share capital of the Company as at the Latest Practicable Date. Power King has given the Irrevocable Undertaking in favour of the Company and the Underwriter, (i) not to dispose of any of the 11,201,475 Existing Shares or 2,240,295 Consolidated Shares (as the case may be) registered in the name of Power King and to remain as the legal and beneficial owner of those 11,201,475 Existing Shares or 2,240,295 Consolidated Shares (as the case may be) up to and including the Latest Lodging Time; and (ii) to subscribe for a total of 154,621,903 Rights Shares, which comprises (a) 4,480,590 Rights Shares, representing its full entitlement under the Rights Issue; and (b) 150,141,313 Rights Shares by way of excess application.

LETTER FROM THE BOARD

Power King is wholly-owned by Ms. Yung, the Irrevocable Undertaking given by it shows Ms. Yung's commitment and confidence to the Company as an executive Director. Besides, the Company can reduce the amount of underwriting commission by the Irrevocable Undertaking as the underwriting commission payable by the Company to the Underwriter is 2.5% of the number of Underwritten Shares times the Subscription Price. Power King, being an Existing Shareholder has indicated its intention to apply for Rights Shares by way of excess application. As Power King has made the Irrevocable Undertaking, the Underwriter will carve out (i) the 4,480,590 Rights Shares, representing its full entitlement under the Rights Issue of Power King and (ii) 150,141,313 Rights Shares to be applied by Power King by way of excess application from the Underwritten Shares so that the actual number of Underwritten Shares will be reduced by 154,621,903 Rights Shares. Under the circumstances, the Company will save commission payable of approximately HK\$742,000. The said 150,141,313 Rights Shares represent the number of Shares to be topped up by Power King which does not involve any implication under the Takeovers Code.

Like all the Existing Shareholders, Power King has the right to apply for Rights Shares by way of Excess Application. In fact, all Existing Shareholders have right to apply for Rights Shares under its entitlement and by way of Excess Application. Subject to the requirement of Takeovers Code, there is no limit how many Rights Shares can be applied by the Existing Shareholders by way of EAF.

However, the application of Rights Shares by way of EAF subordinates to the Shareholders' assured entitlement under the Rights Issue. Only on the condition that the Rights Shares are under subscription, the Rights Shares will be issued under the EAF. Depending on the number of Rights Shares under subscriptions, the Company may or may not issue up to 150,141,313 Rights Shares to Power King. Pursuant to the Irrevocable Undertaking, in the event that Power King failed to lodge the EAF to subscribe for the Rights Shares, the Company can treat the Irrevocable Undertaking as an application of Power King for Rights Shares under its assured entitlement and the excess Rights Shares. Hence, in the event Power King fails to lodge any application forms for the Rights Shares or excess Rights Shares, it will not render the termination of the Rights Issue.

Given that the compliance with and performance of the Irrevocable Undertaking is one of the conditions precedent to the Rights Issue, if Power King cannot comply the Irrevocable Undertaking, such as Power King fails to pay the subscription money, the condition precedent will not be fulfilled and the proposed Rights Issue will be terminated and will not proceed.

Save as disclosed above, the Company did not receive any other irrevocable commitments to accept or reject the Rights Issue as at the Latest Practicable Date.

LETTER FROM THE BOARD

Optionholders' Undertakings

As at the Latest Practicable Date, each of the Excluded Option Holders had given an irrevocable undertaking in favour of the Company and the Underwriter not to exercise the Share Option granted to him/her up to and including the Record Date, which amounted to an aggregate of 60,680,000 Share Options.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms) to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Excluded Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

LETTER FROM THE BOARD

THE UNDERWRITING ARRANGEMENT

The Rights Shares will be fully underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement as described below.

The Underwriting Agreement

Date	:	6 December 2019
Issuer	:	The Company
Underwriter	:	Great Roc Capital Securities Limited, a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on Type 1 and Type 4 regulated activities under the SFO, whose ordinary course of business includes underwriting of securities
Number of Rights Shares	:	Not less than 373,481,424 Rights Shares and not more than 375,145,424 Rights Shares
Number of the Underwritten Shares	:	not less than 218,859,521 Rights Shares (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than 220,523,521 Rights Shares (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders, on or before the Record Date)
Underwriting Commission	:	2.5% of the aggregate Subscription Price in respect of the Underwritten Shares

LETTER FROM THE BOARD

The Underwriter is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on Type 1 and Type 4 regulated activities under the SFO whose ordinary course of business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, the Underwriter and its associates do not hold any Existing Shares, the Underwriter and its ultimate beneficial owners are independent third parties and not connected with the Company and its connected persons as defined under the Listing Rules. The Underwriter confirmed that it has complied with Rule 7.19(1)(a) of the Listing Rules.

The Underwriter has over 8 years of experiences in underwriting of securities and has been involved in many fund raising exercises for various listed companies, including but not limited to initial public offerings, placings and rights issues. In terms of financial resources, the Underwriter confirmed that it has an excess liquid capital that can cover the underwriting commitment comfortably.

The Underwriter shall receive an underwriting commission of 2.5% of the aggregate subscription price in respect of the maximum number of the Underwritten Shares and shall be entitled to deduct part or all of the underwriting commission, out-of-pocket expenses and any other fees and expenses which the Company has agreed to pay to it from any amount to be paid by such Underwriter under the Underwriting Agreement. The underwriting commission mentioned above shall not be payable if the Underwriting Agreement does not become unconditional or if it is terminated by the Underwriter, but the Company shall pay all reasonable legal fees and other reasonable out-of-pocket expenses of the Underwriter in respect of the Rights Issue.

The terms of the Underwriting Agreement, including the underwriting commission of 2.5%, were determined after arm's length negotiation between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition.

Given the size of the Rights Issue, the large-scale fund raising needs of the Company and the current market sentiment, the Rights Issue has not been appealing to most financial institutions, other than Great Roc Capital Limited (the Underwriter). The Company has approached three financial institutions, including the Underwriter and other securities houses which are locally-based and PRC-based, immediately after the publication of announcement of interim results for the six months ended 30 September 2019. Other than Great Roc Capital Limited (the Underwriter), the other potential underwriters have not made any offer and were generally more pessimistic when considering the extra risks they had to take from the Rights Issue. Taking into account the size and the complexity of the Rights Issue to the potential underwriter, the Directors consider that the underwriting commission of 2.5% is within a market range of 1.0% to 3.5%, which is based on the research of recent fully-underwritten rights issue cases.

LETTER FROM THE BOARD

Having considered (i) the underwriting commission offered by the Underwriter is comparable to that offered by other financial institutions; and (ii) the experience and financial resources of the Underwriter for underwriting of such securities, the Directors (excluding the members of the Independent Board Committee who will form their views after considering the advice of the Independent Financial Adviser) consider the entering into of the Underwriting Agreement with the Underwriter and the terms of the Underwriting Agreement (including the underwriting commission) to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Termination of the Underwriting Agreement

If, at any time prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a business day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day),

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

LETTER FROM THE BOARD

- (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospect of the Group as a whole; or
- (v) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (vi) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (vii) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Rights Issue Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

LETTER FROM THE BOARD

(viii) the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter be material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

WARNING OF THE RISKS OF DEALING IN THE EXISTING SHARES, THE CONSOLIDATED SHARES AND NIL-PAID RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the section headed “Termination of the Underwriting Agreement” in this circular). Accordingly, the Rights Issue may or may not proceed.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares, the Consolidated Shares or the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares or the Consolidated Shares.

LETTER FROM THE BOARD

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had 933,703,560 Existing Shares in issue. The following tables set out the possible changes in the shareholding structure of the Company arising from the Share Consolidation and Rights Issue, for illustrative purpose only.

(1) Assuming no outstanding Share Options having been exercised on or before the Record Date

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately after the Share Consolidation becoming effective but before completion of the Rights Issue, and (iii) immediately after completion of the Rights Issue, assuming full acceptance of the Rights Shares by all the Qualifying Shareholders; and (iv) immediately upon completion of the Rights Issue assuming no acceptance of the Rights Shares by the Qualifying Shareholders other than Power King.

	(i) No. of Existing Shares		(ii) No. of Consolidated Shares		(iii) No. of Consolidated Shares		(iv) No. of Consolidated Shares	
		Approx. %		Approx. %		Approx. %		Approx. %
Director's interest								
Power King (Note 1)	11,201,475	1.20	2,240,295	1.20	6,720,885	1.20	156,862,198	28.00
Public Shareholders								
New Hope International (Hong Kong) Limited (Note 2)	54,914,804	5.88	10,982,960	5.88	32,948,880	5.88	10,982,960	1.96
Other public Shareholders	867,587,281	92.92	173,517,457	92.92	520,552,371	92.92	173,517,457	30.97
The Underwriter	—	—	—	—	—	—	218,859,521	39.07
Total	933,703,560	100.00	186,740,712	100.00	560,222,136	100.00	560,222,136	100.00

LETTER FROM THE BOARD

(2) Assuming full exercise of the outstanding Share Options by the Option Holders on or before the Record Date

Set out below is the shareholding structure of the Company (a) as at the Latest Practicable Date, (b) immediately after full exercise of the outstanding Share Options by the Option Holders on or before the Record Date, (c) immediately after the Share Consolidation becoming effective but before completion of the Rights Issue; (d) immediately after completion of the Rights Issue, assuming full acceptance of the Rights Shares by the Qualifying Shareholders (including the Option Holders); and (e) immediately upon completion of the Rights Issue assuming no acceptance of the Rights Shares by the Qualifying Shareholders (including the Option Holders) other than Power King.

	(a)		(b)		(c)		(d)		(e)	
	No. of Existing Shares	Approx. %	No. of Existing Shares	Approx. %	No. of Consolidated Shares	Approx. %	No. of Consolidated Shares	Approx. %	No. of Consolidated Shares	Approx. %
Director's interest										
Power King (Note 1)	11,201,475	1.20	11,201,475	1.19	2,240,295	1.19	6,720,885	1.19	156,862,198	27.88
Public Shareholders										
Option holders other than the Excluded Option Holders	–	–	4,160,000	0.44	832,000	0.44	2,496,000	0.44	832,000	0.15
New Hope International (Hong Kong) Limited (Note 2)	54,914,804	5.88	54,914,804	5.86	10,982,960	5.86	32,948,880	5.86	10,982,960	1.95
Other public Shareholders	867,587,281	92.92	867,587,281	92.51	173,517,457	92.51	520,552,371	92.51	173,517,457	30.84
The Underwriter	–	–	–	–	–	–	–	–	220,523,521	39.18
Total	933,703,560	100.00	937,863,560	100.00	187,572,712	100.00	562,718,136	100.00	562,718,136	100.00

Notes:

- Power King is wholly-owned by Ms. Yung, an executive Director. Ms. Yung is deemed to be interested in the Shares owned by Power King. Mr. Wang, an executive Director, is the spouse of Ms. Yung. Mr. Wang is deemed to be interested in the Shares in which Ms. Yung is interested in.
- New Hope International (Hong Kong) Limited is interested in 54,914,804 Existing Shares. The issued share capital of New Hope International (Hong Kong) Limited is owned as to 75% by Southern Hope Enterprise Company Limited which is in turn owned as to 51% by New Hope Group Company Limited and 49% by Tibet Hengye Feng Industrial Company Limited. Both New Hope Group Company Limited and Tibet Hengye Feng Industrial Company Limited are owned as to 62.34% by Mr. Liu Yonghao, as to 36.35% by Ms. Liu Chang and as to 1.31% by Ms. Li Wei, the spouse of Mr. Liu Yonghao. Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei are deemed to be interested in the Shares in which New Hope International (Hong Kong) Limited is interested.

LETTER FROM THE BOARD

3. Pursuant to the Underwriting Agreement, the Underwriter undertakes with the Company that:
- (i) the sub-underwriter(s) and/or the subscribers procured by the Underwriter for any Underwritten Shares which have not been taken up on the terms of the Prospectus Documents, would be independent of and not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates;
 - (ii) the public float requirements under Rule 8.08 of the Listing Rules be fulfilled by the Company upon completion of the Rights Issue;
 - (iii) the Underwriter will not (together with any of its respective connected persons or associates) hold in aggregate 9.9% or more of the voting rights of the Company immediately after the Rights Issue; and
 - (iv) each of the sub-underwriter(s) or each of the ultimate subscribers or purchasers procured by the Underwriter or the sub-underwriter(s) will not (together with any of their respective connected persons or associates) hold in aggregate 9.9% or more of the voting rights of the Company immediately after the Rights Issue.

As at the Latest Practicable Date, the Underwriter has yet entered into any arrangement with the sub-underwriter(s) and/or the subscribers procured by the Underwriter. The Company will disclose the details of any arrangement of the above in the Prospectus, if applicable.

4. The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.

REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment holding company. The Group is principally engaged in pharmaceutical wholesale and distribution business and hemodialysis treatment and consultancy service business in the PRC.

As mentioned above, the global economy has been very volatile in 2019 in light of Sino-US trade war. The economy in Hong Kong has been sluggish not only because of the impact of the Sino-US trade war but also as a result of social campaign since June 2019. Due to the Company's poor financial position, in particular its high gearing ratio, the Company was unable to secure debt financing. The Board has considered different means of equity financing, such as placing of new shares, issue of convertible bonds, open offer and rights issue prior to the entering into of the Underwriting Agreement. Notwithstanding the trading price of the Shares has approaching extremity in the past year, the Company has difficulty in securing placing agents or underwriters for its equity financing. The Company could only manage to conduct a small scale placing of new Shares in August 2019. Not until recently, the Company could reach negotiation with the Underwriter and proceed with the Rights Issue.

LETTER FROM THE BOARD

During the previous placing in August 2019, the Company conducted placing of new shares under general mandate, the Company was advised by the then placing agent that some placees considered that the discount to the placing price under the general mandate was not attractive. The Board considered that if the Company were offering a greater discount to new subscriber(s) who are not existing Shareholders, it would have been causing a greater dilution impact to the existing Shareholders and such arrangement would not be in the interest of the Shareholders. In addition, any placing of debt securities will further deteriorate the gearing ratio in light of the unpaid Principal Loan. The Board therefore decided to pursue for rights issue.

The Board considers that the Rights Issue represents an opportunity to raise additional funding to strengthen the Group's financial position by relieving the financial burden and provide working capital to the Group to meet any financial obligations of the Group without additional interest burden.

As noted from the interim report for the six months ended 30 September 2019 published on 28 November 2019, the Group recorded net current liabilities position. Considering other borrowings of approximately HK\$67.1 million, consisting of (i) a secured loan from an independent third party of HK\$60 million which is due on 28 June 2020 (the “**Principal Loan**”); and (ii) several unsecured loans amounted to approximately HK\$10.3 million due to Shareholders, Director or independent third parties which are repayable on demand, and the monthly interest payment of approximately HK\$940,000 accrued thereon has brought great pressure to the financial position of the Company.

With reference to the Company's financial position consisting of a relatively low cash position and a high gearing ratio of the Company as well as high interest cost burden, the Board has been exploring ways to repay the Principal Loan and reduce the borrowing level. Currently, the Company's monthly interest expense amounts to approximately HK\$940,000, consisting of approximately HK\$900,000 for the payment of interest of the Principal Loan and approximately HK\$40,000 for the payment of interest of the loan to Shareholders and/or Directors. The Company had preliminary discussion with some banks for the possibility to obtain a bank loan to repay the Principal Loan. However, due to the high gearing and the poor financial performance of the Group, the interest rate of the potential loans preliminarily offered by the banks is even higher than that of the Principal Loan. Given the lender of the Principal Loan has no intention to further extend the loan repayment date, the Board considers that (i) the outcome of the discussions with the lender is unfavourable; and (ii) the Group is unable to obtain further debt financing at more favourable interest rates. The Directors are of the view that the current interest expense per month is a huge burden on the cash position of the Company and is detrimental to operations of the Company. The Board considers that debt financing is not feasible from the Company's perspective and alternative fund raising methods had to be adopted to improve the financial position of the Company. The Directors believe that the Rights Issue, being an equity financing, is the suitable way to raise funds without additional interest burden, and could also be used for repayment of the Principal Loan which can greatly reduce the interest payment and significantly reduce the gearing ratio of the Company. The gearing ratio (calculated by borrowings over equity attributable to

LETTER FROM THE BOARD

owners of the Company) of the Company was approximately 73.09% as at 30 September 2019. Assuming (i) the completion of the Rights Issue had taken place as at 30 September 2019 (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date) and (ii) the Principal Loan and unsecured loan in the amount of HK\$3 million had been repaid using the proceeds from the Rights Issue, the gearing ratio is expected to be reduced to approximately 4.42%.

The estimated net proceeds from the Rights Issue will not be less than approximately HK\$68.850 million (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than approximately HK\$69.169 million (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders, on or before the Record Date), of which (i) HK\$63 million is intended for repayment of loans, consisting of the Principal Loan in the amount of HK\$60 million and the unsecured loan in the amount of HK\$3 million, which will be due on 28 June 2020 and before 31 March 2020 respectively, to relieve the financial burden of the Company; and (ii) the remaining amount for general working capital of the Company. Based on the Company's current monthly administrative expenditure of approximately HK\$600,000 (excluding HK\$900,000 interest expense arising from the Principal Loan), which mainly comprises of staff costs and rent for the office of Hong Kong headquarters, it is expected that the remaining proceeds from Rights Issue will be able to support the Company for approximately 9 months.

In view of the above, the Board considers that it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue.

LISTING RULES IMPLICATIONS

In accordance with Rule 7.19A of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to the approval of the Independent Shareholders at the EGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where Independent Shareholders' approval is required for a rights issue under rule 7.19A, the rights issue must be made conditional on approval by shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the issuer and their respective associates shall abstain from voting the ordinary resolution to approve the Rights Issue at the EGM.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company did not have any controlling Shareholders. Power King, a company wholly-owned by Ms. Yung, an executive Director, is the beneficial owner of 11,201,475 Existing Shares (equivalent to 2,240,295 Consolidated Shares after taking into account the effect of the Share Consolidation), representing approximately 1.20% of the total number of Existing Shares in issue. Each of Ms. Yung and Mr. Wang (the spouse of Ms. Yung and an executive Director of the Company) is deemed to be interested in the 11,201,475 Existing Shares beneficially owned by Power King. Save for Ms. Yung and Mr. Wang, none of the Directors and the chief executive of the Company and their respective associates are interested in any Existing Share. As such, Power King, being Ms. Yung's associate, shall abstain from voting at the EGM in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the voting of the ordinary resolution(s) as set out in the notice of EGM shall be taken by way of poll at the EGM. The result of the vote will be announced after the EGM.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder had a material interest in the transactions contemplated under the re-election of Director as at the Latest Practicable Date. As such, no Shareholder is required to abstain from voting under the Listing Rules at the EGM on the resolution(s) to approve the re-election of Director.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company has conducted the following equity fund raising activities during the 12 months immediately preceding the date of the Rights Issue Announcement:

Date of announcement	Event	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
23 August 2019	Placing of Existing Shares under general mandate	HK\$7.956 million	Working capital of the Group	Working capital of the Group (Approximately HK\$6.05 million had been utilised as at the Latest Practicable Date)

PROPOSAL FOR RE-ELECTION OF THE RETIRING DIRECTOR

Ms. Yung was appointed as an executive Director on 1 December 2019. Pursuant to article 83(3) of the Articles, any Director appointed by the Board to fill a casual vacancy on the existing Board shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Accordingly, Ms. Yung is subject to re-election at the EGM.

LETTER FROM THE BOARD

Ms. Yung, being eligible, will offer herself for re-election as executive Director at the EGM.

Biographical information of Ms. Yung is set out in Appendix III to this circular.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular. The EGM will be convened and held to consider and, if appropriate, approve the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue and the re-election of Director, each in accordance with the Articles and the Listing Rules.

As the Rights Issue will increase the issued share capital of the Company by more than 50%, under Rule 7.19(6) of the Listing Rules, the Rights Issue is subject to the approval of the Independent Shareholders at the EGM, on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, after having made all reasonable enquiries, there was no controlling shareholder, and therefore, each of Ms. Yung (being an executive Director) and Mr. Wang (being an executive Director and the spouse of Ms. Yung), who is deemed to be interested in the 11,201,475 Existing Shares (equivalent to 2,240,295 Consolidated Shares after taking into account the effect of the Share Consolidation), representing approximately 1.20% of the total number of Existing Shares in issue, beneficially owned Power King, and their respective associates would be required to abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM.

The voting in respect of all the resolutions to be proposed at the EGM will be conducted by way of a poll.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

Subject to the approval of the Rights Issue by the Independent Shareholders at the EGM and the Share Consolidation having become effective, the Prospectus Documents will be despatched to the Qualifying Shareholders on or before Monday, 3 February 2020 whereas the Prospectus will be despatched to the Excluded Shareholders for information only.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Wong Hon Kit, Dr. Liu Yongping and Mr. Ho Man, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 47 to 48 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages IFA-1 to IFA-23 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors believe that the terms of the Underwriting Agreement are on normal commercial terms, and the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue and the re-election of Director, are fair and reasonable so far as the Shareholders or Independent Shareholders (as the case may be) are concerned and in the interests of the Company and the Shareholders as a whole and recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the EGM to approve the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue and the re-election of Director.

Shareholders are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser before deciding how to vote on the resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

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

By order of the Board of
WANJIA GROUP HOLDINGS LIMITED
Wang Jia Jun
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Rights Issue.



WANJIA GROUP HOLDINGS LIMITED

萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 401)

31 December 2019

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE RECORD DATE

We refer to the circular dated 31 December 2019 (the “**Circular**”) of the Company of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

Octal Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of the advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out on pages IFA-1 to IFA-23 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 14 to 46 of this circular and the additional information set out in the appendices to this circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Rights Issue and the letter from the Independent Financial Adviser, we consider that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed to approve the Rights Issue at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Mr. Wong Hon Kit

Dr. Liu Yongping
Independent non-executive Directors

Mr. Ho Man

LETTER FROM OCTAL CAPITAL

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue prepared for the purpose of inclusion in this circular.



金融有限公司
OCTAL Capital Limited

801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

31 December 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE RECORD DATE

INTRODUCTION

We, Octal Capital Limited (“**Octal Capital**”), refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, particulars of which are set out in the circular (the “**Circular**”) dated 31 December 2019, in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular.

As set out in the letter from the Board (the “**Letter from the Board**”), the Board intends to put forward a proposal to the Shareholders to effect (i) the Share Consolidation which involves the consolidation of every five (5) Existing Shares into one (1) Consolidated Share and (ii) the Increase in Authorised Share Capital which involves an increase in its authorised share capital of the Company from HK\$20,000,000 divided into 400,000,000 Consolidated Shares to HK\$50,000,000 divided into 1,000,000,000 Consolidated Shares by creating an additional 600,000,000 unissued Consolidated Shares. Conditional upon the Share Consolidation and the Increase in Authorised Share Capital becoming effective and obtaining the approval by the Independent Shareholders at the EGM, the Board proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price of HK\$0.192 per Rights Share, to raise not less than approximately HK\$71.708 million before expenses (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than approximately HK\$72.028 million before expenses (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date) by way of issuing not less than 373,481,424 Rights Shares and not more than 375,145,424 Rights Shares. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Excluded Shareholders.

LETTER FROM OCTAL CAPITAL

The estimated net proceeds from the Rights Issue will be not less than approximately HK\$68.850 million (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than approximately HK\$69.169 million (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders, on or before the Record Date).

In accordance with Rule 7.19A of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to the approval of the Independent Shareholders at the EGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where Independent Shareholders' approval is required for a rights issue under rule 7.19A, the rights issue must be made conditional on approval by shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the issuer and their respective associates shall abstain from voting the ordinary resolution to approve the Rights Issue at the EGM.

Octal Capital is not connected with the directors, chief executive of the Company or the Underwriter or any of its subsidiaries or their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no engagement between the Group, or the Directors, or chief executives of the Company or the Underwriter and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Octal Capital will receive any fees or benefits from the Company or the Directors and chief executive of the Company or any of its subsidiaries or their respective associates or the Underwriter.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors regarding the Group and the Rights Issue including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Underwriter respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Underwriter and their respective associates, nor have we carried out any independent verification of the information supplied to us.

LETTER FROM OCTAL CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Rights Issue, we have considered the following principal factors and reasons:

(i) Review of financial performance

The Group is mainly engaged in (i) pharmaceutical wholesale and distribution business; and (ii) hemodialysis treatment and consultancy service business in the PRC.

The table below summarises the financial information of the Group for the two years ended 31 March 2018 and 2019 (“**FY2018**” and “**FY2019**”, respectively) and the six months ended 30 September 2018 and 2019 (“**1H FY2018**” and “**1H FY2019**”, respectively) as extracted from the annual report of the Group for the year ended 31 March 2018/19 (the “**2018/19 Annual Report**”) and the interim report of the Group for the six month ended 30 September 2019 (the “**2019 Interim Report**”):

	For the year ended 31 March		For the six months ended 30 September	
	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	353,014	96,480	47,654	51,441
Gross profit	39,189	16,032	6,352	12,195
Net loss attributable to Shareholders	(55,586)	(66,592)	(48,864)	(11,627)

LETTER FROM OCTAL CAPITAL

For the year ended 31 March 2019

For FY2019, the Group's revenue decreased by approximately HK\$256.5 million, or 72.67%, from approximately HK\$353.0 million for FY2018 to approximately HK\$96.5 million. This is mainly attributable to the weak performance of the pharmaceutical wholesale and distribution business of the Group which recorded the turnover of approximately HK\$82.2 million (FY2018: HK\$318.8 million) representing a decrease of 74.23%. The medical reform policy in the PRC strictly controlled the pharmaceutical expenses in public hospitals in Fujian Province by reducing the overall size of the pharmaceutical distribution business in public hospitals which substantially decreased the demand of pharmaceutical products from public hospitals to the Group. For FY2019, the Group's consolidated gross profit decreased by approximately HK\$23.2 million, or 59.09%, from approximately HK\$39.2 million for FY2018 to approximately HK\$16.0 million which is in line with the decrease of the Group's revenue. The Group recorded an increase in the net loss attributable to Shareholders by approximately HK\$11.0 million, or 19.80%, from approximately HK\$55.6 million for FY2018 to approximately HK\$66.6 million. Such decrease was due to (i) the decrease in revenue as a result of weak business performance as mentioned above; and (ii) an impairment loss of goodwill of approximately HK\$35.5 million in the Group's hemodialysis business. In addition, for FY2019, the finance costs of the Group was approximately HK\$12.8 million (2018: approximately HK\$14.7 million), representing approximately 13.31% of the total revenue (2018: approximately 4.16%).

For the six months ended 30 September 2019

For 1HFY2019, the Group's revenue increased by approximately HK\$3.8 million, or 7.95%, from approximately HK\$47.7 million for 1HFY2018 to approximately HK\$51.4 million. This is mainly attributable to the increase in the revenue from the Group's hemodialysis business as a result of an increasing number of patients admitted to the Group's treatment centres which increased the demand for its services. For 1HFY2019, the Group's gross profit increase by approximately HK\$5.8 million, or 91.99%, from approximately HK\$6.4 million for 1HFY2018 to approximately HK\$12.2 million which was mainly attributable to (i) the increase in the revenue as mentioned above; and (ii) the effective cost control of the Group's hemodialysis business. The Group recorded a decrease in the net loss attributable to Shareholders by approximately HK\$37.2 million, or 76.21%, from approximately HK\$48.9 million for 1HFY2018 to approximately HK\$11.6 million. Such decrease was due to (i) the decrease in administrative expenses; and (ii) the absence of an impairment loss of goodwill of approximately HK\$35.5 million in 1HFY2018. In addition, for 1HFY2019, the finance costs of the Group was approximately HK\$7.8 million (2018: approximately HK\$7.6 million), representing approximately 15.11% of the total revenue (2018: approximately 15.85%).

LETTER FROM OCTAL CAPITAL

Based on information set out in the Appendix I to the Circular, we further summarise below the audited/unaudited consolidated balance sheet of the Group as at the most recent financial year-end and as at the most recent interim period-end:

	As at 31 March 2019 <i>HK\$'000</i>	As at 30 September 2019 <i>HK\$'000</i>
Current assets	98,509	72,490
Non-Current assets	<u>128,080</u>	<u>154,343</u>
Total assets	<u>226,589</u>	<u>226,833</u>
Current liabilities	91,494	116,905
Non-current liabilities	<u>–</u>	<u>11,882</u>
Total liabilities	<u>91,494</u>	<u>128,787</u>
Net current assets/(liabilities)	7,015	(44,415)
Net assets	<u>135,095</u>	<u>98,046</u>

The Group recorded net current liabilities amounted to approximately HK\$44.4 million as at 30 September 2019 (with cash and cash equivalents of approximately HK\$28.1 million) in comparison to net current asset amounted approximately HK\$7.0 million as at 31 March 2019 (with cash and cash equivalents of approximately HK\$28.8 million). Net assets of the Group also decreased from approximately HK\$135.1 million as at 31 March 2019 to approximately HK\$98.0 million as at 30 September 2019. As at 30 September 2019, total liabilities of the Group amounted to approximately HK\$128.8 million, of which borrowings amounted to approximately HK\$70.3 million, consisting of (i) the Principal Loan from an independent third party of HK\$60 million which is due on 28 June 2020; and (ii) several unsecured loans amounted to approximately HK\$10.3 million due to Shareholders, Directors or independent third parties which are repayable on demand. The gearing ratio of the Group (as calculated by total borrowings over equity attributable to owners of the Company) as at 30 September 2019 was approximately 73.09% (31 March 2019: approximately 72.99%). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 0.62 as at 30 September 2019 (31 March 2019: approximately 1.08).

LETTER FROM OCTAL CAPITAL

(ii) Reasons for and benefits of the Rights Issue and use of proceeds

As stated in the Letter from the Board, the estimated net proceeds from the Rights Issue will not be less than approximately HK\$68.850 million (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than approximately HK\$69.169 million (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders, on or before the Record Date), of which (i) approximately HK\$63 million is intended for repayment of loans, consisting of the Principal Loan in the amount of HK\$60 million and the unsecured loans in the amount of approximately HK\$3 million, which will be due on 28 June 2020 and before 31 March 2020, respectively, to relieve the financial burden of the Company; and (ii) the remaining amount for general working capital of the Company.

Repayment of loans

As mentioned in the sub-section of this letter headed “(i) Review of financial performance”, the Group recorded net current liabilities amounted to approximately HK\$44.4 million as at 30 September 2019 (with cash and cash equivalents of approximately HK\$28.1 million) in comparison to net current asset amounted approximately HK\$7.0 million as at 31 March 2019 (with cash and cash equivalents of approximately HK\$28.8 million). The gearing ratio of the Group (as calculated by total borrowings over equity attributable to owners of the Company) as at 30 September 2019 was approximately 73.09% (31 March 2019: approximately 72.99%). The current ratio of the Group, calculated by dividing the current assets by the current liabilities was approximately 0.62 as at 30 September 2019 (31 March 2019: approximately 1.08). As at 30 September 2019, total liabilities of the Group amounted to approximately HK\$128.8 million, of which borrowings amounted to approximately HK\$70.3 million, consisting of (i) the Principal Loan from an independent third party of HK\$60 million which is due on 28 June 2020; and (ii) several unsecured loans amounted to approximately HK\$10.3 million due to Shareholders, Directors or independent third parties which are repayable on demand. In addition, we understand the lender of the Principal Loan has no intention to further extend the loan repayment date. In light of the above, we consider that the Company’s financial position is weak and there is a strong need for cash to reduce its debt level and replenish its working capital. We concurred with the management of the Company that the Group is of imminent need for the Rights Issue to repay the loans.

LETTER FROM OCTAL CAPITAL

General working capital

As disclosed in the 2019 Interim Report, (i) the cash and cash equivalents of the Group as at 30 September 2019 was approximately HK\$28.1 million in comparison to the trade and other payables of HK\$25.8 million and tax payable of HK\$1.20 million under current liabilities; (ii) the gearing ratio of the Group (as calculated by total borrowings over equity attributable to owners of the Company) as at 30 September 2019 was approximately 73.09% (31 March 2019: approximately 72.99%); and (iii) the current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 0.62 as at 30 September 2019 (31 March 2019: approximately 1.08). We concurred with the Directors that the Company's financial position consisted of a relatively low cash position and a high gearing ratio of the Company as well as high interest cost burden. Assuming (i) the completion of the Rights Issue had taken place as at 30 September 2019 (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date) and (ii) the Principal Loan and the unsecured loan in the amount of HK\$3 million have been repaid using the proceeds from the Rights Issue, the gearing ratio is expected to be reduced to approximately 4.42%. Assuming the allocated net proceeds from the Rights Issues of approximately HK\$5.85 million to the general working capital had taken place as at 30 September 2019 (assuming no outstanding Share Options have been exercised on or before the Record Date), the cash and cash equivalents of the Company will increase approximately 20.84% to approximately HK\$33.92 million, which provide additional funds for the Company's monthly administrative expenditures. The Rights Issue will provide additional capital to improve the cash and liquidity position and the gearing ratio of the Group. In light of the above, we consider it is acceptable that the Group intends to apply part of the net proceeds from the Rights Issue to replenish the general working capital of the Group.

Alternative modes of fund raising

As mentioned in the announcements of the Group dated 23 August 2019 and 12 September 2019, the Group has completed the placing of new Shares under general mandate to raise a net proceeds of approximately HK\$7.96 million to replenish general working capital of the Group. However, such proceeds is not able to fulfil the repayment of the Principal Loan amounted to HK\$60 million as at 30 September 2019 which will be due on 28 June 2020. Furthermore, the Company was advised by the placing agent that the placing of the Company was not attractive due to unfavorable subscription price.

LETTER FROM OCTAL CAPITAL

As set out in the Letter from the Board, the Board has been exploring ways to repay the Principal Loan and reduce the borrowing level. Currently, the Company's monthly interest expense amounts to approximately HK\$940,000, consisting of approximately HK\$900,000 for the payment of interest of the Principal Loan and approximately HK\$40,000 for the payment of interest of the loan from Shareholders and/or Directors. The Company had preliminary discussion with some banks for the possibility to obtain a bank loan to repay the Principal Loan. However, due to the high gearing and the poor financial performance of the Group, the interest rate of the potential loans preliminarily offered by the banks is even higher than that of the Principal Loan. Given the lender of the Principal Loan has no intention to further extend the loan repayment date, the Board considers that (i) the outcome of the discussions with the lender is unfavourable; and (ii) the Group is unable to obtain further debt financing at more favourable interest rates, the Directors are of the view that the current interest expense per month is a huge burden on the cash position of the Company and is detrimental to operations of the Company. The Board considers that debt financing is not feasible from the Company's perspective and alternative fund raising methods had to be adopted to improve the financial position of the Company.

Due to the Sino-US trade war and the recent social campaign in Hong Kong, the global economy has been very volatile and the market sentiment is low. The Company was unable to secure debt financing, thus has considered different means of equity financing, such as placing of new shares, issue of convertible bonds, open offer and rights issue prior to the entering into of the Underwriting Agreement. In respect of equity financing, we considers that (i) placing/issue of new Shares under a general mandate would barely meet the repayment needs of the Group given its current market capitalization scale; (ii) the previous placing of the Company in August 2019 which the placing agent advised that some placees considered that the discount to the placing price under the general mandate was not attractive; (iii) placing/issue of new Shares under general/specific mandate would immediately dilute the shareholding of the existing Shareholders without giving them a chance to participate in the fund raising exercise and maintain their respective pro-rata shareholding as in the case of the Rights Issue; (iv) an open offer would not provide the Qualifying Shareholders the option to sell their provisionally allotted nil-paid Rights Shares in the market, which in contrast, the Rights Issue allows those Qualifying Shareholders who wish to increase/decrease their shareholding interests in the Company by acquiring/disposing of nil-paid Rights Shares in the market; (v) issue of convertible bonds will further deteriorate the gearing ratio; and (vi) the trading price of the Shares has approached extremity in the past year, the Company has difficulty in securing placing agents or underwriters. The Company has recently reached negotiation with the Underwriter and proceeded the Rights Issue. The Directors believe that the Rights Issue, being an equity financing, is the suitable way to raise funds without additional interest burden, and could also be used for repayment of the Principal Loan which can greatly reduce the monthly interest payment and significantly reduce the gearing ratio of the Company.

LETTER FROM OCTAL CAPITAL

In lights of the above, in particular that (i) the net proceeds from the Rights Issue will be applied for (a) the repayment of loans and (b) general working capital of the Group; and (ii) the Rights Issue is an equitable means to raise funding for the Group by allowing pro-rata participation of the Qualifying Shareholders after considering other financing alternatives by the Directors, we concurred with the Directors that the Rights Issue represents an opportunity to raise additional funding to strengthen the Group's financial position by relieving the financial burden from existing borrowings and provide working capital to the Group to meet any financial obligations without additional interest burden and it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue.

(iii) The principal terms of the Rights Issue

The principal terms of the Rights Issue are summarised below:

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.192 per Rights Share
Number of Shares in issue at the Latest Practicable Date	:	933,703,560 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	186,740,712 Consolidated Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Not less than 373,481,424 Rights Shares (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than 375,145,424 Rights Shares (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)

LETTER FROM OCTAL CAPITAL

Aggregate nominal value of the Rights Shares	:	Not less than HK\$18,674,071.20 (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than HK\$18,757,271.20 (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	Not less than 560,222,136 Consolidated Shares (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than 562,718,136 Consolidated Shares (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Number of Rights Shares being undertaken by Power King	:	154,621,903 Rights Shares, comprising (i) 4,480,590 Rights Shares, representing its full entitlement under the Rights Issue; and (ii) 150,141,313 Rights Shares by way of excess application
Gross proceeds from the Rights Issue	:	not less than approximately HK\$71.708 million before expenses (assuming no new Shares having been allotted and issued from the exercise of the outstanding Share Options on or before the Record Date), and not more than approximately HK\$72.028 million before expenses (assuming 832,000 new Consolidated Shares having been allotted and issued upon full exercise of the outstanding Share Options by the Option Holders on or before the Record Date)
Right of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment
Underwriting commission	:	2.5%

LETTER FROM OCTAL CAPITAL

Analysis on the Subscription Price

The Subscription Price of HK\$0.192 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or where a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

- (i) a discount of 6.34% to the theoretical closing price of HK\$0.205 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the Latest Practicable Date and adjusted taking into account the effect of the Share Consolidation;
- (ii) a discount of approximately 31.43% to the theoretical closing price of HK\$0.280 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.056 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 29.93% to the theoretical closing price of HK\$0.274 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.0548 per Existing Share as quoted on the Stock Exchange on the Last Trading Day for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 32.63% to the average closing price of approximately HK\$0.285 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Last Trading Day for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 13.12% to the theoretical ex-rights price of approximately HK\$0.221 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.056 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

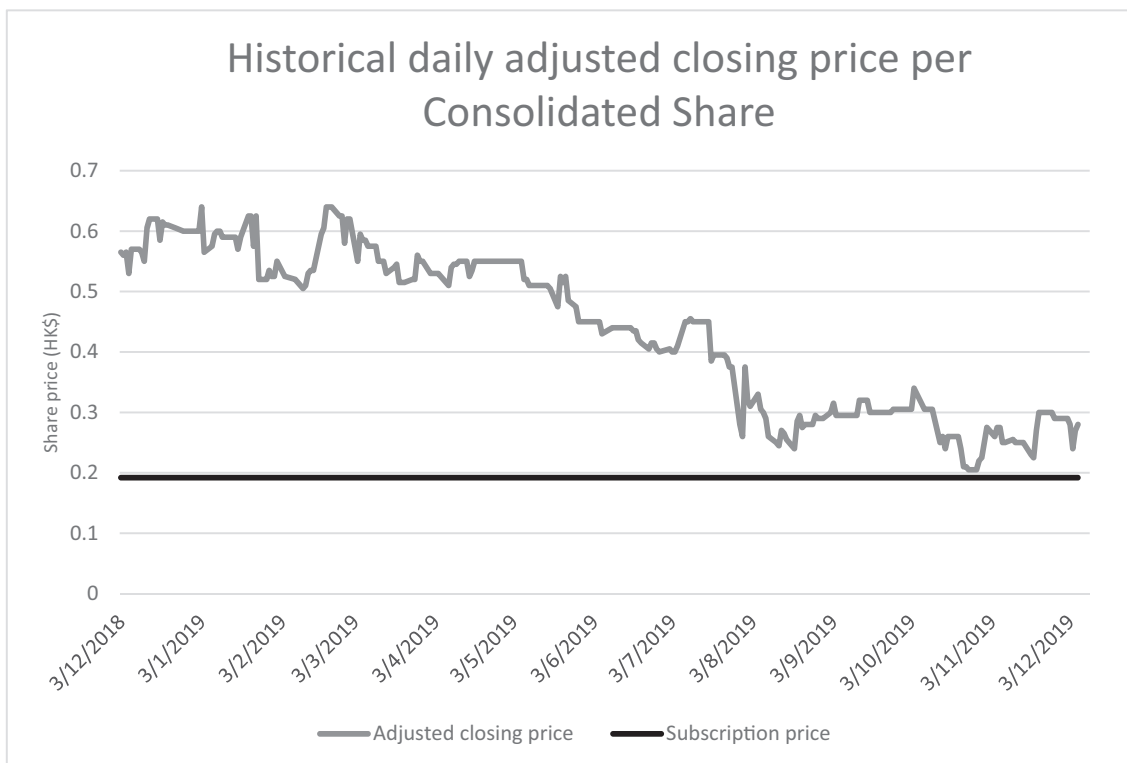
LETTER FROM OCTAL CAPITAL

- (vi) a discount of approximately 62.72% to the net asset value of the Company of approximately HK\$0.515 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the unaudited net asset value attributable to owners of the Company of approximately HK\$96.181 million as at 30 September 2019 and 186,740,712 Consolidated Shares assuming the Share Consolidation has become effective; and
- (vii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 20.95% represented by the theoretical diluted price of HK\$0.221 per Consolidated Share to the benchmarked price of approximately HK\$0.280 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the theoretical closing price on the Last Trading Day of HK\$0.280 per Consolidated Share and the average theoretical closing prices of the Consolidate Shares as quoted on the Stock Exchange in the five (5) consecutive trading days immediately prior to the Last Trading Day of approximately HK\$0.274 per Share). The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

LETTER FROM OCTAL CAPITAL

Comparison with adjusted historical closing prices of the Consolidated Shares

As stated in the Letter from the Board, due to the global investment environment and low market sentiment, the Company could only secure the Underwriter as the sole underwriter to the Rights Issue. Having considered that (i) the Company is in need of fund to repay the Principal Loan; (ii) the attractiveness of the Rights Issue to the Shareholders; and (iii) the risk that the Underwriter undertake, the Company and the Underwriter have concluded the Subscription Price was set at HK\$0.192. In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily adjusted closing prices (as adjusted for 5-to-1 Share Consolidation) and trading volume of the Consolidated Shares from 1 December 2018 to the Last Trading Day (the “**Share Price Review Period**”) (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider the Share Price Review Period is a reasonably long period covering the annual operating cycle of the Company for analysis purpose, to illustrate the general trend and level of movement of the daily closing price and trading volume of the Consolidated Shares.



Source: Infocast

LETTER FROM OCTAL CAPITAL

As shown in the chart above, during the Share Price Review Period, the average adjusted closing price was approximately HK\$0.433 per Consolidated Share (the “**Average Adjusted Closing Price**”). The daily adjusted closing price ranged from HK\$0.205 per Consolidated Share recorded on 25 October 2019 and 28 October 2019 (the “**Lowest Adjusted Closing Price**”) to HK\$0.640 per Consolidated Share (the “**Highest Adjusted Closing Price**”) recorded on 3 January 2019 and from 20 February 2019 to 22 February 2019 during the Share Price Review Period. As shown in the chart above, during the Share Price Review Period, a general downward trend was observed for the adjusted closing price of the Consolidated Shares. The Consolidated Shares were traded above the Subscription Price throughout the Share Price Review Period. The Subscription Price of HK\$0.192 represents (i) a discount of approximately 6.34% to the Lowest Adjusted Closing Price of HK\$0.205 per Consolidated Share; (ii) a discount of approximately 70.00% to the Highest Adjusted Closing Price of HK\$0.640 per Consolidated Share; and (iii) a discount of approximately 55.61% to the Average Adjusted Closing Price of approximately HK\$0.433 per Consolidated Share for the Share Price Review Period. During the period from 6 November 2019 to the Last Trading Day (being a period of approximately one month prior to and including the Last Trading Day), the average adjusted closing price was approximately HK\$0.269 per Consolidated Share (the “**Recent Average**”). The Subscription Price represents a discount of approximately 28.62% to the Recent Average. The Recent Average represented a lower discount to the Subscription Price in comparison to that of the theoretical closing price per Consolidated Share based on the closing price of the Existing Share as quoted on the Stock Exchange on the Last Trading Day, the average of theoretical closing prices per consolidated share for five (5) consecutive trading days up to and including the Last Trading Day and the ten (10) consecutive trading days up to and including the Last Trading Day, which indicated a continuing downward trend of the closing price of Shares in the latest month prior to the Last Trading Day. In light of the above, the continuing downward trend in the recent month prior to and including the Last Trading Date is in line with the above-mentioned downward trend during the Share Price Review Period which were both traded below the net asset value of the Group. Therefore, we concurred with the Directors that the recent market conditions is one of the key factors considered by the Board and the Underwriter during the course of negotiation for the Rights Issue and it is not commercially sound to make reference to net asset value of the Company when determining the Subscription Price. As discussed in the section headed “Comparison with recent rights issue exercises” below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue as to meet the companies’ need for additional funding.

LETTER FROM OCTAL CAPITAL

Historical trading liquidity of the Consolidated Shares

For the purpose of independently assessing the trading liquidity of the Shares, the following table shows the daily trading volume of the Shares during the Share Price Review Period:

Month	Highest daily turnover (in number of Shares)	Lowest daily turnover (in number of Shares)	Average daily turnover (in number of Shares)	Number of trading days with no turnover (in days)	Percentage of average daily turnover over total number of Shares in issue (%)	Percentage of average daily turnover over total number of Shares held by public Shareholders
					(Note 1)	(Note 2)
2018						
December	2,636,280	0	255,949	7	0.033%	0.033%
2019						
January	2,581,800	0	336,290	2	0.043%	0.044%
February	2,709,480	0	365,188	2	0.047%	0.048%
March	3,050,000	0	414,830	7	0.053%	0.054%
April	2,180,000	0	223,302	5	0.029%	0.029%
May	505,000	0	106,324	6	0.014%	0.014%
June	715,000	0	101,436	6	0.013%	0.013%
July	22,625,000	0	1,631,614	9	0.210%	0.213%
August	23,055,000	0	3,913,620	3	0.503%	0.510%
September	1,650,000	0	307,678	6	0.033%	0.033%
October	7,915,800	0	799,392	7	0.086%	0.087%
November	4,048,800	0	411,691	7	0.044%	0.045%
December (Note 3)	975,000	800	326,160	0	0.035%	0.035%

Source: the Stock Exchange

Note:

1. Calculated based on the total number of the Shares in issue at the end of month.
2. Calculated based on the total number of the Shares in public hands at the end of month according to the public information on the Stock Exchange.
3. Up to the Last Trading Date.

LETTER FROM OCTAL CAPITAL

As demonstrated in the table above, during the Share Price Review Period, no trading of the Shares was recorded on 67 trading days on the Stock Exchange. The average daily trading volume of the Shares by month were in the range of approximately 0.013% to 0.503% as to the total number of issued Shares with a mean of 0.088%. The average daily trading volume of the Shares by month were in the range of approximately 0.013% to 0.510% as to the total number of Shares held by public Shareholders with a mean of 0.089%. Upon our review of the “HKEx Monthly Market Highlights” for the period from December 2018 to November 2019 (the “**Relevant Period**”) available on the website of the Stock Exchange, we note that the average daily trading turnover to total market capitalisation of listed securities (including Main Board and GEM listed issuers) (the “**Market Trading Turnover Ratio**”) during such period ranged from approximately 0.21% to approximately 0.33% with the mean of approximately 0.27%. We consider the Market Trading Turnover Ratio, as extracted from “HKEx Monthly Market Highlights”, is a representative indicator for overall trading volume of the securities listed on the Stock Exchange. In view of this, we consider the trading liquidity of the Shares of the Company as a listed issuer of the Stock Exchange are generally thin during the Share Price Review Period, given that the average daily trading volume of the Shares by month as to the total number of issued Shares during the Share Price Review Period (i.e. 11 out of 13) is generally below the low end (i.e. 0.21%) of the Market Trading Turnover Ratio during the Relevant Period. Given that the average daily trading volume the Shares was below 1,000,000 Shares during the Share Price Review Period, representing approximately 0.11% of the total issued Shares as at the Latest Practicable Date, it would be difficult for the Shareholders to acquire or dispose of a substantial block of the Shares in the open market, without exerting impact on the Share price. In light of the relatively thin trading liquidity of the Consolidated Shares, we consider that it is reasonable for the Subscription Price to be set at a discount to the prevailing adjusted closing prices of the Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interest in the Company.

LETTER FROM OCTAL CAPITAL

Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 7 fully-underwritten rights issue transactions (the “**Comparables**”) announced by other companies listed on the Stock Exchange for the period from six months immediately prior to the Last Trading Day (the “**Comparable Review Period**”). Although the Comparables include rights issue in different basis, engaged in different business or have different financial performance and funding needs from the Company, having considered that (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issue and we are not aware of any established evidence showing any correlation between the entitlement basis of the rights issue and its underlying principal terms; (iii) including transactions conducted by the Comparables with different funding needs and business represent a more comprehensive overall market sentiment in our comparable analysis; (iv) a six months period for the selection of the Comparables has generated a reasonable samples size to reflect the market practice regarding rights issue in the recent period; and (v) the Comparables were included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar fully-underwritten rights issue transactions conducted by other issuers listed on the Stock Exchange, we consider the Comparables are fair and representative samples. In addition, we consider that the Comparable Review Period is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practices prior to the Last Trading Day; and (ii) we were able to identify an exhaustive list of 7 representative Comparables meeting the aforesaid criteria for comparison analysis in such period.

Item no.	Date of announcement	Company name (stock code)	Basis of entitlement	Premium/discount of the subscription price over/to the closing price on the last trading date prior to/ on the date of the relevant announcements (Approximate)	Premium/discount of the subscription price over/to the theoretical ex-right price based on the last trading day prior to/ on the date of the relevant announcements (Approximate)	Premium/ (discount) of the subscription price over/to the consolidated net asset value per share (Approximate) (Note 1)	Maximum dilution on shareholding (Approximate) (Note 2)	Underwriting commission	Fully Underwritten Yes/No	Excess application Yes/No
1	13 Jun 2019	International Standard Resources Holdings Limited (91)	1 for 2	-32.96%	-24.67%	33.78%	33.33%	2.50%	Yes	Yes
2	03 Jul 2019	South China Financial Holdings Limited (619)	3 for 2	-16.00%	-7.08%	-86.16%	60.00%	2.00%	Yes	No
3	18 Jul 2019	Cocoon Holdings Limited (428)	2 for 1	-13.85%	-5.08%	-75.20%	66.67%	1.00%	Yes	Yes
4	26 Aug 2019	Jiangnan Group Limited (1366)	1 for 2	-13.85%	-9.68%	-77.08%	33.33%	3.50%	Yes	Yes
5	11 Oct 2019	Ping An Securities Group (Holdings) Limited (231)	1 for 2	-27.54%	-20.63%	194.12%	33.33%	1.20%	Yes	Yes
6	29 Oct 2019	Li Bao Ge Group Limited (1869)	1 for 4	-10.19%	-8.32%	96.00%	20.00%	3.00%	Yes	Yes
7	06 Nov 2019	Eminence Enterprise Limited (616)	4 for 1	-24.53%	-6.10%	-96.77%	80.00%	1.50%	Yes	Yes
			Maximum	-10.19%	-5.08%	194.12%	80%	3.5%		
			Minimum	-32.96%	-24.67%	-96.77%	20%	1.0%		
			Median	-16.00%	-8.32%	-75.20%	33.3%	2.0%		
			Mean	-19.84%	-11.65%	-1.62%	46.67%	2.1%		
		The Company	2 for 1	-31.43%	-13.12%	-62.72%	66.67%	2.5%	Yes	Yes

Source: the Stock Exchange

LETTER FROM OCTAL CAPITAL

Notes:

1. The net assets value per share was extracted from the relevant announcement or circular of the Comparables, where such information is not available from the above published sources, computed based on the reported net assets value as shown in the relevant interim results or annual results of the Comparables and the number of issued shares as at the date of the relevant announcement of the Comparables.
2. Maximum dilution effect of each of the Comparables is calculated as: $(\text{number of new shares to be issued under the basis of entitlement}) / (\text{number of existing shares held for the entitlement for the new shares under the basis of entitlement} + \text{number of new shares to be issued under the basis of entitlement}) \times 100\%$.

As illustrated from the above table, it is a common market practice (seven out of seven Comparables) that the pricing of a rights issue represents a discount to both the closing share prices on the last trading day and to the theoretical ex-entitlement prices of the shares. There are four out of seven Comparable that the pricing of a right issue represents a discount to the consolidated net assets value per share. The subscription prices of the Comparables:

- (i) ranged from a discount of approximately 32.96% to a discount of approximately 10.19% (the “**LTD Range**”), with a median of a discount of approximately 16.00% (the “**LTD Median Discount**”) and a mean of a discount of approximately 19.84% (the “**LTD Mean Discount**”) for their respective closing prices per share on the last trading day prior to/on the dates of the relevant announcements of the Comparables;
- (ii) ranged from a discount of approximately 24.67% to a discount of approximately 5.08% (the “**TERP Range**”), with a median of a discount of approximately 8.32% (the “**TERP Median Discount**”) and a mean of a discount of approximately 11.65% (the “**TERP Mean Discount**”) for their respective average theoretical ex-rights prices per share based on the closing prices on the last trading day prior to/on the dates of the relevant announcements of the Comparables; and
- (iii) ranged from a discount of approximately 96.77% to a premium of approximately 194.12% (the “**NAV Range**”), with an average median of a discount of approximately 75.20% (the “**NAV Median Discount**”) and a mean of a discount of approximately 1.62% (the “**NAV Mean Discount**”) for their respective subscription price to the net assets value per share of the Comparables.

LETTER FROM OCTAL CAPITAL

The Subscription Price of HK\$0.192 per Rights Share represents (i) a discount of approximately 31.43% to the adjusted closing price per Consolidated Share on the Last Trading Day (the “**LTD Discount**”); (ii) a discount of approximately 13.12% to the theoretical ex-rights price per Consolidated Share (the “**TERP Discount**”); and (iii) a discount of approximately 62.72% to the adjusted consolidated net asset value per Consolidated Share (the “**NAV Discount**”). We note that each of the LTD Discount, TERP Discount and the NAV Discount is within the LTD Range, TERP Range and NAV Range, respectively. While we noted that the NAV Discount is above the NAV Median Discount but below the NAV Mean Discount, given that (i) the NAV is not a factor considered by the Board and the underwriter during the course of negotiation for the Rights Issues; and (ii) the trading price of the Shares is always traded below the net asset value per Share during the Share Price Review Period, we concurred with the Directors that it is commercially not sound to make reference to net asset value of the Company. Notwithstanding, the NAV discount is within the range of the NAV Range.

Although the LTD Discount is below and LTD Median Discount and LTD Mean Discount and the TERP Discount is below and TERP Median Discount and TERP Mean Discount, it is a common market practice that the pricing of a rights issue represents a discount to both the closing share prices on the last trading day, to the theoretical ex-entitlement prices of the shares and to the net assets value per share in order to enhance the attractiveness of the Rights Issue for encouraging Qualifying Shareholders to participate in the Rights Issue. Having considered (i) the trading volume of the Consolidated Shares was thin during the Share Price Review Period as discussed under the sub-section headed “historical trading liquidity of the Consolidated Shares”; (ii) the general downward trend of the adjusted closing price of the Consolidated Shares as discussed under the sub-section headed “Comparison with adjusted historical closing prices of the Consolidated Shares”; (iii) the Company is of imminent needs for the Rights Issue in order to repay the debt; (iv) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; (v) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market; and (vi) the LTD Discount and the TERP Discount are still within the LTD Range and the TERP Range, respectively, we are of the view that the Subscription Price is justifiable so far as the Independent Shareholders are concerned.

LETTER FROM OCTAL CAPITAL

Application for excess Right Shares

Qualifying Shareholders may apply for any unsold allotments of the Excluded Shareholders and any Rights Share provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. The Board will allocate the excess Rights Shares to Qualifying Shareholders who have applied for excess application on a pro-rata basis on the excess Rights Shares applied by them. No preference will be given to topping up odd lots to whole board lots. Shareholders who have been offered odd lots of the Rights Shares should note that there are no guarantees that such odd lots of Rights Shares will be topped up to create whole board lots pursuant to applications for excess Rights Shares. No preference will be made to the Rights Shares subscribed through by PALs or the number of Shares held by the Qualifying Shareholders. Any Rights Share not taken up by the Qualifying Shareholders and not taken by excess applications will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

As set out in table under the sub-section headed “Comparison with recent rights issue exercises”, six out of seven of the Comparables have the arrangement for excess application for the qualifying shareholders. With the arrangement of application for excess Rights Shares, the Qualifying Shareholders shall be given a pre-emption right to subscribe for excess Rights Shares if they wish to do so. Moreover, the allocation basis adopted by the Company is in line with the normal market practice of other rights issue with arrangement of application for excess rights shares and the shareholding of each Qualifying Shareholder, except those who do not take up their full entitlements or those who apply for excess Rights Shares, will be largely maintained after the completion of the Rights Issue. Based on the above, we concur with the Company that the arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation method for the excess Rights Shares are fair and reasonable so far as the Independent Shareholders are concerned.

Underwriting commission

With reference to the Letter from the Board, the terms of the Underwriting Agreement, including the underwriting commission, were determined after arm's length negotiation between the Company and the Underwriter, among others, (i) the Rights Issue has not been appealing to most financial institutions due to the size of the Rights Issue, the large-scale fund raising needs of the Company and the current market sentiment; (ii) the potential underwriters have not made any offer to the Company, except for the Underwriter; (iii) the underwriting commission offered by the Underwriter is comparable to those of the comparables; and (iv) the experience and financial resources of the Underwriter for underwriting of such securities.

LETTER FROM OCTAL CAPITAL

From the comparison with recent rights issue exercises under the sub-section headed “Comparison with recent rights issue exercises”, we note that the commission rate of 2.5% under the Rights Issue falls within the range of commission rate of 1% to 3.5% received by underwriters of the Comparables. In this connection, we are of the opinion that the commission rate is in line with common market practice.

In addition, we also reviewed the Underwriter’s background and noted that, the Underwriter is a licensed corporation with the SFC and have over eight years of experience acting as bookrunners, lead managers, underwriter for the fundraising activities of companies listed on the Stock Exchange. During the recent three years, the Underwriter participated in total 15 initial public offerings, 1 placing, 1 open offer and 1 rights issue transaction with the fund-raising size ranged from approximately HK\$28.8 million to HK\$300 million. We further noted that the Underwriter has no public disciplinary actions that took effect within five years. Based on the above, we considered that the Underwriter has sufficient experience and financial resources for underwriting the Right Shares.

Taking into account the above principal terms of the Rights Issue, the Underwriting Agreement and the competency of the underwriter, we consider that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Dilution effect of the Rights Issue on shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. As at the Latest Practicable Date, the existing public Shareholders held approximately 98.80% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the existing public Shareholders), the shareholding of the existing public Shareholders will be diluted to approximately 32.93%. On the other hand, Qualifying Shareholders who wish to increase their shareholding interests in the Company through the Rights Issue may, subject to availability, apply for excess Rights Shares.

LETTER FROM OCTAL CAPITAL

As set out in table under the sub-section headed “Comparison with recent rights issue exercises”, the maximum dilution of the Comparables ranged from approximately 20.00% to approximately 80.00%. For the Excluded Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 66.67%, which fall within the range of the Comparables.

In all cases of rights issue, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the rights issue is inevitable. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders’ interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the Group is of imminent need for the Right Issues to repay the loans as mentioned in the sub-section of this letter headed “(ii) Reasons for and benefits of the Rights Issue and use of proceeds”, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

(v) Financial effects of the Rights Issue

Net tangible assets

Based on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the equity shareholders of the Company set out in Appendix II to this Circular, the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 was approximately HK\$8.96 million. Upon completion of the Rights Issue assuming no outstanding share option has been exercised on or before the Record Date, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company would become approximately HK\$77.81 million, representing an increase of approximately 768.42%. Upon completion of the Share Consolidation and the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets per Consolidated Share attributable to owners of the Company would be approximately HK\$0.139, representing an increase of approximately 1,290% as compared to the unaudited consolidated net tangible assets per share attributable to owners of the Company as at 30 September 2019 of approximately HK\$0.010. The asset base of the Group would be improved.

LETTER FROM OCTAL CAPITAL

Liquidity

As part of the net proceeds of not less than approximately HK\$6.17 million from the Rights Issue will be used as the general working capital of the Group, the working capital position of the Group would be improved upon completion of the Rights Issue.

Gearing ratio

The gearing ratio (calculated by total borrowings over equity attributable to owners of the Company) of the Group as at 30 September 2019 was approximately 73.09%. If part of the net proceeds of approximately HK\$63 million from the Rights Issue were applied to repay the existing debt, total debt of the Group would be reduced whilst the capital base of the Group would be enlarged accordingly. As such, the Group's gearing ratio would decrease immediately after the Rights Issue.

After taking into consideration of the above, particularly, the improvement in liquidity position, the reduction in gearing ratio of the Group, and positive impact on the earnings of the Group, we are of the view that the Rights Issue is in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution proposed at the EGM thereby approving the Rights Issue.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung **Louis Chan**
Managing Director *Director*

Note:

Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 24 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 16 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

I. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three financial years ended 31 March 2017, 2018 and 2019 and six months ended 30 September 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.wanjia-gp.com/en/>):

- Interim reports of the Company for the six months ended 30 September 2019 (pages 4 to 25)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1128/2019112800478.pdf>
- Annual reports of the Company for the financial years ended 31 March 2019 (pages 61 to 235)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0725/lt20190725189.pdf>
- Annual reports of the Company for the financial years ended 31 March 2018 (pages 56 to 199)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0716/lt20180716293.pdf>
- Annual reports of the Company for the financial years ended 31 March 2017 (pages 59 to 211)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0716/lt20180716293.pdf>

The management discussion and analysis of the Company for the six months ended 30 September 2019 and each of the financial years ended 31 March 2017, 2018 and 2019 are disclosed in the interim report of the Company for the six months ended 30 September 2019 and annual reports of the Company for the financial years ended 31 March 2017, 2018 and 2019 respectively.

II. INDEBTEDNESS

As at the close of business on 30 November 2019, for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had the following outstanding indebtedness:

	Total <i>HK\$'000</i>
Current liabilities:	
Other borrowing – secured	60,000
Other borrowings – unsecured	10,300
Lease liabilities	<u>1,549</u>
	<u>71,849</u>
Non-current liabilities:	
Leases liabilities	<u>19,783</u>
Total outstanding indebtedness	<u><u>91,632</u></u>

On 28 November 2017, the Company entered into a loan agreement with an independent third party (“**Lender**”) for borrowing of principal amount HK\$100,000,000 (the “**Loan**”). On 28 February 2018, the Company exercised the renewal option and the Lender agreed to the extension of the Loan to another 3 months to 28 May 2018 with the same terms. On 7 May 2019, the Company and the Lender entered into a supplemental loan agreement pursuant to which the repayment date of the Loan be extended to 28 June 2020. As at 30 November 2019, the outstanding balance of the Loan was HK\$60,000,000.

The Loan is secured by the debenture. The interest rate (i) for the first month after drawing was 3.9% per month; (ii) for the second month after drawing was 1.8% per month; (iii) for the third month after drawing and until the repayment date was 1.25% per month; and (iv) for the fourth month to the sixth month after drawing and until the repayment date as renewed was 1.25% per month. Pursuant to the supplemental loan agreement signed on 7 May 2019, the interest rate for the month from 29 May 2019 to 28 June 2019 was amended to 2.5% per month while the interest rate for the period from 29 June 2019 to 28 June 2020 was amended to 1.5% per month.

The unsecured borrowings are 5% interest rate per annum and repayable on demand.

Charges of assets

As at the Latest Practicable Date, the Company charged to the Lender by way of first floating charge all its undertaking, property, assets, goodwill, rights and revenues, whatsoever and whosoever, both present and future, including all book and other debts now and from time to time due or owing to the Company, the uncalled capital, goodwill and all intellectual properties and intellectual property rights, patents, patent applications, trademarks, service marks, trade names, registered designs, copyrights, licenses and ancillary and connected rights both present and future of the Company (the “**Debenture**”).

Lease liabilities

The Group has adopted HKFRS 16 Leases using a modified retrospective approach on 1 April 2019. The Group applies HKFRS 16 to contract that were previously identified as leases under Hong Kong Accounting Standard 17 Leases and uses the exemptions allowed by the standard on short-terms and lease contracts whose lease terms end within 12 months as of the date of the initial application. The Group measures the lease liabilities at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rates and measures the right-of-use assets at an amount equal to the lease liabilities, adjusted by any prepaid or accrued lease payments. As at 30 November 2019, the Group has current and non-current liabilities amounting to approximately HK\$1,549,000 and approximately HK\$19,783,000, respectively.

Contingent liabilities

As at the close of business on 30 November 2019, being the latest practicable date for the purpose of this indebtedness statement, the Group had no material contingent liabilities outstanding.

Disclaimer

Save as aforesaid above, at the close of business on 30 November 2019, the directors of the Company confirmed that the Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, or any guarantees or any contingent liabilities. The directors of the Company have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 30 November 2019.

III. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources presently available to the Group, including the existing borrowing facilities available, the existing cash and bank balances, and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

IV. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Company were made up, and up to and including the Latest Practicable Date.

V. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment holding company. The Group is principally engaged in pharmaceutical wholesale and distribution business (the “**Wholesale Business**”) and hemodialysis treatment and consultancy service business (the “**Hemodialysis Business**”) in the PRC.

As mentioned under the section headed “Reasons for and Benefits of the Disposal and Use of Proceeds” in the letter from the Board in this circular, the Directors consider that the Rights Issue will allow the Company to improve its financial performance by reducing the gearing ratio of the Company significantly. Subject to the Rights Issue having become effective, it is currently intended that the net proceeds from the Rights Issue will be applied for repayment of loans, including the Principal Loan and several unsecured loans which brought heavy interest burden to the Company.

In terms of the Wholesale Business, the Group has a large and broad customer base through the Group’s distribution network in Fujian Province in the PRC. The Group distributes pharmaceutical products to the Group’s customers located principally in the Fujian Province in the PRC.

In respect of the Hemodialysis Business, the Group currently operates jointly-operated hemodialysis treatment centers under co-operations contracts and owns several self-operated hemodialysis treatment centers in the PRC. Looking forward, the Group will focus on developing the Hemodialysis Business and will explore opportunities for timely expansion of the Group’s scope of operation and investments.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had been completed on 30 September 2019. The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at the date to which it is made up or at any future date.

The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2019, as extracted from the published interim report of the Company for the period ended 30 September 2019, with adjustments described below.

(1) Assuming no outstanding Share Options having been exercised on or before the Record Date

			Unaudited consolidated net tangible assets per share attributable to the owners of the Company as at 30 September 2019 without taking into account of the Share Consolidation and prior to the completion of the Rights Issue	Unaudited consolidated net tangible assets per share attributable to the owners of the Company as at 30 September 2019 after taking into account of the Share Consolidation but prior to the completion of the Rights Issue	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to the owners of the Company immediately after completion of the Share Consolidation and Rights Issue
Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2019	Estimated net proceeds from the Rights Issue	Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company immediately after completion of the Rights Issue			
HK\$'000	HK\$'000	HK\$'000			
(Note 1)	(Note 2)		(Note 3)	(Note 4)	(Note 5)
Base on 373,481,424 Rights Shares to be issued at subscription price of HK\$0.192 per Rights Share					
8,960	68,850	77,810	0.010	0.048	0.139

(2) Assuming full exercise of the outstanding Share Options by the Option Holders on or before the Record Date

			Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2019 HK\$'000 (Note 1)	Estimated net proceeds from the Rights Issue HK\$'000 (Note 6)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after completion of the Rights Issue HK\$'000	Unaudited consolidated net tangible assets per share attributable to the owners of the Company as at 30 September 2019 without taking into account of the Share Consolidation (Note 3)	Unaudited consolidated net tangible assets per share attributable to the owners of the Company as at 30 September 2019 after taking into account of the Share Consolidation (Note 4)	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to the owners of the Company immediately after completion of the Rights Issue and Share Consolidation (Note 7)
Base on 375,145,424 Rights Shares to be issued at subscription price of HK\$0.192 per Rights Share			8,960	69,169	78,129	0.010	0.048	0.139

Note:

- (1) The unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 of approximately HK\$8,960,000 is based on the unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 September 2019 of approximately HK\$96,181,000 as adjusted to exclude goodwill of approximately HK\$87,221,000 as shown on the unaudited consolidated statement of financial position of the Group as at 30 September 2019 as extracted from the published interim report of the Company for the period ended 30 September 2019.
- (2) The estimated net proceeds from the Rights Issue of approximately HK\$68,850,000 is calculated based on 373,481,424 Rights Shares to be issued (in the proportion of two (2) rights share for every one (1) consolidated share held as at the Rights Issue Record Date) at the subscription price of HK\$0.192 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,858,000, assuming that the Rights Issue had been completed on 30 September 2019.
- (3) The amount is calculated based on the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2019 of HK\$8,960,000 and 933,703,560 shares in issue as at 30 September 2019 (“Existing Shares”) without taking into account of consolidation of every five (5) issued Existing Shares of HK\$0.01 each into one consolidated shares of HK\$0.05 each (the “Share Consolidation”).

- (4) The unaudited consolidated net tangible assets per share attributable to the owners of the Company as at 30 September 2019 after taking into account of the Share Consolidation is HK\$0.048, which is calculated based on the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2019 of HK\$8,960,000 and 186,740,712 consolidated shares (involves the consolidation of every five (5) Existing Shares into one (1) consolidated share) (the “**Consolidated Shares**”) which is calculated on 933,703,560 shares in issue as at 30 September 2019 subdivided by five (5).
- (5) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share immediately after completion of the Rights Issue and Share Consolidation is calculated based on 560,222,136 shares which comprise 186,740,712 Consolidated Shares and 373,481,424 Rights Shares expected to be issued on the completion of the Rights Issue as at 30 September 2019.
- (6) The estimated net proceeds from the Rights Issue of approximately HK\$69,169,000 is calculated based on 375,145,424 Rights Shares to be issued (in the proportion of two (2) rights share for every one (1) consolidated share held as at the Rights Issue Record Date) at the subscription price of HK\$0.192 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,858,000, assuming that the Rights Issue had been completed on 30 September 2019.
- (7) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share immediately after completion of the Rights Issue and Share Consolidation is calculated based on 562,718,136 shares which comprise 186,740,712 consolidated shares (involves the consolidation of every five (5) Existing Shares into one (1) consolidated share), 832,000 consolidated shares arising from the full exercise of the outstanding Share Options and 375,145,424 Rights Shares expected to be issued on the completion of the Rights Issue as at 30 September 2019.
- (8) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2019.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

31 December 2019

The Directors
Wanjia Group Holdings Limited
Room 1902, 19th Floor
101 King's Road
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

To the Directors of Wanjia Group Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Wanjia Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated net tangible assets attributable to the owners of the Company as at 30 September 2019 and the related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Appendix II to the circular dated 31 December 2019 (the “**Circular**”) issued by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed rights issue of 373,481,424 rights shares (assuming no outstanding share options having been exercised on or before the record date) and 375,145,424 (assuming full exercise of the outstanding share option by the option holders on or before the record date) at HK\$0.192 per rights share (the “**Rights Shares**”) on the basis of two (2) Rights Share for every one (1) consolidated share of the Company held on the rights issue record date (the “**Rights Issue**”) on the Group's unaudited consolidated net tangible assets attributable to the owners of the Company as at 30 September 2019 as if the Rights Issue had taken place on 30 September 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's unaudited consolidated financial statements for the period ended 30 September 2019, on which an interim report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2019 would have been as presented.

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

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

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Ng Ka Wah

Practising Certificate Number: P06417

APPENDIX III DETAILS OF THE DIRECTOR PROPOSED TO BE RE-ELECTED

The biographical details of the retiring Director are as follows:

Ms. Yung

Ms. Yung, aged 32, was appointed as an executive Director with effect from 1 December 2019.

Ms. Yung obtained her Bachelor degree of Science Business Management, specialization in Marketing from SUNY-Stony Brook University, United States. She has 3 years of managerial experience in marketing in real estate companies in the PRC. Ms. Yung was an executive director and authorised representative of the Company for the period between 5 August 2015 and 31 August 2018.

Ms. Yung has entered into a service contract with the Company for an initial term of three years renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of his appointment and shall be determinable by either party giving to the other not less than three months' notice in writing.

Subject to her re-election, Ms. Yung is entitled to a monthly salary of HK\$60,000 which is determined by the remuneration committee of the Company with reference to her skill, knowledge and experience and her duties and responsibilities with the Company. She is also entitled to a year-end discretionary bonus to be determined by the Board from time to time. Ms. Yung shall hold office until the next general meeting and is subject to retirement by rotation and re-election by the shareholders of the Company as well as other related provisions as stipulated in the Articles and the Listing Rules.

As at the Latest Practicable Date, Ms. Yung, through her controlled corporation, Power King, is deemed to be interested under Part XV of the SFO in 11,201,475 Existing Shares, representing approximately 1.20% of the existing issued share capital of the Company. In addition, Ms. Yung, being the spouse of Mr. Wang, an executive Director, is also deemed to be interested in 6,400,000 Share Options held by Mr. Wang.

Save as disclosed above and as at the Latest Practicable Date, Ms. Yung (i) did not hold any position with the Company or other members of the Group; (ii) did not have any relationship with the directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company; (iii) did not hold any directorship in public companies in the last three years the securities of which are listed on any securities market in Hong Kong or overseas; and (iv) did not have any interests or deemed interests in the securities of the Company which are required to be disclosed pursuant to Part XV of the SFO).

APPENDIX III DETAILS OF THE DIRECTOR PROPOSED TO BE RE-ELECTED

Save as disclosed above and as at the Latest Practicable Date, there is no other information which is required to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules and there are no other matters relating to the appointment of Ms. Yung which the Board considers necessary to be brought to the attention of the Shareholders.

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. SHARE CAPITAL**(a) As at the Latest Practicable Date**

Authorised share capital: HK\$

<u>2,000,000,000</u>	Existing Shares of HK\$0.01 each	<u>20,000,000</u>
----------------------	----------------------------------	-------------------

Issued and fully paid:

<u>933,703,560</u>	Existing Shares of HK\$0.01 each	<u>9,337,035.60</u>
--------------------	----------------------------------	---------------------

(b) Immediately following the Share Consolidation, Change in Board Lot Size and the Increase in Authorised Share Capital having become effective (assuming no change in the number of issued Shares)

Authorised share capital: HK\$

<u>1,000,000,000</u>	Consolidated Shares of HK\$0.05	<u>50,000,000</u>
----------------------	---------------------------------	-------------------

Issued and fully paid:

<u>186,740,712</u>	Consolidated Shares of HK\$0.05	<u>9,337,035.60</u>
--------------------	---------------------------------	---------------------

- (c) **Immediately following the Share Consolidation, Change in Board Lot Size and the Increase in Authorised Share Capital having become effective and the completion of the Rights Issue (assuming (i) no change in the number of issued Shares; and (ii) full acceptance of Rights Shares by all Qualifying Shareholders)**

Authorised share capital: HK\$

<u>1,000,000,000</u>	Consolidated Shares of HK\$0.05	<u>50,000,000</u>
----------------------	---------------------------------	-------------------

Issued and fully paid:

	Consolidated Shares immediately following the Share Consolidation having become effective	
186,740,712		9,337,035.60
<u>373,481,424</u>	Rights Shares to be allotted and issued under the Rights Issue	<u>18,674,071.20</u>
<u>560,222,136</u>	Consolidated Shares in issue immediately upon completion of the Rights Issue	<u>28,011,106.80</u>

- (d) **Immediately following the Share Consolidation, Change in Board Lot Size and the Increase in Authorised Share Capital having become effective and the completion of the Rights Issue (assuming (i) new Shares having been issued upon the exercise of the Share Options by the Option Holders on or before the Record Date; and (ii) full acceptance of Rights Shares by all Qualifying Shareholders (including the Option Holders))**

Authorised share capital: HK\$

<u>1,000,000,000</u>	Consolidated Shares of HK\$0.05	<u>50,000,000</u>
----------------------	---------------------------------	-------------------

Issued and fully paid:

	Consolidated Shares immediately following the Share Consolidation having become effective	9,337,035.60
186,740,712		
	Consolidated Shares arising from the full exercise of the outstanding Share Options	41,600.00
832,000		
	Rights Shares to be allotted and issued under the Rights Issue	18,757,271.20
<u>375,145,424</u>		<u>18,757,271.20</u>
<u>562,718,136</u>		<u>28,135,906.80</u>

All Existing Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

The Rights Shares, when issued and fully paid, will rank *pari passu* in all respects with the Consolidated Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of issue of the Rights Shares. The Company will apply to the Stock Exchange for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Existing Shares or Consolidated Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there were no arrangements under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, save for 64,840,000 outstanding Share Options, the Company has no outstanding convertible securities, options or warrants and there was no capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives of the Company

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

Long position in Existing Shares and underlying shares of the Company

Name of Director	Nature of interests	Total interests in ordinary shares	Total interests in underlying shares	Aggregate interests	Approximate percentage of issued Existing Shares
Mr. Chen Jinshan (“ Mr. Chen ”)	Beneficial owner	–	6,400,000 (Note 3)	6,400,000	0.69%
Mr. Wang (Note 1)	Interest of spouse	156,862,198	–	158,142,198	28.10%
	Beneficial owner	–	1,280,000		
Ms. Yung (Note 1)	Corporate interests	156,862,198	–	158,142,198	28.10%
	Interest of spouse	–	1,280,000		
Mr. Wong Hon Kit (“ Mr. Wong ”)	Beneficial owner	–	200,000 (Note 3)	200,000	0.02%
Dr. Liu Yongping (“ Dr. Liu ”)	Beneficial owner	–	200,000 (Note 3)	200,000	0.02%
Mr. Ho Man (“ Mr. Ho ”)	Beneficial owner	–	200,000 (Note 3)	200,000	0.02%

Notes:

1. Based on the notices of disclosure of interest filed by Mr. Wang and Ms. Yung, conditional upon the Share Consolidation having become effective, (i) Mr. Wang shall hold 1,280,000 Share Options; and (ii) Power King, a company wholly-owned by Ms. Yung, (a) shall own 2,240,295 Consolidated Shares; and (b) has irrevocably undertaken to subscribe for a total of 154,621,903 Rights Shares (including the excess application). Each of Ms. Yung and Mr. Wang (being the spouse of Ms. Yung) is, therefore, deemed to be interested in the 1,280,000 Share Options and the 156,862,198 Shares held by Power King, under the SFO.
2. Mr. Chen, Mr. Wong, Dr. Liu and Mr. Ho are interested in Share Options which can be exercised to subscribe 6,400,000 Existing Shares, 200,000 Existing Shares, 200,000 Existing Shares and 200,000 Existing Shares, respectively.

Save as disclosed above, so far as the Directors were aware as at the Latest Practicable Date, none of the Directors or chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of substantial Shareholders

As far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Nature of interests	Number of Existing Shares	Approximate percentage of total issued Existing Shares
Power King (<i>Note 1</i>)	Beneficial owner	154,621,903	27.88%
New Hope International (Hong Kong) Limited (<i>Note 2</i>)	Beneficial owner	54,914,804	5.88%
Southern Hope Enterprise Company Limited (<i>Note 2</i>)	Corporate interest	54,914,804	5.88%
New Hope Group Company Limited (<i>Note 2</i>)	Corporate interest	54,914,804	5.88%
Tibet Hengye Feng Industrial Company Limited (<i>Note 2</i>)	Corporate interest	54,914,804	5.88%
Mr. Liu Yonghao (<i>Note 2</i>)	Corporate interest	54,914,804	5.88%
Ms. Liu Chang (<i>Note 2</i>)	Corporate interest	54,914,804	5.88%
Ms. Li Wei (<i>Note 2</i>)	Interest of spouse	54,914,804	5.88%

Notes:

- Based on the notice of disclosure of interest filed by Power King, conditional upon the Share Consolidation having become effective, Power King, (a) shall own 2,240,295 Consolidated Shares; and (b) has irrevocably undertaken to subscribe for a total of 154,621,903 Rights Shares (including the excess application).
- New Hope International (Hong Kong) Limited is interested in 54,914,804 Existing Shares. The issued share capital of New Hope International (Hong Kong) Limited is owned as to 75% by Southern Hope Enterprise Company Limited which is in turn owned as to 51% by New Hope Group Company Limited and 49% by Tibet Hengye Feng Industrial Company Limited. Both New Hope Group Company Limited and Tibet Hengye Feng Industrial Company Limited are owned as to 62.34% by Mr. Liu Yonghao, as to 36.35% by Ms. Liu Chang and as to 1.31% by Ms. Li Wei, the spouse of Mr. Liu Yonghao. Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei are deemed to be interested in the shares in which New Hope International (Hong Kong) Limited is interested in.

Save as disclosed above, so far as the Directors were aware, as at the Latest Practicable Date, there were no other persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. LITIGATION

As at the Latest Practicable Date, as far as the Directors are aware, neither the Company nor any member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors had any business or interest that competes or may compete with the business of the Group and had any other conflict of interest with the Group.

7. DIRECTORS' INTEREST IN ASSETS, CONTRACTS AND ARRANGEMENT OF THE GROUP

As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group. As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors had any interest, directly or indirectly, in any assets which have been, since 31 March 2019 (being the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) of the Group have been entered into by the members of the Group during the period commencing two years preceding the date of this circular and are or may be material:

- (i) loan agreement dated 28 November 2017 entered into between the Company (as borrower) and Grand Harbour Finance Limited (as lender) in relation to a term loan facility of up to HK\$100 million for a term of 3 months from the date of drawing down with an option to renew for another 3 months after the maturity of the described loan (the “**Renewal Option**”), where the Renewal Option was exercised on 28 February 2018, and on 27 June 2018, the lender agreed to further extend the repayment date to 28 May 2019 and the supplemental loan agreement dated 7 May 2019 pursuant to which the repayment date be further extended to 28 June 2020;
- (ii) the conditional sale and purchase agreement dated 24 September 2018 entered into between Jing Hoi Ou Investment Limited (as purchaser) and Hui Hao (HK) Group Limited (as vendor) in relation to the proposed disposal of approximately 99.80% equity interest in 福建惠好四海醫藥連鎖有限責任公司 (Fujian Huihao Sihai Pharmaceutical Chain Company Limited[#]) at a consideration of HK\$49 million;
- (iii) the placing agreement dated 2 October 2018 entered into between the Company and Spring Securities Limited (as placing agent) in relation to the placing of 129,681,000 placing shares to not less than six placees at the placing price of HK\$0.105 per placing share;
- (iv) the capital reduction agreement dated 21 February 2019 entered into between Hui Hao (HK) Group Limited (惠好(香港)醫藥集團有限公司), Fuzhou Ren An Medical Technology Limited [#] (福州仁安醫藥科技有限公司) and Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd.[#] (福建省福州市惠好藥業有限公司)(the “**Capital Reduction Target**”) in relation to the reduction of the registered capital of the Capital Reduction Target by RMB20 million, representing approximately 21.86% of the previous registered capital of the Capital Reduction Target;
- (v) the placing agreement dated 23 August 2019 entered into between the Company and Spring Securities Limited (as placing agent) in relation to the placing of 155,617,260 placing shares to not less than six placees at the placing price of HK\$0.054 per placing share; and
- (vi) the Underwriting Agreement (including the Irrevocable Undertaking).

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions, letters or advice contained in this circular:

Name	Qualifications
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Octal Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice or report, as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in any member of the Group nor did they 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, none of the above experts had any direct or indirect interest in any assets which had been, since 31 March 2019 (the date to which the latest published audited financial statements of the Group were made up), acquired, or disposed of by or leased to, or were proposed to be acquired, disposed of by or leased to any member of the Group.

10. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered Office	P.O. Box 10008, Willow House, Cricket Square Grand Cayman, KY1-1001, Cayman Islands
Head Office and Principal Place of Business in Hong Kong	Room 1902, 19th Floor 101 King's Road Hong Kong

Authorised Representatives	Mr. Wang Room 1902, 19th Floor 101 King's Road Hong Kong Mr. Tam Sze Kin Room 1902, 19th Floor 101 King's Road Hong Kong
Company Secretary	Mr. Tam Sze Kin (fellow member of The Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants)
Financial Adviser to the Company	INCUB Corporate Finance Limited Unit 1701, 17/F, Wings Building, 110-116 Queen's Road Central, Central, Hong Kong
Legal Advisers to the Company	Michael Li & Co 19/F., Prosperity Tower, No.39 Queen's Road Central, Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Octal Capital Limited 801-805, 8/F, Nan Fung Tower, 88 Connaught Road Central, Hong Kong
Auditor/Reporting Accountants of the Company	HLB Hodgson Impey Cheng Limited Certified Public Accountants 31/F, Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong
Principal Banker	Bank of Communications Co., Limited 20 Pedder Street Central, Hong Kong

Principal share registrar and Transfer Office	Tricor Services (Cayman Islands) Limited P.O. Box 10008, Willow House, Cricket Square Grand Cayman KY1-1001 Cayman Islands
Branch share registrar and Transfer Office in Hong Kong	Tricor Investor Services Limited Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

11. EXPENSES

The expenses in connection with the Rights Issue, including but not limited to the financial advising fees, printing, registration, translation and legal and accounting fees are estimated to be approximately HK\$2.858 million and are payable by the Company.

12. PARTICULARS OF DIRECTORS

Executive Directors

Mr. Chen, aged 51, is an executive Director. Mr. Chen holds a bachelor degree in finance and accounting. Mr. Chen has over 17 years of accounting experience and had also been a project manager for more than 8 years in an accounting firm. Mr. Chen was the executive director of Good Fellow Healthcare Holdings Limited (stock code: 8143, formerly known as Hua Xia Healthcare Holdings Limited), the shares of which are listed on GEM of the Stock Exchange, for the period from 25 April 2006 to 10 October 2014.

Mr. Wang, aged 30, was appointed as an executive Director since 31 August 2018. Mr Wang obtained a bachelor's degree in Business Management from Stony Brook University in the United States of America in 2011. He also obtained a master's degree in Health Administration from Columbia University in the United State of America in 2017. He has 4 years of experience in the areas of business analysis and development across major cities in the PRC and was the Vice President (Projects Management) of the Company since 1 August 2018 and was responsible for developing and implementing business strategies of the Company in the People's Republic of China. Mr. Wang is the spouse of Ms. Yung.

Ms. Yung, aged 32, was appointed as an executive Director with effect from 1 December 2019. Ms. Yung obtained her Bachelor degree of Science Business Management, specialization in Marketing from SUNY-Stony Brook University, United States. She has 3 years of managerial experience in marketing in real estate companies in the PRC. Ms. Yung was an executive director and authorised representative of the Company for the period between 5 August 2015 and 31 August 2018.

Independent non-executive Directors

Mr. Wong, aged 52, is an independent non-executive Director. Mr. Wong obtained a Diploma in Accounting from Hong Kong Shue Yan University in July 1991. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong is also the independent non-executive director of Lerthai Group Limited (stock code: 112) since December 2018, a company whose shares are listed on the Main Board of the Stock Exchange. In addition, he was the independent non-executive director of Xinhua News Media Holdings Limited (stock code: 309), from September 2017 to October 2017 and Smart-Core Holdings Limited (stock code: 2166) from March 2016 to June 2018, both companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Wong was also the independent non-executive director of Heng Xin China Holdings Limited (stock code: 8046), a company whose shares are listed on the GEM of the Stock Exchange, since June 2018 and the listing of its shares would be cancelled with effect from 2 July 2019 pursuant to its announcement dated 26 June 2019.

Mr. Wong has over 18 years of experience in the corporate finance industry. He has held various positions, including chief financial officer, director and company secretary in different companies in Hong Kong, where he has experience in handling corporate finance transactions such as mergers and acquisitions, capital fund raising and restructuring.

Dr. Liu, aged 64, is an independent non-executive Director. Dr. Liu is a practicing solicitor in Hong Kong and a consultant of a firm of solicitors in Hong Kong. Dr. Liu has more than 20 years of experience in the capital market and merger and acquisition legal services sector. Dr. Liu graduated from the University of London with a master's degree in law in 1987 and from the University of Oxford with a doctor's degree in philosophy in 1994. Apart from his appointment with the Company, Dr. Liu has been acting as an independent non-executive director of Yue Da International Holdings Limited (stock code: 629, formerly known as Yue Da Mining Holdings Limited) since June 2010 and New Provenance Everlasting Holdings Limited (stock code: 2326) since June 2018, both companies whose shares are listed on the Main Board of the Stock Exchange. Save as disclosed above, Dr. Liu did not hold any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Mr. Ho, aged 50, is an independent non-executive Director. Mr. Ho has over 19 years of working experience in private equity investment and finance and is currently the managing director of an investment holding company. Prior to that, Mr. Ho served as an executive partner representative of a Chengdu-based private equity investment fund from December 2011 to May 2014. Mr. Ho worked for a Hong Kong-based private fund management company during January 2010 to December 2013 and was the managing director and head of China growth and expansion capital of CLSA Capital Partners from August 1997 to October 2009. Mr. Ho was the non-executive director of SCUD Group Limited (stock code: 1399) from December 2006 to October 2009) and Shanghai Tonva Petrochemical Co., Ltd. (stock code 1103, previous stock code: 8251, currently known as Shanghai Dasheng Agriculture Finance Technology Co., Ltd) from September 2008 to October 2009, both being companies listed on the Main Board of the Stock Exchange. He was the independent director of Shenzhen Forms Syntron Information Co. Ltd (stock code: 300468.SZ), a company listed on the ChiNext of Shenzhen Stock Exchange, from February 2012 to February 2018. Mr. Ho was the independent non-executive director of Momentum Financial Holdings Limited (stock code: 1152, formerly known as Infinity Financial Group (Holdings) Limited) from November 2016 to July 2019.

Mr. Ho has been an independent non-executive director of Fantasia Holdings Group Co., Limited (stock code: 1777), since October 2009; an independent non-executive director of Fu Shou Yuan International Group Limited (stock code: 1448), since December 2013; an independent non-executive director of CIMC-TianDa Holdings Company Limited, (stock code: 445, formerly known as China Fire Safety Enterprise Group Limited) since July 2015; and an independent non-executive director of Magnus Concordia Group Ltd (stock code: 1172, formerly known as Midas International Holdings Limited) since January 2018, all being companies listed on the Main Board of the Stock Exchange. Mr. Ho has been a director of Shenzhen Daxiang Space Construction Co., Ltd., (stock code: 836604), a company listed on the National Equities Exchange and Quotations, since September 2015.

Mr. Ho was awarded an Executive Master of Business Administration degree from Tsinghua University and a master's degree in finance from the London Business School. He is also a Chartered Financial Analyst and a Certified Public Accountant in the United States of America.

Business address of the Directors

The business address of the Directors is the same as the Company's head office and principal place of business in Hong Kong at Room 1902, 19th Floor, 101 King's Road, Hong Kong.

13. MISCELLANEOUS

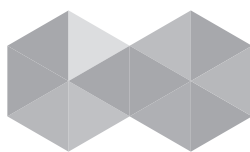
- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) The English text of this circular and the accompanying form of proxy shall prevail over the respective Chinese text in the case of inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at room 1902, 19th Floor, 101 King's Road, Hong Kong, and on the websites of the Company (<http://www.wanjia-gp.com/en/>), from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Group for the two years ended 31 March 2018 and 2019;
- (c) the interim report of the Company for the six months ended 30 September 2019;
- (d) the letter from the Board, the text of which is set out on pages 14 to 46 of this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 47 to 48 of this circular;
- (f) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages IFA-1 to IFA-23 of this circular;
- (g) the report from HLB Hodgson Impey Cheng Limited on the unaudited pro forma financial information of the Group as set out in Appendix II of this circular;
- (h) the material contracts referred to in the section headed "Material Contracts" to this appendix;
- (i) the written consents referred to in the section headed "Experts and Consents" in this appendix; and
- (j) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



WANJIA GROUP
萬嘉集團

WANJIA GROUP HOLDINGS LIMITED

萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 401)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of Wanjia Group Holdings Limited (the “**Company**”) will be held at Room 1902, 19th Floor, 101 King’s Road, Hong Kong on Thursday, 16 January 2020 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without amendments the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to the satisfaction of the conditions set out in the letter from the board under the heading “Conditions of the Share Consolidation” in the circular of the Company dated 31 December 2019:
 - (a) every five (5) issued and unissued shares of HK\$0.01 each in the share capital of the Company be consolidated into one (1) share of HK\$0.05 each (the “**Consolidated Share**”) in the share capital of the Company (the “**Share Consolidation**”) be and is hereby approved;
 - (b) the Consolidated Shares shall rank *pari passu* in all respects with each other and have the same rights and privileges as regards dividend, capital, redemption, attendance at meetings, voting, etc. and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company;
 - (c) all fractional Consolidated Shares will be disregarded and will not be issued to the holders of the existing shares of HK\$0.01 each in the share capital of the Company but all fractional Consolidated Shares will be aggregated, sold and retained for the benefit of the Company, if possible and applicable; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) any one of the directors of the Company (each a “**Director**”) be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Share Consolidation.”
- 2. “**THAT**, conditional upon the Share Consolidation having become effective,
 - (a) the authorised share capital of the Company be increased from HK\$20,000,000 divided into 400,000,000 consolidated shares to HK\$50,000,000 divided into 1,000,000,000 consolidated shares by creating an additional 600,000,000 unissued consolidated shares (the “**Increase in Authorised Share Capital**”); and
 - (b) any one or more of the Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Increase in Authorised Share Capital.”
- 3. “**THAT**, conditional upon the passing of the resolutions numbered 1 and 2 as set out above and subject to the conditions set out in the Underwriting Agreement (as defined below) having been satisfied (or waived, as the case may be):
 - (a) the underwriting agreement dated 6 December 2019 (the “**Underwriting Agreement**”) in respect of the Rights Issue (as defined below) and the transactions contemplated thereunder entered into between the Company and Great Roc Capital Securities Limited (the “**Underwriter**”) (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the EGM for the purpose of identification), and the transactions contemplated thereunder and all actions taken or to be taken by the Company pursuant to or incidental to the Underwriting Agreement be and are hereby approved, confirmed and ratified;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the issue by way of rights shares (the “**Rights Issue**”) of not less than 373,481,424 Rights Shares and not more than 375,145,424 Rights Shares (the “**Rights Shares**” and each a “**Rights Share**”) at a subscription price of HK\$0.192 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the register of members of the Company on Friday, 31 January 2020 or such other date as may be agreed between the Company and the Underwriter in writing for the determination of the entitlements under the Rights Issue (the “**Record Date**”) (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the Directors of the Company, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) on the basis of two (2) Rights Shares for every one (1) Consolidated Share then held on the Record Date and pursuant to the terms and conditions as set out in the Underwriting Agreement, as described in further details in a circular issued by the Company dated 31 December 2019 of which this notice convening the EGM forms part, be and is hereby approved;
- (c) any one of the Directors be and is hereby authorised to allot and issue the Rights Shares (in their nil-paid form and fully-paid form) pursuant to and in connection with the Rights Issue notwithstanding the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Director be and is hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or the Excluded Shareholders as he deems necessary, desirable or expedient having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
- (d) any one of the Directors be and is hereby authorised to do all such acts and things, as he may in his discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Underwriting Agreement, the Rights Issue and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Underwriting Agreement, the Rights Issue and the issue of the Rights Shares and the implementation of all transactions contemplated thereunder, including but not limited to the issue and allotment of Rights Shares and to agree with such variation, amendment or waiver as, in his opinion, appropriate and in the interests of the Company and its shareholders as a whole.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. **THAT** Ms. Yung Ka Lai be re-elected as an executive Director and the board of Directors be authorised to fix her remuneration.

By order of the Board
WANJIA GROUP HOLDINGS LIMITED
Wang Jia Jun
Executive Director

Hong Kong, 31 December 2019

Registered office:

P.O. Box 10008,
Willow House,
Cricket Square
Grand Cayman, KY1-1001,
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Room 1902, 19th Floor
101 King's Road
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to provisions of the Articles, to vote on his/her/its behalf. A proxy needs not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 31 December 2019. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he/she/it so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power of authority must be deposited at the Company's principal place of business in Hong Kong at Room 1902, 19th Floor, 101 King's Road, Hong Kong not less than 48 hours (10:00 a.m., 14 January 2020) before the time appointed for holding the EGM or any adjournment thereof.
4. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Shares as if he/she/it was solely entitled thereto, but if more than one such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
5. The register of members of the Company will be closed from Friday, 10 January 2020 to Thursday, 16 January 2020 (both dates inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, all relevant transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 9 January 2020 for registration.
6. As at the date of this notice, the board of directors of the Company comprises Mr. Chen Jinshan, Mr. Wang Jia Jun and Ms. Yung Ka Lai as executive Directors; Mr. Wong Hon Kit, Dr. Liu Yongping and Mr. Ho Man as independent non-executive Directors.