

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**IF YOU ARE IN ANY DOUBT** as to any aspect of this document or as to the action you should take, you should consult your solicitor, professional accountant, or other professional advisers without delay.

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## **EXPLANATORY STATEMENT**

**AND**

## **SCHEME OF ARRANGEMENT**

*Pursuant to sections 670 and 673 of the Companies Ordinance (Cap. 622) of  
Hong Kong, as amended from time to time*

**FOR THE CREDITORS OF**

**CHINA BEIDAHUANG INDUSTRY GROUP HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

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Capitalised terms used in this Document, including the cover page shall have the same respective meanings as ascribed to them on pages 1 to 8 in the section headed Definitions.

The High Court has granted leave to convene a meeting of the Creditors (i.e. the Scheme Meeting) for the purpose of considering and, if thought fit, approving (with or without modification or condition approved and imposed by the Court) the Scheme proposed to be made between the Company and the Creditors pursuant to Sections 670, 671, 673 and 674 of the Companies Ordinance (Cap. 622). The Scheme Meeting will be held at 2:00 p.m. (Hong Kong time) on 20 November 2023 at 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong for the purposes of considering and if thought fit approving (with or without modification) the Scheme. A copy of the Notice of Scheme Meeting to approve the Scheme is set out at Appendix 2 to this Document.

Creditors (or their proxies) who cannot attend the Scheme Meeting in person may instead attend by Zoom call in the manner described and in accordance with the procedures set out in Section 9.4 of the Document.

The action required to be taken by you is set out on pages 53 to 54 of this Document under Sections 15 and 16 of the Explanatory Statement headed “What should Creditors do now?” and “Completion and return of relevant notice and form”. You must be a Creditor in order to be present at the Scheme Meeting convened at the directions of the Hong Kong Court. Whether or not you intend to be present at the Scheme Meeting in person or by Zoom call, you are requested to complete and return the requisite form of Notice of Claim for Voting Purpose set out in Appendix 3A and the Form of Proxy set out in Appendix 4 to this Document as soon as possible in accordance with the instructions set out herein. Completion and return of the Form of Proxy shall not preclude you from attending or by Zoom call and voting at the Scheme Meeting or at any adjourned meeting should you desire to attend in person.

This Document shall be published in both English and Chinese. Should there be any discrepancy between the English and Chinese versions, the English version shall prevail.

The Explanatory Statement and the Scheme of Arrangement are dated 27 October 2023.

27 October 2023

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## DEFINITIONS

*In this Document the following expressions shall, unless the context otherwise requires, have the meanings respectively set opposite such expressions:*

“Adjudicator”	such person with experience in the adjudication of creditors’ claims in a liquidation as the Scheme Administrators shall nominate in their absolute discretion
“Admitted Claims”	the Claims of the Scheme Creditors against the Company which have been admitted by the Scheme Administrators or the Adjudicator in accordance with the Scheme, the amount of which shall not include any interest accrued on the principal owed by the Company
“associates”	the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday, public holidays and days 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 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Capital Injection”	the injection of capital to the Company by way of the Subscription
“Cash Dividend”	the amount of cash available to be paid to the Scheme Creditors as dividend from the Scheme Funds after deducting any Preferential Claims and the Scheme Costs which amount shall be paid in full and final settlement of the Admitted Claims
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

## DEFINITIONS

“Claim(s)”	any unsecured debt, liability or obligation of the Company as at the Effective Date, whether certain or contingent, whether present, future or prospective, whether liquidated or unliquidated, whether arising at common law, in equity or by statute, in Hong Kong, the PRC or in any other jurisdiction or in any manner whatsoever and which includes without limitation a debt or liability to pay money or money’s worth, any liability in contract or tort, any liability arising out of any legal claim, whether certain or contingent, which would be provable in a winding-up of the Company under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if an order for the winding-up of the Company were made on the Effective Date
“China Vered”	China Vered Financial Holding Company Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended from time to time
“Company”	China Beidahuang Industry Group Holdings Limited (中國北大荒產業集團控股有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00039)
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Court Order”	the order issued by the Hong Kong Court for the purpose of sanctioning the Scheme of Arrangement
“Creditors” or “Ordinary Creditors”	all Persons having Claims against the Company, other than the Preferential Creditors (to the extent of their Preferential Claims) and the Secured Creditors (to the extent of their Secured Claims)
“Cut-Off Date”	the date to be determined by the Scheme Administrators which is at least 21 days after the date of the notices and advertisements referred to in Clause 4 of the Scheme
“Debt Restructuring”	the proposed restructuring of the indebtedness and liabilities of the Company by way of Capital Injection and the Scheme of Arrangement

## DEFINITIONS

“Definitions”	the definitions contained in pages 1 to 8 of this Document
“Director(s)”	the director(s) of the Company from time to time
“Document”	this document comprising the Definitions, the Letter from the Board, the Explanatory Statement, the Expected Timetable, the Scheme of Arrangement and the appendices
“Effective Date”	the date on which the Scheme becomes unconditional and comes into effect, being the date on which all of the conditions set out in clause 1.9 of the Scheme are satisfied
“EGM”	the extraordinary general meeting(s) of the Company to be convened for the purpose of considering and if thought fit, to pass all the resolutions necessary or appropriate by the Shareholders (or the Independent Shareholders, as the case may be) in relation to the Subscription, the grant of specific mandate to issue the Subscription Shares and the Scheme Shares, the disposal of the Interests in Scheme Subsidiaries (if applicable), and the transactions contemplated thereunder and any other matters as required by law, the Listing Rules, and/or by the Stock Exchange which are necessary to give effect to the abovementioned matters
“Enlarged Issued Share Capital”	the total issued Shares after the completion of the Debt Restructuring as enlarged by the allotment and issue of the Subscription Shares and the Scheme Shares
“Expected Timetable”	the expected timetable contained in page 55 of this Document
“Explanatory Statement”	the statement contained in pages 22 to 54 of this Document explaining the effect of the Scheme to Creditors as required by section 671 of the Companies Ordinance
“First Distribution”	all or part of the Cash Dividend to be paid out by the SchemeCo from the Initial Cash Payment
“First Distribution Date”	the date fixed by the Scheme Administrators for the First Distribution to the Scheme Creditors, or if such date is not a Business Day the succeeding Business Day
“Form of Proxy”	the form of proxy attached as Appendix 4 to this Document
“Fund”	Central China Dragon Growth Fund SPC — Central China Dragon Growth Fund SP3, one of the Creditors of the Company

## DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	the High Court of Hong Kong
“Independent Shareholder(s)”	Shareholder(s) other than those who are required to abstain under the Listing Rules from voting for any resolutions at the EGM
“Independent Third Party(ies)”	any person, persons, company or companies which is or are independent of, and not connected with (within the meaning under the Listing Rules), any Directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associate(s)
“Initial Cash Payment”	a cash payment of HK\$45 million, which would be derived from the Subscription Proceeds
“Interests in Scheme Subsidiaries”	shares in or the assets of the Scheme Subsidiaries
“Investor”	China Dynamic (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
“Latest Practicable Date”	26 October 2023, being the latest practicable date prior to the printing of this Document for ascertaining certain information to be included in this Document
“Letter from the Board”	the letter from the Board contained in pages 10 to 21 of this Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Long Stop Date”	the date which is one year from the Effective Date, or such later date as may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors’ Committee
“Notice of Claim for Dividend Purpose”	a notice substantively in the form set out in Appendix 3B to this Document for submitting to the Scheme Administrators by any Person claiming to be a Creditor for the purposes of claiming dividends under the Scheme

## DEFINITIONS

“Notice of Claim for Voting Purpose”	a notice substantively in the form set out in Appendix 3A to this Document for submitting to the Company by any Person claiming to be a Creditor for the purposes of voting at the Scheme Meeting
“Person”	includes all individual, partnership, company, body corporate, joint stock company, trust, unincorporated association or body of persons (including a partnership or consortium), joint venture or other entity, of a government or any political subdivision or agency thereof
“PRC”	the People’s Republic of China which, for the purpose of this Document only, excludes Hong Kong, Macau and Taiwan
“Preferential Claim(s)”	any Claim(s) against the Company which would, if the Company were wound up on the Effective Date pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be payable out of the assets of the Company pursuant to section 265 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in priority to the general unsecured debts of the Company
“Preferential Creditor(s)”	creditors to the extent to which they have Preferential Claims against the Company
“Principal”	the outstanding principal of all the liabilities due to the Scheme Creditors as at the Effective Date
“Registration Date”	the registration date of the Court Order sanctioning the Scheme with the Companies Registry in Hong Kong
“Restructuring Agreement”	the agreement to be entered into between the Company and the Investor with respect to the allotment and issue of the Subscription Shares by the Company to the Investor
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme Administrators”	Messrs. Chan Man Hoi (Ivan) and Chan Chi Chung (Adrian) of Deloitte Touche Tohmatsu, or their successors to be jointly and severally appointed as scheme administrators pursuant to the terms of the Scheme
“Scheme Assets”	the assets to be received by or transferred to the SchemeCo from time to time, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors under the Scheme as defined in Section 3.2 of the Explanatory Statement

## DEFINITIONS

“SchemeCo”	a special purpose vehicle to be established and controlled by the Scheme Administrators to hold Scheme Assets, and Scheme Shares (on trust for the benefit of Scheme Creditors) (if applicable) pursuant to the terms of the Scheme of Arrangement
“Scheme Costs”	costs, charges, expenses and disbursements properly incurred in connection with the administration and implementation of the Scheme including the fees and remuneration of the Scheme Administrators and the Adjudicator
“Scheme Creditors”	all Creditors with Admitted Claims
“Scheme Creditors’ Committee”	a committee of the Scheme Creditors to be formed pursuant to the Scheme
“Scheme Funds”	all funds from time to time credited to and maintained in the Scheme Trust Account, including any interest thereon
“Scheme Meeting”	the meeting(s) of the Creditors to be convened and held at the directions of the Hong Kong Court for the purpose of considering and, if thought fit, approving the Scheme
“Scheme Share(s)”	the allotment and issue of newly issued shares of the Company from the capitalisation of HK\$37,787,979.30 of the Company’s existing debts owed to the Scheme Creditors into Shares at HK\$0.1 per Share, which amounts to approximately 377.88 million Shares in total, representing approximately 5% of the Enlarged Issued Share Capital.
“Scheme Subsidiaries”	a group of wholly-owned subsidiaries of the Company in the PRC, namely 1) 深圳市前海大荒緣融資租賃有限公司 (Shenzhen Qianhai Dahuangyuan Financing Lease Co., Ltd.), 2) 臨湘市強盛礦業有限責任公司 (Linxiang Qiangsheng Mining Industry Company Limited), 3) 連雲港華金華鴻實業有限公司 (Lianyungang Huajin Huahong Industrial Co., Ltd.), and 4) 深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Ltd.)
“Scheme” or “Scheme of Arrangement”	the scheme of arrangement for the Company pursuant to sections 670 and 673 of the Companies Ordinance, or with or subject to any modification of it, any addition to it or any condition imposed by the Hong Kong Court

## DEFINITIONS

“Scheme Trust Account”	the interest-bearing trust account controlled by the Scheme Administrators with a licensed bank in Hong Kong in which account the Scheme Administrators shall place and deposit all proceeds received in connection with the sale, realisation and recoveries of the Scheme Assets for the purpose of and, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors
“Scheme Trust Account (Shares)”	the interest-bearing trust account controlled by the Scheme Administrators with a licensed bank in Hong Kong in which account the Scheme Administrators shall place and deposit the proceeds received in connection with the sale and realisation of those Scheme Shares that are subject to a valid election by Scheme Creditors who have validly elected to receive cash <i>in lieu</i> of Scheme Shares, for the purpose of and for the benefit of such Scheme Creditors
“Secured Claim(s)”	Creditors’ claim(s) that is/are secured by Security Interests
“Secured Creditor(s)”	Creditors whose debts are secured upon any property or assets of the Company (whether or not such debts are also secured on any property or assets of any other person)
“Security Interest(s)”	any mortgage, charge, assignment, hire-purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement, pledge, lien, hypothecation, encumbrance or security interest of whatsoever kind or any other agreement having the effect of conferring security provided by the Company
“Share(s)”	ordinary shares of the Company
“Shareholder(s)”	holder(s) of the Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by the Investor for the Subscription Shares pursuant to and in accordance with the terms and conditions of the Term Sheet or the Restructuring Agreement (as the case may be)
“Subscription Price”	HK\$0.1 per Subscription Share
“Subscription Proceeds”	HK\$85 million being the cash proceeds from the issue of the Subscription Shares

## DEFINITIONS

“Subscription Shares”	a total of 850 million subscription shares to be allotted and issued by the Company to the Investor, representing approximately 11.243% of the Enlarged Issued Share Capital
“subsidiary(ies)”	has the same meaning as in Rule 1.01 of the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Term Sheet”	the legally binding term sheet for the Debt Restructuring dated 29 March 2023 entered into between the Company and the Investor with respect to the allotment and issue of the Subscription Shares by the Company to the Investor, which is intended to be superseded by the Restructuring Agreement to be agreed between the Company and the Investor
“Unadmitted Claims”	any Claim which is not an Admitted Claim
“Voting Claim”	the Claim of a Creditor calculated as at the date of the Scheme Meeting and admitted for the purpose of voting at such meeting
“FY2020”	the financial year of the Company ended 31 December 2020
“FY2021”	the financial year of the Company ended 31 December 2021
“FY2022”	the financial year of the Company ended 31 December 2022
“%”	per cent

### In this Document:

- (i) references to clauses are references to the corresponding clauses of the Scheme and references to paragraphs are references to the paragraphs of the Explanatory Statement, unless otherwise provided;
- (ii) references to a statute or statutory provision include the same as amended or re-enacted from time to time;
- (iii) the singular includes the plural and vice versa and the masculine and neuter include each other and the feminine;
- (iv) headings to sections are for ease of reference only and shall not affect the interpretation of the Explanatory Statement; and
- (v) references to time of day are references to times of day in Hong Kong, unless otherwise stated.

## IMPORTANT NOTICE

This Document has been prepared in relation to the proposed Scheme of Arrangement, pursuant to sections 670 and 673 of the Companies Ordinance, between the Company and its Creditors.

The information contained in this Document has been prepared by the Company acting by the Board based upon information available to the Board.

The statements, opinions and information contained in this Document are made, held or given respectively as at the Latest Practicable Date unless another time is specified and such statements, opinions and information are made, held or given solely by or on behalf of the Company unless expressly attributed to another party. Publication of this Document shall not give rise to any implication that the facts set out in it since the date of publication remain unchanged.

Nothing contained in this Document shall constitute any admission of any fact or liability on the part of the Company with respect to any Claim against it. No estimate of the amount of a Claim against the Company specified in any Notice of Claim for Voting Purpose or Form of Proxy returned to the Company or otherwise provided to the Company or the admission by the chairman of the Scheme Meeting of such amount or part of it for voting purpose shall be admissible against the Company in any proceedings or be taken into account in the determination of the Claims by the Scheme Administrators or the Adjudicator, as the case may be. Any such estimate or admission by the chairman of the Scheme Meeting shall only be used for voting purpose by the Creditors at the Scheme Meeting convened in accordance with the directions of the Hong Kong Court for the purpose of approving the Scheme.

The summary of the principal provisions of the Scheme and the related matters contained herein is qualified in its entirety by reference to the Scheme itself, the full text of which is set out in the section of this Document titled "Scheme of Arrangement". Creditors entitled to vote or otherwise participate in the Scheme are advised to read in full and consider carefully the text of the Scheme and all appendices to this Document.

The Scheme of Arrangement has been prepared by the Company, and no other person has been authorised by the Company to make any representation concerning the Scheme of Arrangement which is inconsistent with the statements contained in this Document and, if made, such representation shall not be relied upon as having been so authorised.

The contents of this Document should not be taken as legal, tax, financial or other professional advice. Creditors should consult their own professional advisers in relation to the legal, tax, financial or other matters relevant to the action which they should take in connection with the Scheme.

## LETTER FROM THE BOARD

### CHINA BEIDAHUANG INDUSTRY GROUP HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

27 October 2023

*To all Creditors*

Dear Sirs and Madams,

#### INTRODUCTION

The Board is writing to you on behalf of the Company in connection with the Scheme which the Company proposes to enter into with its Creditors. The purposes of this letter, the Explanatory Statement and the Scheme of Arrangement which follow are to:

- (i) provide background information relating to the Company and the current status of its operations;
- (ii) set out and explain the key provisions of the Scheme and the effect thereof; and
- (iii) explain the advantages and disadvantages of the Scheme,

for the purpose of assisting the Creditors in reaching an informed decision on whether to vote in favour of the Scheme at the forthcoming Scheme Meeting. You are advised to consult your professional adviser(s), legal or otherwise, on whether to vote in favour of or against the Scheme or abstain from voting at the forthcoming Scheme Meeting.

This Scheme is put forward in Hong Kong because the Company has a principal place of business in Hong Kong, and approximately 88.46% of the total indebtedness owed by the Company to all Creditors as at the Effective Date are governed by the laws of Hong Kong. In addition, the two Creditors whose outstanding debts governed by the PRC law and representing the remaining 11.54% of the total indebtedness owed by the Company to all Creditors as at the Effective Date, have submitted written support letters to the Company confirming their support of the Scheme.

Therefore, the Scheme is being put forward in Hong Kong and is subject to the approval of the High Court. At the moment, the Company do not intend to put forward a parallel scheme of arrangement in the Cayman Islands, but may consider making such application(s) as may be necessary in the Cayman Islands and/or the PRC in order to seek recognition and/or otherwise give effect to the Scheme (as the case may be).

The Scheme is set out in the separate section of this Document titled “Scheme of Arrangement”. Please note that this letter and the Explanatory Statement should not be relied upon as a substitute for reading the provisions of the Scheme themselves or for consulting your professional adviser(s) as to the effects of the Scheme.

Creditors must decide at the Scheme Meeting whether or not to approve the Scheme (with or without modification) after reviewing this Document.

## LETTER FROM THE BOARD

### BACKGROUND TO THE SCHEME

The Company was incorporated in the Cayman Islands on 6 September 2000 and the Shares were listed on the Main Board of the Stock Exchange on 16 January 2001 with stock code 00039.

The Company is an investment holding company. The Group is principally engaged in the trading of food products business, leasing of logistic facilities in Hong Kong and office facilities in the PRC.

### Financial Difficulties & Winding-Up Petitions

Since the outbreak of the COVID-19 pandemic in early FY2020, the operational status and financial positions of both the Group and its customers have been severely impacted, and the Group faced difficulties in collecting trade receivables. In addition, due to the pandemic-related lockdown measures, the construction of the seafood food city project in PRC, which had taken up significant amount of funds of the Group, had come to a halt in FY2020 which delayed the Group's sales plans in relation to the project. As such, the Group could not recover its investment from the project as planned. At around the same time, the Group had to continue to pay construction fees, trade payables and the principal and interest of financial borrowings to prevent default of contracts, but was struggling to obtain new loans due to its poor financial position. As a result, the Group's cash balance decreased substantially by 81% between the beginning of FY2020 and the end of FY2022.

According to the annual results announcement of the Company for FY2022, although the revenue generated by the Group amounted to approximately HK\$930.28 million, representing an increase of approximately 0.16% as compared with FY2021, and an increase of approximately 8.29% as compared with FY2020, the Group has recorded a loss (net of tax) of approximately HK\$222.40 million, representing an decrease in profit (net of tax) of approximately HK\$45.11 million as compared with FY2021, and approximately HK\$227.86 million as compared with FY2020. The significant shift from net profit to net loss since FY2020 was primarily attributable to the negative impacts of increase in provision for additional penalty relating to default construction payment included in administrative expense, increase in net allowance of expected credit loss, increase in impairment loss on goodwill, and increase in finance costs, etc.

The Group also recorded decrease in net current assets from approximately HK\$370.48 million as at 31 December 2020 to approximately HK\$161.20 million as at 31 December 2022, which mainly due to, inter alia, (i) significant increase of approximately 194% in other payables and accruals from approximately HK\$84.21 million as at 31 December 2020 to approximately HK\$247.57 million as at 31 December 2022; and (ii) substantial increase of approximately 12% in bank and other borrowings from approximately HK\$393.02 million as at 31 December 2020 to approximately HK\$440.04 million as at 31 December 2022.

Due to the fact that (i) the Group recorded a loss for the year ended 31 December 2022 and the year ended 31 December 2021 of approximately HK\$222.40 million and HK\$177.29 million, respectively; (ii) the Group has a significant amount of approximately HK\$381.23 million outstanding bank and other borrowings to be paid within one year as at 31 December 2022;

## LETTER FROM THE BOARD

and (iii) the Group only has a cash or cash equivalent amount of approximately HK\$14.88 million as at 31 December 2022, resulting in the Group's inability to repay its debts that are due or soon to be due, a disclaimer opinion was issued by the Company's auditor as the aforementioned conditions that existed as at 31 December 2022 cast significant doubt on the Group's ability to continue as a going concern.

The Company is a holding company and its financial position is similar to that of the Group's position. The Company's current assets were only approximately HK\$8.3 million as at 31 December 2022, while the rest of assets held by the Company were mostly its interests in the subsidiaries, but the Company's current liabilities were approximately HK\$553.54 million as at 31 December 2022, of which approximately HK\$356.76 million were other borrowings. The current assets are not able to satisfy the obligation arising from the Company's current liabilities. In the circumstances, it is clear that the Company is facing liquidity problems.

Since 2021, the Company has been receiving statutory demands from several creditors and the Company has been demanded to repay overdue indebtedness of HK\$82,598,953.78 as at 31 December 2022. Pursuant to section 178(1)(a) or 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the Company is unable to repay the relevant indebtedness within 21 days from the date of service of the relevant statutory demands, each of the relevant creditors is entitled to present a winding-up petition against the Company at any time at discretion.

On 9 January 2023, Mr. Zhang Zhiguang (張智廣) presented a winding-up petition against the Company in HCCW 3/2023. The petition was heard before the Hong Kong Court on 15 March 2023 and it was ordered that the hearing of the petition be adjourned first to 5 July 2023 then subsequently to 13 September 2023. At the hearing on 13 September 2023, the presiding Master ordered that the petition be adjourned to be heard by the Companies Judge on 18 September 2023. At the hearing on 18 September 2023, the Companies Judge ordered that the hearing of the petition be adjourned to 11 December 2023.

On 30 March 2023, Mr. Qu Shuncaai (屈順才) presented a winding-up petition against the Company in HCCW 144/2023. Mr. Qu subsequently indicated his intention to withdraw the petition, and the Hong Kong Court granted leave for Mr. Qu to withdraw the petition by an order made on 6 June 2023.

On 30 May 2023, Mr. Qiu Zhen (邱振) presented a winding-up petition to the Grand Court of the Cayman Islands Financial Services Division against the Company (Cause No. FSD 146 of 2023). The petition was originally scheduled to be heard on 20 July 2023. The Company and the petitioner subsequently agreed to an adjournment of the petition, and at the hearing on 20 July 2023 the Cayman Grand Court adjourned the hearing of the petition to 18 October 2023. Pursuant to a joint written request submitted by Mr. Qiu Zhen and the Company, the Cayman Grand Court made an order to further adjourn the hearing of the petition scheduled for 18 October 2023 to the earliest date available following 29 November 2023. The hearing of the petition has since been re-listed to be heard on 4 December 2023.

## LETTER FROM THE BOARD

In view of the financial difficulties and liquidity issues faced by the Company, the Board considers that it is in the best interests of the Creditors to implement the Scheme to maximize their returns. Accordingly, the Company applied on 10 March 2023 to the Hong Kong Court to propose that the Scheme be presented to Creditors for their consideration. Leave to convene a meeting of the Creditors to consider the Scheme was granted on 18 August 2023.

Further details of the background and the Debt Restructuring are set out in Section 2 of the Explanatory Statement.

### **The Debt Restructuring**

After due and careful consideration, the Board considers that the most efficient and effective way to restore the financial position of the Company and to maximize the recovery for the Creditors is to restructure the Company's indebtedness by way of the Scheme of Arrangement whereby the Creditors would be given dividends under the Scheme in exchange for the discharge and release of their respective Claims against the Company.

The key terms proposed are as follows:

- (i) Pursuant to the Term Sheet, the Investor will subscribe for, and the Company agrees to allot and issue to the Investor, the Subscription Shares, representing approximately 11.243% of the Enlarged Issued Share Capital (and 11.247% of the enlarged issued share capital of the Company taking into account the Subscription Shares and Scheme Shares as at 29 March 2023 prior to the exercise of certain share options in the Shares) for the Subscription Proceeds (in the sum of HK\$85 million), out of which HK\$45 million, being the Initial Cash Payment, would be used for the benefit of the Scheme Creditors, HK\$20 million to pay the related professional fees incurred or to be incurred by the Company to support the Debt Restructuring implementation and HK\$20 million to be used as working capital to sustain the business operations of the Group.
- (ii) Subject to the sanction of the Hong Kong Court, the Company shall enter into the Scheme with the Creditors to eliminate all liabilities of the Company.
- (iii) Under and subject to the terms of the Scheme, as consideration for the discharge of the Claims, each Scheme Creditor will be entitled to receive Scheme Shares (save for those Scheme Creditors who have elected to receive cash *in lieu* of Scheme Shares) and Cash Dividend that is proportional to their respective Admitted Claims.
- (iv) Insofar as the Scheme Shares are concerned:
  - (a) The Scheme Administrator will procure the Scheme Shares to be distributed to those Scheme Creditors who have not elected to receive cash *in lieu* of the same either by (1) delivering (or procuring to be delivered) to the Scheme Creditors the relevant share certificate(s) issued in the name of the Scheme Creditor (subject to the completion of any necessary procedures imposed by the Company's share registrar), or (2) depositing the same (or procuring the same to be deposited) into an account of a CCASS participant with whom the Scheme Creditor has an account which has been notified to the Scheme Administrator.

## LETTER FROM THE BOARD

- (b) A Scheme Creditor may elect to receive cash *in lieu* of Scheme Shares that he would otherwise be entitled to receive under the Scheme by giving notice to the Scheme Administrator in writing in accordance with the terms of the Scheme, on or before the Cut-Off Date, in which case:
- (1) If that Scheme Creditor had validly elected to receive cash *in lieu* of Scheme Shares, the Scheme Shares shall first be issued and allotted to the SchemeCo (to be held on trust for the benefit of the relevant Scheme Creditor).
  - (2) The relevant Scheme Shares shall be realised into cash by the Scheme Administrator and be paid to the relevant Scheme Creditor in such time as may be reasonable in consultation with the Scheme Creditors' Committee.
- (v) The Cash Dividend shall consist of:
- (a) up to HK\$45 million from the Initial Cash Payment as part of the Subscription Proceeds, and (subject to the payment of any Preferential Claims and the Scheme Costs) payable to Scheme Creditors on the First Distribution Date;
  - (b) the proceeds from the disposal of the Interests in Scheme Subsidiaries, which will be transferred to the SchemeCo upon the Effective Date, or such later date as the Scheme Administrators may decide in accordance with the terms of the Scheme, and
  - (c) any proceeds generated from the potential realisation of the claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group.<sup>1</sup>
- (vi) The amount of Claims to be admitted by the Scheme Administrators or the Adjudicator shall include only the Principal.

### SCHEME OF ARRANGEMENT

A scheme of arrangement, such as that proposed here, is a compromise or arrangement entered into between a company and its creditors or any class of its creditors under sections 670 and 673 of the Companies Ordinance. The Scheme becomes effective and legally binding on all Creditors, including those voting against the Scheme and those not voting, if:

- (i) the requisite majority representing:
  - (a) more than 50% in number of; and
  - (b) not less than 75% in value of the Claims ofthe Creditors present and voting in person or by proxy, vote in favour of the Scheme of Arrangement at a specially convened meeting held pursuant to the directions of the Hong Kong Court;

<sup>1</sup> As at the date of the Scheme Document, to the best knowledge of the Company, there are no claim or rights to claim of the Company against Mr. Jiang Jianjun.

## LETTER FROM THE BOARD

- (ii) the Hong Kong Court then subsequently makes the Court Order sanctioning the scheme of arrangement;
- (iii) an office copy of the Court Order is filed with the Companies Registry in Hong Kong for registration; and
- (iv) the Initial Cash Payment is received by the SchemeCo for the purpose of and, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors.

Having considered the rights of the Creditors and the effect of the Scheme on those rights, the Company has formed the view that the Creditors fall into one “class” for the purpose of voting on the Scheme, such that there will be a single class voting at the Scheme Meeting.

### **Why have you been sent this Document?**

In proposing the Scheme, the Company has a duty to notify the Creditors who will be bound to the terms of the Scheme if and when the Scheme takes effect. In order to fulfil this duty, the Company has sought to identify known Creditors from the information available. You will therefore have received this document either as:

- (i) a Creditor; or
- (ii) an adviser of a Creditor.

However, receipt of this Document does not necessarily mean that you are a Creditor or potential Creditor of the Company or that you are entitled to vote as a Creditor in the Scheme Meeting. Nothing in this Document shall constitute any admission of any fact or liability on the part of the Company with respect to any Claim against it. You are advised to seek legal advice if you are unsure whether you have a Claim or what you should do with respect to the Scheme.

If you have recently sold, assigned or otherwise transferred the whole or any part of the Claim due by the Company to you, please forward the Document to the purchaser, assignee or transferee or the person through whom such transaction was effected.

### **The purpose and effect of the Scheme**

The Board considers that the Scheme is necessary in order to compromise the Company’s existing indebtedness and to return it to a position of solvency and to maximise returns to the Creditors.

Under and subject to the terms of the Scheme, Scheme Creditors will receive the Scheme Shares, unless they elect to receive cash *in lieu* of Scheme Shares by giving notice in writing to the Scheme Administrator in accordance with the terms of the Scheme, and Cash Dividend consisting of 1) the First Distribution, which is financed by the Initial Cash Payment; and 2) the proceeds from the disposal of the Interests in Scheme Subsidiaries and generated from the potential realisation of the claims or rights to claim of the Company against Mr. Jiang Jianjun.

## LETTER FROM THE BOARD

Further, those Scheme Creditors who have validly elected to receive cash *in lieu* of Scheme Shares will receive cash proceeds from the sale of the Scheme Shares that they would otherwise be entitled to under the Scheme.

As explained in “The View of the Board” section below, the Creditors will likely obtain greater returns under the Scheme which will likely be achieved more efficiently compared to a situation where the Company is put into liquidation. However, Creditors should be aware that upon the Scheme becoming effective, they will lose the rights to pursue their Claims against the Company in consideration of the right to participate in the Scheme according to its terms. The Claims of the Creditors will be determined by the Scheme Administrators subject only to the right of the Creditors to require the claim to be reviewed by an independent Adjudicator. All decisions of the Scheme Administrators or the Adjudicator, if applicable, shall be final and binding. The Claims to be admitted by the Scheme Administrators or the Adjudicator shall include only the Principal.

Accordingly, it is believed that the Scheme will be a more efficient and effective method of making as high a level of repayment as possible to the Scheme Creditors in the shortest practicable time, and that it will maximise returns to Creditors and ensure a higher rate of return compared to what the Creditors will likely receive if the Company were to be put into liquidation.

### **Further information**

Further information in relation to the proposed Scheme is set out in the Explanatory Statement following in this Document for the Creditors’ consideration, as well as in the Scheme itself. It is impossible, however, to address each Creditor’s individual circumstances and the Explanatory Statement should not be regarded as an exhaustive summary of the information to be considered. Each Creditor must therefore make its own assessment of how the Scheme would affect its own interests and should consult its own professional advisers in relation to the legal, tax, financial or other matters relevant to the action which it should take in connection with the Scheme.

### **Initial action required to be taken now**

All Creditors of the Company are requested in the first instance to complete and return the form of Notice of Claim for Voting Purpose (Appendix 3A) and Form of Proxy (Appendix 4) to the Company at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (Attention: Benny Lai Yubin). The form of Notice of Claim for Voting Purpose should be returned by 2:00 p.m. (Hong Kong time) on 10 November 2023. The Form of Proxy should be delivered as soon as possible but not later than 2:00 p.m. (Hong Kong time) on 16 November 2023 (or not less than 48 hours before any adjournment of the Scheme Meeting). A proxy need not be a Creditor.

Creditors of the Company should note that they should complete a form of Notice of Claim for Voting Purpose and Form of Proxy in respect of the Company if they consider themselves to be a Creditor.

## LETTER FROM THE BOARD

Completion and return of the Form of Proxy will not preclude a Creditor from attending and voting in person at the Scheme Meeting. A Form of Proxy will be deemed to have been revoked if that Creditor attends and votes in person at the Scheme Meeting.

### The View of the Board

In the Board's view, the proposal set out in the Explanatory Statement is the most attractive option currently available to the Company and the Creditors and is in the interests of the Company and the Creditors.

If the Scheme is implemented, the Scheme Creditors will receive:

- (i) Cash Dividend comprising of (1) the First Distribution of up to HK\$45 million financed by the Initial Cash Payment, (2) the estimated proceeds of approximately HK\$142 million from the disposal of the Interests in Scheme Subsidiaries (subject to the payment of any Preferential Claims and the Scheme Costs), and (3) any proceeds generated from the realisation of the claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group.
- (ii) The Scheme Shares (or cash proceeds arising from the sale of the Scheme Shares should that Scheme Creditor elect to receive cash *in lieu* of Scheme Shares that he would otherwise have been entitled under the Scheme).

On the basis that the total indebtedness owed by the Company to all Creditors as at the Effective Date is approximately HK\$684 million<sup>2</sup>, all Scheme Creditors elect to receive cash *in lieu* of Scheme Shares and the Scheme Shares were realised at the price at which the Claims are to be capitalised by Scheme Shares pursuant to the Scheme (being HK\$0.1 per Share), on the assumption that all the Claims are admitted by the Scheme Administrators, the Scheme Creditors will be able to recover approximately 31.4% of their respective Admitted Claims, plus interest accrued thereon as at 31 December 2022, under the Scheme.<sup>3</sup>

The above analysis assumes that all Scheme Creditors elect to receive cash *in lieu* of Scheme Shares. Alternatively, Scheme Creditors will receive the Scheme Shares (in addition to the Cash Dividend) if they do not elect to receive cash *in lieu* of Scheme Shares that they would otherwise be entitled to under the Scheme. The Scheme Creditors who did not make such an election will have the chance to participate in and benefit from the prospects of the Company, the financial position of which will be improved after implementation of the Scheme and will prospectively therefore be able to dispose any Scheme Shares at a price higher than HK\$0.1 (i.e. the price at which the Claims are to be capitalised by the Scheme Shares pursuant to the Scheme) with a view to benefiting from a higher recovery rate of what they were owed by the Company.

<sup>2</sup> This figure excludes additional penalty interest claimed by one of the Creditors, viz. the Fund. Please refer to the liquidation analysis at Appendix 6 for more information.

<sup>3</sup> In the event that the total admitted debts owed by the Company is HK\$911 million due to additional penalty interest claimed by one of the Creditors, viz. the Fund, the recovery rate under the Scheme will be approximately 23.6%.

## LETTER FROM THE BOARD

If the Scheme is not approved, and in the absence of a restructuring plan involving the Investor, it is likely that the Company will be placed into insolvent liquidation. It is the view of the Board that the insolvent liquidation of the Company will result in a substantially lower return to the Creditors than the implementation of the Scheme. The reasons for this are as follows:

- (i) The Initial Cash Payment of up to HK\$45 million under the Scheme and the Scheme Shares representing approximately 5% of the Enlarged Issued Share Capital will not be available to the Creditors in the insolvent liquidation of the Company.
- (ii) The Company primarily operates as a holding entity within the Group, and most of the Company's assets are shareholding interests in its subsidiaries. In the event of a Group liquidation, the liquidation analysis requires a nuanced review of asset recovery and liability settlement of each direct and indirect subsidiary of the Company within the Group, and the utilisation of the proceeds from any asset disposals to discharge as much financial obligations of the relevant subsidiary as possible. As the Group has many levels of subsidiaries, and the Company sits at the top of the Group, the abovementioned process would need to be repeated a number of times in order for any value in respect of the indirect subsidiaries of the Company to ultimately back flow to the Company.
- (iii) The order of repayment, settlement, and distribution of the liquidated assets for each individual company within the Group is determined according to the regulations of bankruptcy/winding-up related laws in each company's own jurisdiction, specifically as follows (in order of priority): tax obligations, preferential claims, secured debts to the extent of the secured portion, then finally unsecured debts, the unsecured portion of secured debts, and intercompany debts on a *pari passu* basis. It is only the funds remaining after satisfaction of individual creditors in the context of each subsidiary's independent insolvency proceedings that will be transferred to the Company for distribution to the Creditors. This could affect the amount available for distribution to the Company from the liquidation of the subsidiaries, and to the unsecured creditors of the Company in the case of a liquidation, especially when individual companies within the Group may face enforcement actions and/or litigation as a result of the Company's liquidation and/or cessation of business of the Group as a whole. This is relevant to considering the consolidated financial statements of the Group (which are prepared on a going-concern basis) and how the position would differ in a liquidation scenario.
- (iv) The Company's 2022 Annual Report suggests that the Group has current and non-current assets valued at the total amount of HK\$864 million. These figures are book values determined in accordance with accounting standards. However, they do not necessarily reflect the realisable value of the assets in a liquidation scenario. Factors such as market conditions, the related costs incurred during the process of the sale, the urgency of the sale, and the specific circumstances of the assets can significantly impact the actual

## LETTER FROM THE BOARD

realisable value, often resulting in a lower value than the book value in a forced sale scenario, such as liquidation. This is particularly relevant for the following types of assets (which form the bulk of the Company's assets):

- (a) machinery and equipment are often obsolete or hold minimal residual value during liquidation, as they are customarily designed for specific production processes related to the business;
  - (b) real estate property related assets such as investment properties and properties for sale, given the recent economic downturn and the weakening performance of the overall real estate market conditions in PRC; and
  - (c) certain prepayments, deposits, or receivables, which may decrease in value due to relevant reductions or termination costs, or become difficult to collect as external creditors may leverage the Company's liquidation to evade repayment (even when said receivables are recoverable, the insolvency practitioner may have to involve debt collection agents or legal representation, thereby incurring additional costs that diminish the recovery from receivables).
- (v) Although there exists a possibility that the subsidiaries holding the above assets could be sold as a going concern and hence realise a higher value, this likelihood is generally slim. The liquidation of a holding company often leads to disruption in the underlying business, potentially resulting in a rapid decline. As a result, the sale process must be expedited, leading to a lower recovery rate even if the subsidiaries are sold as a going concern. The level of cooperation from local management, especially in the PRC, introduces further significant uncertainties regarding the viability of selling subsidiaries as a going concern.
- (vi) The Company has no significant assets situated in Hong Kong, except for the deposit in its bank accounts maintained in various licensed banks in Hong Kong. This further limits the potential recovery for Creditors of the Company in the event of liquidation as the transfer of funds from the PRC to Hong Kong could result in potential tax implications and considerations related to foreign exchange control.
- (vii) A thorough analysis of the potential recovery to the Creditors of the Company in a liquidation scenario has been conducted. Given the various factors listed above, the proceeds that can be recovered by the Creditors from intercompany receivables is estimated to be HK\$44.7 million and the liquidation dividends from the Company's subsidiaries that will be available for distribution is estimated to be HK\$3.2 million.

Accordingly, it is the Board's opinion that it is in the best interests of the Creditors to approve the Scheme of Arrangement, as there is potentially a higher return and less downside risk, and if the Scheme is not approved and implemented, the likely course of action is for the Company to be wound up and the return (if any) to the Creditors will probably be substantially lower. The Board thus recommends the Creditors to attend the Scheme Meeting in person or by proxy and vote in favour of the Scheme.

## LETTER FROM THE BOARD

Below is a table comparing the return to the Creditors between the scenarios where the Scheme is approved and where the Scheme is not approved and the Company is put into liquidation:

	Scheme approved		Scheme not approved and the Company is liquidated	
	Penalty Interest Included***	Penalty Interest excluded	Penalty Interest Included***	Penalty Interest excluded
<i>Estimated realisable value and recovery (HK\$'million) (note)</i>				
<b>Assets available:</b>				
Proceeds from the Company's bank accounts	—	—	—	—
Proceeds recovered from intercompany receivables	—	—	44.7	44.7
Liquidation dividend from subsidiaries	—	—	3.2	3.2
Initial Cash Payment	45.0	45.0	—	—
Scheme Shares**	37.8	37.8	—	—
Proceeds from disposal of Interests in Scheme Subsidiaries	142.0	142.0	—	—
Proceeds from the realisation of the claims or rights to claim against Mr. Jiang Jianjun	—	—	—	—
<b>Total</b>	<b>224.8</b>	<b>224.8</b>	<b>47.9</b>	<b>47.9</b>
Less: Scheme Costs/liquidation costs*	8.0	8.0	9.3	9.3
Less: preferential claims	3.0	3.0	3.0	3.0
<b>Net assets available to Creditors</b>	<b>213.8</b>	<b>213.8</b>	<b>35.6</b>	<b>35.6</b>
<b>Debts owed by the Company:</b>				
Unsecured Creditors****	444.4	444.4	444.4	444.4
Corporate guarantee creditor	70.0	70.0	70.0	70.0
Interest accrued on unsecured Creditors and corporate guarantee Creditor	393.0	167.0	393.0	167.0
<b>Total debts owed by the Company</b>	<b>907.4</b>	<b>681.4</b>	<b>907.4</b>	<b>681.4</b>
<b>Estimated recovery rate to the Creditors</b>	<b>23.6%</b>	<b>31.4%</b>	<b>3.9%</b>	<b>5.2%</b>

\* Among other assumptions, the Scheme Costs/liquidation costs estimate does not include any costs and expenses to be incurred in relation to taking potential causes of action against third parties in respect of losses and damages suffered by the Company (if any) and/or civil action relating to asset recovery (if deemed necessary by the liquidators or Scheme Administrators, as the case may be).

\*\* Among other assumptions, the estimated realisable value of the Scheme Shares is determined under the assumption that all of the Scheme Creditors elect to receive cash in lieu of Scheme Shares.

## LETTER FROM THE BOARD

\*\*\* *China Vered, an alleged shareholder of the Fund, claimed that the Company owes the Fund additional penalty interest in the sum of HK\$226 million which had not been incorporated in the Company's 2020 to 2022 Annual Reports. Although the Company maintains the view that the Fund is not entitled to claim penalty interest, for the purpose of full transparency, the liquidation analysis has been prepared with two scenarios in contemplation: (i) one scenario where the claimed penalty interest due to the Fund is not admitted, and (ii) another scenario where the claimed penalty interest is admitted.*

\*\*\* *The Company has received confirmations, by way of a board resolution dated 22 August 2023 and by an email letter dated 24 October 2023, respectively, from the Directors and Mr. Jiang Jianjun, that in support of the Scheme, they have waived all their claims against the Company. Therefore, the total amount of debts owed to Unsecured Creditors in the liquidation analysis does not include the amounts previously owed to the Directors and Mr. Jiang Jianjun as at 31 December 2022.*

*Note:* In the computation of estimated recovery to the Creditors: (1) the principal amount of any debt secured by a corporate guarantee given by the Company; and (2) the interests accrued on the principal amount of any debt owed to unsecured Creditors (including any Creditor whose debt is secured by a corporate guarantee given by the Company) as at 31 December 2022 are included.

The terms of the Scheme are subject to the requisite approvals of the Creditors as required under sections 670 and 673 of the Companies Ordinance having been obtained. If the approval of the requisite majority of the Creditors for the Scheme is not obtained, it is likely that the Company will be placed into insolvent liquidation resulting in a substantially lower return to the Creditors.

### **Effective Date**

The Scheme is conditional upon and shall come into effect upon the satisfaction of all the conditions to the Scheme, being (1) the prescribed majority of the Creditors voting in favour of the Scheme, (2) the Scheme having been sanctioned by the Court Order, (3) the registration of an office copy of the Court Order by the Companies Registry, and (4) the Initial Cash Payment being received by the SchemeCo within 30 days after the Registration Date (or such extended date as may be agreed by the Company with the Scheme Administrators). Once effective, the Scheme will remain legally binding on the Company and all Creditors (regardless of whether all Creditors voted in favour of the Scheme or not).

Further details are contained in Section 3 of the Explanatory Statements and Clause 2 of the Scheme of Arrangement.

Yours faithfully

For and on behalf of

**China Beidahuang Industry Group Holdings Limited**

**Jiang Jiancheng**

*Director*

## EXPLANATORY STATEMENT

*This Explanatory Statement constitutes the statement required under section 671 of the Companies Ordinance. Defined terms used herein have the same meanings as in the Document.*

### **Section 1**

#### **INTRODUCTION — THE SCHEME OF ARRANGEMENT**

This Explanatory Statement sets out the background to and the likely effect of transactions proposed in the Scheme of Arrangement, the advantages and disadvantages of the Scheme to provide the Creditors with all the information they reasonably need to enable them to reach an informed decision on whether to vote in favour of the Scheme at the forthcoming Scheme Meeting to be held at 2:00 p.m. on 20 November 2023 at 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong.

A Creditor (or his proxy) who cannot attend the Scheme Meeting in person may attend by Zoom call in accordance with the procedures set out in Section 9.4 below.

The Explanatory Statement should not be relied upon as a substitute for reading the terms of the Scheme in its entirety.

### **Section 2**

#### **BACKGROUND TO AND REASONS FOR THE SCHEME**

##### **2.1 The Company and the Group**

The Company was incorporated in the Cayman Islands on 6 September 2000 and the Shares were listed on the Main Board of the Stock Exchange on 16 January 2001 with stock code 00039.

The Company is an investment holding company. The Group is principally engaged in the trading of food products business, leasing of logistic facilities in Hong Kong and office facilities in the PRC.

##### **2.2 Financial Difficulties and Potential Winding-Up Petitions**

Since the outbreak of the COVID-19 pandemic in early FY2020, the operational status and financial positions of both the Group and its customers have been severely impacted, and the Group faced difficulties in collecting trade receivables. In addition, due to the pandemic-related lockdown measures, the construction of the seafood food city project in PRC, which had taken up significant amount of funds of the Group, had come to a halt in FY2020 which delayed the Group's sales plans in relation to the project. As such, the Group could not recover its investment from the project as planned. At around the same time, the Group had to continue to pay construction fees, trade payables and the principal and interest of financial borrowings to prevent default of contracts, but was struggling to obtain new loans due to its poor financial position. As a result, the Group's cash balance decreased substantially by 81% between the beginning of FY2020 and the end of FY2022.

## EXPLANATORY STATEMENT

According to the annual results announcement of the Company for FY2022, although the revenue generated by the Group amounted to approximately HK\$930.28 million, representing an increase of 0.16% as compared with FY2021, and an increase of 8.29% as compared with FY2020, the Group has recorded a loss (net of tax) of approximately HK\$222.40 million, representing an decrease in profit (net of tax) of approximately HK\$45.11 million as compared with FY2021, and approximately HK\$227.86 million as compared with FY2020. The significant shift from net profit to net loss since FY2020 was primarily attributable to the negative impacts of increase in provision for additional penalty relating to default construction payment included in administrative expense, increase in net allowance of expected credit loss, increase in impairment loss on goodwill, and increase in finance costs, etc.

The Group also recorded decrease in net current assets from approximately HK\$370.48 million as at 31 December 2020 to approximately HK\$161.20 million as at 31 December 2022, which was mainly due to, inter alia, (i) significant increase of approximately 194% in other payables and accruals from approximately HK\$84.21 million as at 31 December 2020 to approximately HK\$247.57 million as at 31 December 2022; and (ii) substantial increase of approximately 12% in bank and other borrowings from approximately HK\$393.02 million as at 31 December 2020 to approximately HK\$440.04 million as at 31 December 2022.

Due to the fact that (i) the Group recorded a loss for the year ended 31 December 2022 and the year ended 31 December 2021 of approximately HK\$222.40 million and HK\$177.29 million, respectively; (ii) the Group has a significant amount of approximately HK\$381.23 million outstanding bank and other borrowings to be paid within one year as at 31 December 2022; and (iii) the Group only has a cash or cash equivalent amount of approximately HK\$14.88 million as at 31 December 2022, resulting in the Group's inability to repay its debts that are due or soon to be due, a disclaimer opinion was issued by the Company's auditor as the aforementioned conditions that existed as at 31 December 2022 cast significant doubt on the Group's ability to continue as a going concern.

The Company is a holding company and its financial position is similar to that of the Group's position. The Company's current assets was only approximately HK\$8.3 million as at 31 December 2022, while the rest of assets held by the Company were mostly its interests in the subsidiaries, but the Company's current liabilities was approximately HK\$553.54 million as at 31 December 2022, of which approximately HK\$356.76 million were other borrowings. The current assets are not able to satisfy the obligation arising from the Company's current liabilities. In the circumstances, it is clear that the Company is facing liquidity problems.

## EXPLANATORY STATEMENT

Since 2021, the Company has been receiving statutory demands from several creditors and the Company has been demanded to repay overdue indebtedness of HK\$82,598,953.78 as at 31 December 2022. Pursuant to section 178(1)(a) or 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the Company is unable to repay the relevant indebtedness within 21 days from the date of service of the relevant statutory demands, each of the relevant creditors is entitled to present a winding-up petition against the Company at any time at discretion.

On 9 January 2023, Mr. Zhang Zhiguang (張智廣) presented a winding-up petition against the Company in HCCW 3/2023. The petition was heard before the Hong Kong Court on 15 March 2023 and it was ordered that the hearing of the petition be adjourned first to 5 July 2023 then subsequently to 13 September 2023. At the hearing on 13 September 2023, the presiding Master ordered that the petition be adjourned to be heard by the Companies Judge on 18 September 2023. At the hearing on 18 September 2023, the Companies Judge ordered that the hearing of the petition be adjourned to 11 December 2023.

On 30 March 2023, Mr. Qu Shuncai (屈順才) presented a winding-up petition against the Company in HCCW 144/2023. Mr. Qu subsequently indicated his intention to withdraw the petition, and the Hong Kong Court granted leave for Mr. Qu to withdraw the petition by an order made on 6 June 2023.

On 30 May 2023, Mr. Qiu Zhen (邱振) presented a winding-up petition to the Grand Court of the Cayman Islands Financial Services Division against the Company (Cause No. FSD 146 of 2023). The petition was originally scheduled to be heard on 20 July 2023. The Company and the petitioner subsequently agreed to an adjournment of the petition, and at the hearing on 20 July 2023 the Cayman Grand Court adjourned the hearing of the petition to 18 October 2023. Pursuant to a joint written request submitted by Mr. Qiu Zhen and the Company, the Cayman Grand Court made an order to further adjourn the hearing of the petition scheduled for 18 October 2023 to the earliest date available following 29 November 2023. The hearing of the petition has since been re-listed to be heard on 4 December 2023.

To the best knowledge of the Board, the outstanding indebtedness owed by the Company to all Creditors amounted to approximately HK\$684 million as at 31 December 2022<sup>4</sup>. As the Company only had a cash balance of approximately HK\$5,000, the Company is unable to repay the relevant overdue and outstanding indebtedness.

In view of the financial difficulties and liquidity issues faced by the Company, the Board considers that it is in the best interests of the Creditors to implement the Scheme to maximize their returns. Accordingly, the Company applied on 10 March 2023 to the Hong Kong Court to propose that the Scheme be presented to Creditors for their consideration. Leave to convene a meeting of the Creditors to consider the Scheme was granted on 18 August 2023.

<sup>4</sup> This figure excludes additional penalty interest claimed by one of the Creditors, viz. the Fund. In the event that the total admitted debts includes the aforesaid additional penalty interest, the total indebtedness would be HK\$911 million. Please refer to the liquidation analysis at Appendix 6 for more information.

## EXPLANATORY STATEMENT

### 2.3 The Debt Restructuring

Without a restructuring plan and/or the participation of the Investor, the Company will not be in a position to fulfil its financial obligations, and would be ultimately wound up. Upon a winding-up, the return to the Creditors is likely to be minimal. The Debt Restructuring by way of the Capital Injection and the Scheme is believed to be the most efficient way to restore the financial position of the Company and to maximize the recovery for the Creditors.

The terms of the Scheme of Arrangement being proposed by the Company are contained in the part of this Document headed “Scheme of Arrangement” and to be found between pages 56 and 74 of this Document. The following is a summary in broad outline of the main features of the Capital Injection and the Scheme. It is subject to and not in substitution for the material contained in the remainder of this Explanatory Statement and to the terms of the Scheme itself, and any conflict between this summary and the remainder of this Explanatory Statement or between this summary and the terms of the Scheme is to be resolved in favour of the remainder of this Explanatory Statement and/or the actual terms of the Scheme.

Creditors are asked to consider and, if thought fit, approve the terms of the Scheme between the Company and themselves. Where Creditors of the Company approve the Scheme by the required majority, then the Court Order sanctioning the Scheme will be sought from the Hong Kong Court.

The Debt Restructuring in broad terms comprises two components as follows:

#### 2.3.1 *Capital Injection:*

Pursuant to the Term Sheet, the Investor will subscribe for, and the Company agrees to allot and issue to the Investor the new ordinary shares (“**Subscription Shares**”), representing approximately 11.243% of the Enlarged Issued Share Capital (and 11.247% of the enlarged issued share capital of the Company taking into account the Subscription Shares and Scheme Shares as at 29 March 2023 prior to the exercise of certain share options in the Shares) for the Subscription Proceeds (in the sum of HK\$85 million), out of which HK\$45 million, being the Initial Cash Payment, would be used for the benefit of the Scheme Creditors, with HK\$20 million to pay the related professional fees incurred or to be incurred by the Company to support the Debt Restructuring implementation and HK\$20 million to be used as working capital to sustain the business operations of the Group.

#### 2.3.2 *Scheme of Arrangement:*

Under the Scheme, which is proposed to be entered into between the Company and the Creditors, the Claims of the Creditors will be released and discharged. In return, the Scheme Creditors will be entitled to receive Scheme Shares (save for those Scheme Creditors who have elected to receive cash *in lieu* of Scheme Shares) and Cash Dividend.

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### **Scheme Shares**

The Scheme Administrator will procure the Scheme Shares to be distributed to those Scheme Creditors who have not elected to receive cash *in lieu* of the same either by (1) delivering (or procuring to be delivered) to the Scheme Creditors the relevant share certificate(s) issued in the name of the Scheme Creditor (subject to the completion of any necessary procedures imposed by the Company's share registrar), or (2) depositing (or procuring the same to be deposited) the same into an account of a CCASS participant with whom the Scheme Creditor has an account which has been notified to the Scheme Administrator.

A Scheme Creditor may elect to receive cash *in lieu* of Scheme Shares that he would have otherwise been entitled to receive under the Scheme by giving notice to the Scheme Administrator in writing in accordance with the terms of the Scheme, on or before the Cut-Off Date, in which case:

- (i) if that Scheme Creditor had validly elected to receive cash *in lieu* of Scheme Shares, the Scheme Shares shall first be issued and allotted to the SchemeCo (to be held on trust for the benefit of the relevant Scheme Creditor); and
- (ii) the relevant Scheme Shares shall be realised into cash proceeds by the Scheme Administrator and be paid to the relevant Scheme Creditor in such time as may be reasonable in consultation with the Scheme Creditors' Committee.

### **The Cash Dividend**

The Cash Dividend shall consist of: (a) up to HK\$45 million from the Initial Cash Payment paid by the Investor as part of the Subscription Proceeds, and (subject to the payment of any Preferential Claims and the Scheme Costs) payable to Scheme Creditors on the First Distribution Date; (b) the estimated proceeds of approximately HK\$142 million from the disposal of the Interests in Scheme Subsidiaries, which will be transferred to the SchemeCo upon the Effective Date, or such later date as the Scheme Administrators may decide in accordance with the terms of the Scheme, and (c) any proceeds generated from the realisation of the claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group.

The amount of Claims to be admitted by the Scheme Administrators or the Adjudicator shall include only the Principal.

The implementation of the Scheme is not conditional upon the Shares to remain listed. If the Company is delisted or no longer a listed company, Creditors will obtain the Scheme Shares from the Company under its status as a private company under the Scheme.

## EXPLANATORY STATEMENT

### 2.4 Returns Comparison

Below is a table comparing the return to the Creditors between the scenarios where the Scheme is approved and where the Scheme is not approved and the Company is put into liquidation:

	Scheme approved		Scheme not approved and the Company is liquidated	
	Estimated realisable value and recovery (HK\$'million) (note)			
	Penalty Interest Included***	Penalty Interest excluded	Penalty Interest Included***	Penalty Interest excluded
<b>Assets available:</b>				
Proceeds from the Company's bank accounts	—	—	—	—
Proceeds recovered from intercompany receivables	—	—	44.7	44.7
Liquidation dividend from subsidiaries	—	—	3.2	3.2
Initial Cash Payment	45.0	45.0	—	—
Scheme Shares**	37.8	37.8	—	—
Proceeds from disposal of Interests in Scheme Subsidiaries	142.0	142.0	—	—
Proceeds from the realisation of the claims or rights to claim against Mr. Jiang Jianjun	—	—	—	—
<b>Total</b>	<b>224.8</b>	<b>224.8</b>	<b>47.9</b>	<b>47.9</b>
Less: Scheme Costs/liquidation costs*	8.0	8.0	9.3	9.3
Less: preferential claims	3.0	3.0	3.0	3.0
<b>Net assets available to Creditors</b>	<b>213.8</b>	<b>213.8</b>	<b>35.6</b>	<b>35.6</b>
<b>Debts owed by the Company:</b>				
Unsecured Creditors****	444.4	444.4	444.4	444.4
Corporate guarantee creditor	70.0	70.0	70.0	70.0
Interest accrued on unsecured Creditors and corporate guarantee Creditor	393.0	167.0	393.0	167.0
<b>Total debts owed by the Company</b>	<b>907.4</b>	<b>681.4</b>	<b>907.4</b>	<b>681.4</b>
<b>Estimated recovery rate to the Creditors</b>	<b>23.6%</b>	<b>31.4%</b>	<b>3.9%</b>	<b>5.2%</b>

\* Among other assumptions, the above Scheme Costs/liquidation costs estimate does not include any costs and expenses to be incurred in relation to taking potential causes of action against third parties in respect of losses and damages suffered by the Company (if any) and/or civil action relating to asset recovery (if deemed necessary by the liquidators or Scheme Administrators, as the case may be).

\*\* Among other assumptions, the estimated realisable value of the Scheme Shares is determined under the assumption that no election is made by the Scheme Creditors to receive the Scheme Shares.

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\*\*\* *China Vered, an alleged shareholder of the Fund, claimed that the Company owes the Fund additional penalty interest in the sum of HK\$226 million which had not been incorporated in the Company's 2020 to 2022 Annual Reports. Although the Company maintains the view that the Fund is not entitled to claim penalty interest against the Company, for the purpose of full transparency, the liquidation analysis has been prepared with two scenarios in contemplation: (i) one scenario where the claimed penalty interest due to the Fund is not admitted, and (ii) another scenario where the claimed penalty interest is admitted.*

\*\*\*\* *The Company has received confirmations, by way of a board resolution dated 22 August 2023 and by an email letter dated 24 October 2023, respectively, from the Directors and Mr. Jiang Jianjun, that in support of the Scheme, they have waived all their claims against the Company. Therefore, the total amount of debts owed to Unsecured Creditors in the liquidation analysis does not include the amounts previously owed to the Directors and Mr. Jiang Jianjun as at 31 December 2022.*

*Note:* In the computation of estimated recovery to the Creditors: (1) the principal amount of any debt secured by a corporate guarantee given by the Company; and (2) the interests accrued on the principal amount of any debt owed to unsecured Creditors (including any Creditor whose debt is secured by a corporate guarantee given by the Company) as at 31 December 2022 are included.

The terms of the Scheme are, however, subject to the requisite approvals of the Creditors as required under sections 670 and 673 of the Companies Ordinance having been obtained. If the approval of the requisite majority of the Creditors for the Scheme is not obtained, it is likely that the Company will be placed into insolvent liquidation resulting in a substantially lower return to the Creditors.

### Section 3

#### TERMS OF THE SCHEME

##### 3.1 Overview of the terms of the Scheme

1. The SchemeCo will be established to hold the Scheme Assets (on trust for the benefit of Scheme Creditors) and Scheme Shares (on trust for the benefit of those Scheme Creditors who have validly elected to receive cash *in lieu* of the Scheme Shares that they would have otherwise be entitled to receive under the Scheme) (if applicable).
2. The Scheme will be implemented in Hong Kong. The Creditors will be asked to consider and, if thought fit, approve the terms of the Scheme as contained in this Document. Where the Scheme is approved by the Creditors, then the sanction of the Hong Kong Court will be sought for the Scheme.
3. After the sanction of the Hong Kong Court has been obtained, an office copy of the Court Order sanctioning the Scheme will be delivered to the Companies Registry in Hong Kong for registration and the date of registration shall be the Registration Date for the purpose of the Scheme.

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4. The Scheme is conditional upon and shall come into effect upon the satisfaction of all the conditions to the Scheme, being (1) the prescribed majority of the Creditors voting in favour of the Scheme, (2) the Scheme having been sanctioned by the Court Order, (3) the registration of an office copy of the Court Order by the Companies Registry, and (4) the Initial Cash Payment being received by the SchemeCo.
5. For avoidance of doubt, once effective, the Scheme will remain binding and effective on the Company and its Creditors.
6. All Claims owing by the Company to the Creditors as of the Effective Date will be discharged and released in full as against the Company on the Effective Date.
7. Under and subject to the terms of the Scheme, Creditors with Admitted Claims will be entitled to receive the Cash Dividend and, in the case of Scheme Creditors who have not elected to receive cash *in lieu* of Scheme Shares, the Scheme Shares, for full and final settlement of their respective Admitted Claims.
8. After the Scheme becomes effective, the Scheme Administrators will issue notices to Creditors in accordance with Clause 4.1 of the Scheme stating that Creditors must submit their Notice of Claim for Dividend Purpose to the Scheme Administrators on or before the Cut-Off Date. If any Creditors fail to submit such Notice of Claim for Dividend Purpose before the deadline stipulated, subject to the Scheme Administrators' absolute discretion of accepting late submission of any Notice of Claim for Dividend Purpose, they will be regarded as forgoing their Claims against the Company and shall not be entitled to participate in the Scheme.
9. Under the Scheme, in exchange for the release and discharge of their Claims against the Company, the Scheme Creditors will be entitled to receive Cash Dividend which consists of: (a) up to HK\$45 million from the Initial Cash Payment as part of the Subscription Proceeds, and (subject to the payment of any Preferential Claims and the Scheme Costs) payable to Scheme Creditors on the First Distribution Date; (b) the proceeds from the disposal of the Interests in Scheme Subsidiaries; and (c) any proceeds generated from the realisation of the claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group, which will be transferred to the SchemeCo upon the Effective Date, or such later date as the Scheme Administrators may decide in accordance with the terms of the Scheme.
10. The Scheme Creditors will also receive the Scheme Shares or, upon their election by notice in writing given to the Scheme Administrator in accordance with the terms of the Scheme, cash *in lieu* of Scheme Shares.

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11. For any Scheme Creditors who do not elect to receive cash *in lieu* of Scheme Shares, the Company shall allot and issue the Scheme Shares to the relevant Scheme Creditors, and the Scheme Administrator will either (1) deliver (or procure to be delivered) to the Scheme Creditors the relevant share certificate(s) issued in the name of the Scheme Creditor (subject to the completion of any necessary procedures imposed by the Company's share registrar), or (2) deposit the same (or procure the same to be deposited) into an account of a CCASS participant with whom the Scheme Creditor has an account which has been notified to the Scheme Administrator, in each case in such time as may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors' Committee.
12. The allotment, issue and registration, as well as the listing of and permission to deal in the Scheme Shares will be subject to the Court Order, approval of the Shareholders or Independent Shareholders (as the case may be) at an EGM and approval of the Stock Exchange. The implementation of the Scheme is not conditional upon the Shares to remain listed. If the Company is delisted or no longer a listed company, Creditors will obtain the Scheme Shares from the Company under its status as a private company under the Scheme.
13. Save for any Preferential Claims (which will be paid by the SchemeCo in full) and the Secured Claims, the Scheme Creditors, under the terms of the Scheme, will receive the Cash Dividend and the Scheme Shares (or cash *in lieu* of Scheme Shares), after the settlement of any Preferential Claims and the Scheme Costs and subject to any reserve which the Scheme Administrators may make for Unadmitted Claims, proportionally based on their Admitted Claims.
14. The Admitted Claims will be settled by the Scheme Administrators paying to each Scheme Creditor in respect of their respective Admitted Claims on a *pari passu* basis, from the Scheme Funds from time to time credited to the Scheme Trust Account, save that (1) those Scheme Creditors who have not elected to receive cash *in lieu* of Scheme Shares shall receive the Scheme Shares that they were entitled to receive under the Scheme, (2) those Scheme Creditors who have elected to receive cash *in lieu* of their Scheme Shares shall receive the cash proceeds arising from the sale of the relevant Scheme Shares. The Scheme Administrators have power to make interim distributions provided that they reserve in full for Unadmitted Claims, if necessary.

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### 3.2 Scheme Assets

“**Scheme Assets**” shall comprise the following and will be available for distribution to the Scheme Creditors subject to the Scheme in discharge of their Admitted Claims:

- (i) the Initial Cash Payment, being the amount of HK\$45 million in cash and a part of the Subscription Proceeds;
- (ii) the proceeds from the disposal of the Interests in Scheme Subsidiaries, the underlying major assets of which are loan receivables, real estate properties, and interests in associates; and
- (iii) any claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group and the proceeds resulting from the realisation of such rights or claims.<sup>5</sup>

The SchemeCo shall hold all Scheme Assets, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors and shall distribute the Cash Dividend to the Scheme Creditors after the deduction of any Preferential Claims and the Scheme Costs in discharge of their Admitted Claims in accordance with the terms of the Scheme.

### 3.3 Scheme Shares

Under the terms of the Scheme, the Scheme Shares shall be allotted and issued to the Scheme Creditors, or the SchemeCo for the benefit of the Scheme Creditors (should any Scheme Creditor elect to receive cash *in lieu* of Scheme Shares he would otherwise have been entitled to receive under the Scheme).

For any Scheme Creditors who do not elect to receive cash *in lieu* of Scheme Shares, within 28 days after the completion of the proof and determination of all claims by the Scheme Administrator and/or the Adjudicator in accordance with Clause 4 of the Scheme, the Company shall in accordance with the directions of the Scheme Administrator allot and issue the Scheme Shares to the relevant Scheme Creditors, and the Scheme Administrator will either (1) deliver (or procure to be delivered) to the Scheme Creditors the relevant share certificate(s) issued in the name of the Scheme Creditor (subject to the completion of any necessary procedures imposed by the Company’s share registrar), or (2) deposit (or procure the same to be deposited) the same into an account of a CCASS participant with whom the Scheme Creditor has an account which has been notified to the Scheme Administrator, in each case in such time as may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors’ Committee.

Should any Scheme Creditor elect to receive cash *in lieu* of Scheme Shares by giving notice in writing to the Scheme Administrator in accordance with the terms of the Scheme, the Scheme Creditor(s) concerned would receive cash *in lieu* of the Scheme Shares that they would otherwise be entitled to receive under the Scheme but for the

<sup>5</sup> As at the date of the Scheme Document, to the best knowledge of the Company, there are no claim or rights to claim of the Company against Mr. Jiang Jianjun.

## EXPLANATORY STATEMENT

election. No election shall be valid (and in that case the relevant Scheme Creditor will receive the Scheme Shares he is entitled to receive under the Scheme) unless the Scheme Administrator is notified in accordance with the terms of the Scheme, which requires any notification to be (i) in writing, (ii) supplemented by such supporting documents as the Scheme Administrator may reasonably request for the purposes of effecting the transfer of cash *in lieu* of Scheme Shares to the Scheme Creditor, and (iii) delivered in accordance with the terms of the Scheme on or before the Cut-Off Date.

The Scheme Administrators have the right to reject any election that it determines as being invalid or otherwise deficient in any respect (in which case the relevant Scheme Creditor will receive the Scheme Shares he is entitled to receive under the Scheme). In addition, the Scheme Administrators shall also have the right in their sole and absolute discretion to treat any election that has not been notified in accordance with the terms of the Scheme as being valid. Any election shall be irrevocable and incapable of being withdrawn, and the Scheme Administrators shall not be obliged to give notice acknowledging the receipt of any election or any defects or irregularities therein.

To the extent that any Scheme Creditors had validly elected to receive cash *in lieu* of Scheme Shares, the Company shall in accordance with the directions of the Scheme Administrator allot and issue the Scheme Shares to the SchemeCo (to be held on trust for the benefit of the relevant Scheme Creditor(s)) within 28 days after the completion of the proof and determination of all claims by the Scheme Administrator and/or the Adjudicator in accordance with Clause 4 of the Scheme and shall remain under the control of the Scheme Administrators.

The relevant Scheme Shares that are subject to a valid election shall be disposed of within 3 months of their issue and allotment, or within such other timeframe as the Scheme Administrators may determine in their sole and absolute discretion in consultation with the Scheme Creditors' Committee. The Scheme Administrators shall endeavour to procure the disposal and realisation of such Scheme Shares taking into account the prevailing and reasonably expected market conditions. While the Scheme Administrators will endeavour to obtain the highest price for the Scheme Shares concerned as reasonably practicable in the circumstances, the Scheme Administrator cannot guarantee the price at which they will be sold.

The allotment, issue and registration, as well as the listing of and permission to deal in the Scheme Shares will be subject to the Court Order, approval of the Shareholders or Independent Shareholders (as the case may be) at an EGM and approval of the Stock Exchange. The implementation of the Scheme is not conditional upon the Shares to remain listed. If the Company is delisted or no longer a listed company, Creditors will obtain the Scheme Shares from the Company under its status as a private company under the Scheme.

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### **3.4 Comparison of recovery under liquidation scenario and Debt Restructuring scenario and the risks to be borne by Creditors**

The comparison table at Section 2.4 already sets out the return to the Creditors between the scenarios where the Scheme of Arrangement is approved or not approved. If there is no Scheme, the Company will not have sufficient assets available for distribution under the liquidation scenario to satisfy all of the claims of its creditors.

The estimated recovery rate for Creditors under the Debt Restructuring scenario is higher than under the liquidation scenario. However, there is no guarantee as to whether the Scheme of Arrangement will be approved by the Creditors, or if it is approved, whether it will be sanctioned by the Hong Kong Court.

### **3.5 Secured Creditors**

If you have a Secured Claim against the Company as at the Effective Date, you are a Secured Creditor. No Secured Claim will be admitted by the Scheme Administrators or the Adjudicator and therefore no Secured Creditor will be entitled to any distribution under the Scheme.

If your claim is partially a Secured Claim, you will be a Scheme Creditor for the unsecured part of your Claim if the unsecured part of your Claim is admitted by the Scheme Administrators or the Adjudicator in accordance with the terms of the Scheme or to the extent that your Security Interest is released.

Secured Creditors shall not be Scheme Creditors to the extent of the secured portions of their Claims. A Secured Creditor may submit a Notice of Claim for Voting Purpose in respect of the unsecured portion of its Claim. A Secured Creditor may:

- (i) agree the appraised value of its Security Interest with the Scheme Administrators and participate in the Scheme as a Scheme Creditor for the unsecured portion of its Admitted Claim (which will be determined after deducting the appraised value of the Security Interest); or
- (ii) release its Security Interest and participate in the Scheme as a Scheme Creditor whereupon its entire Claim will be treated as unsecured and will be treated as an Admitted Claim for the full amount. The Security Interest so released, in so far as it is the Company's property, shall become Scheme Assets and will be realised and thereafter applied in accordance with Clause 2 of the Scheme.

If a Secured Creditor cannot agree a value for its Security Interest with the Scheme Administrators or the Secured Creditor is unwilling to release its Security Interest as above, then that Secured Creditor's Claim will be treated as an Unadmitted Claim and reserves will be made by the Scheme Administrators out of the Scheme Funds, pending resolution with the Secured Creditor of its Unadmitted Claim.

A Secured Creditor shall pay to the Scheme Administrators any amount received in excess of its Claim from the net proceeds of realisation of its Security Interest.

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### 3.6 Preferential Claims

If you have a Preferential Claim against the Company as at the Effective Date, you are a Preferential Creditor. Preferential Claims include certain employee Claims and other Claims referred to in section 265 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Preferential Creditors are to be paid in full to the extent of their Preferential Claims out of the Scheme Funds (recognizing the priority which they would have in a winding-up of the Company).

If your Claim is preferential only as to part, you will be an Ordinary Creditor for the non-preferential part of your Claim. If you have a Claim against the Company which would not be preferential in the event of the winding up of the Company, you are also an Ordinary Creditor. Non-Preferential Claims (or non-preferential parts of Claims) will be dealt with in accordance with the Scheme.

### 3.7 Scheme Creditors

Creditors are essentially creditors of the Company with unsecured Claims and excluding any Preferential Claims, and Secured Claims. Scheme Creditor is in turn defined as all Creditors with Admitted Claims.

If a Scheme Creditor's aggregate receipts from the Scheme and the primary obligor, exceed the total amount of its Admitted Claim, the Scheme Creditor shall repay such excess to the Scheme Administrators.

Where there have been mutual credits, mutual debts or other mutual dealings between the Company and any Creditor before the Effective Date, set-off shall be provided for in the process of determining a Claim.

Cash Dividend from the Scheme Funds, subject to prior payment of any Preferential Claims and the Scheme Costs, and where applicable subject to any reserve which the Scheme Administrators may make as described in Section 3.9 below, will be distributed to the Scheme Creditors in respect of their respective Admitted Claims on a *pari passu* basis.

### 3.8 Scheme Trust Account and the Scheme Trust Account (Shares)

Under the terms of the Scheme, the Scheme Administrators will open a Scheme Trust Account to hold the Scheme Funds. This will be an interest-bearing trust account controlled by the Scheme Administrators held with a licensed bank in Hong Kong.

On or before the Long Stop Date, or such later date as may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors' Committee, the Scheme Administrators shall complete the disposal of the Interests in Scheme Subsidiaries. The Initial Cash Payment, and/or the proceeds from the disposal of the Interests in Scheme Subsidiaries, including the amount of any Preferential Claims, and the Scheme Costs will be deposited into the Scheme Trust Account.

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All monies from time to time credited to the Scheme Trust Account will be held for the benefit of the Scheme Creditors under the Scheme, subject to the payment of any Preferential Claims and the Scheme Costs.

The proceeds from the sale of the Scheme Shares (should any Scheme Creditor elect to receive cash *in lieu* of the Scheme Shares that he would otherwise be entitled to receive under the Scheme) will be deposited into the Scheme Trust Account (Shares).

All monies from time to time credited to the Scheme Trust Account (Shares) will be held for the benefit of and delivered to the Scheme Creditors who have validly elected to receive cash *in lieu* of Scheme Shares.

### **3.9 Scheme Funds and Cash Dividend distribution**

The Scheme Funds will be dealt with by the Scheme Administrators in the following order of priority:

- (i) firstly to pay any Preferential Claims;
- (ii) secondly, to pay the Scheme Costs; and
- (iii) thirdly, to pay Cash Dividend in respect of the Admitted Claims.

A Preferential Creditor shall be entitled to be paid in full in respect of its Preferential Claim.

After the payment of any Preferential Claims, the Scheme Administrators shall reserve sufficient sum out of the Scheme Funds for the payment of all Scheme Costs (including anticipated Scheme Costs).

Should any Scheme Creditor elect to receive cash *in lieu* of Scheme Shares, any costs or fees associated with the sale of the Scheme Shares (including any applicable brokerage, Securities and Futures Commission transaction levy, Financial Reporting Council transaction levy, Stock Exchange trading fee, stamp duty and other fees) shall be offset against the proceeds from the sale to which the costs and/or fees relate.

In the case of a transfer of Scheme Shares to a Scheme Creditor, such costs or fees associated with the transfer shall be offset against the Cash Dividend to which such Scheme Creditor is entitled to receive.

Subject to the admission of its Claim, the Preferential Creditor concerned shall be entitled to receive Cash Dividend in respect of the non-preferential part of its Admitted Claim.

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The proportion of the Cash Dividend payable will be of an amount to be determined and distributed from time to time by the Scheme Administrators under the Scheme, having regard to:

- (i) the amount of Scheme Funds available;
- (ii) the current aggregate amount of Admitted Claims and Unadmitted Claims; and
- (iii) any sum to be retained out of the Scheme Funds for the Scheme Costs as may be determined by the Scheme Administrators under the Scheme.

The Scheme Administrators shall have the power to make interim distributions of Cash Dividend to the Scheme Creditors. The Scheme Administrators shall make such distributions at a level which will enable the Scheme Administrators to pay a percentage distribution to the Scheme Creditors and, at the same time, set aside a reserve out of the Scheme Funds of an amount equal to the amount required to pay the same percentage distribution on the full amount of any Unadmitted Claims. The Scheme Administrators will review the interim payment percentage on a regular basis. As soon as practicable after an Unadmitted Claim becomes an Admitted Claim, the Scheme Administrators will distribute to that Scheme Creditor the proportion of that Admitted Claim equal to the proportion paid to all other Scheme Creditors with Admitted Claims.

Cash Dividend and any cash *in lieu* of Scheme Shares (if applicable) under the Scheme will be paid by cheque posted to the address of the relevant Scheme Creditor as appearing in that Scheme Creditor's Notice of Claim for Voting Purpose or as provided by the Scheme Creditor to the Scheme Administrators under the Scheme. The encashment of the cheque shall be a good discharge to the SchemeCo and the Scheme Administrators. Cheques shall be posted at the risk of the addressee and neither the Company nor the Scheme Administrators shall be responsible for any loss or delay in transmission. Scheme Creditors will not be entitled to any Cash Dividend and any cash *in lieu* of Scheme Shares (if applicable) which remains unclaimed for more than six months after the date of the cheque to which such Cash Dividend or any cash *in lieu* of Scheme Shares relates.

Alternatively, Scheme Creditors can choose to receive the Cash Dividend and any cash *in lieu* of Scheme Shares (if applicable) by way of remittance from the Scheme Trust Account to their respective bank accounts (with bank account details being provided to the Scheme Administrators under the Scheme) at the relevant Scheme Creditor's sole risk. Neither the SchemeCo nor the Scheme Administrators shall be liable to a Scheme Creditor for any loss in remittance of the Cash Dividend and any cash *in lieu* of Scheme Shares.

The transfer of the Scheme Assets and Scheme Shares to the SchemeCo or the Scheme Creditors shall constitute full and final satisfaction of all Claims the Creditors have against the Company and all obligations and liabilities of the Company under the Scheme.

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### Section 4

#### ADVANTAGES AND DISADVANTAGES OF THE SCHEME

##### 4.1 Advantages

The principal advantage of the Scheme is the potentially higher recovery rate available to the Scheme Creditors, having regard to the fact that the Initial Cash Payment will be made available, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors and the fact that the proceeds from the disposal of the Interests in Scheme Subsidiaries will be distributed to the Scheme Creditors.

Under the Scheme, an independent Adjudicator will determine any dispute over a Scheme Claim which may arise between the Scheme Administrators and the Scheme Creditors. The decision of the independent Adjudicator on any dispute referred to him/her in accordance with the Scheme shall, insofar as the law allows, be final and binding. This will be quicker and less costly compared to the determination of claims in a liquidation scenario where each creditor has a right of appeal to the High Court if their claim is rejected.

If the Scheme is not approved, and in the absence of a restructuring plan involving the Investor, it is likely that the Company will be placed into insolvent liquidation. The insolvent liquidation of the Company will also result in a substantially lower return to the Creditors than the implementation of the Scheme. The reasons for this are as follows:

- (i) The Initial Cash Payment of up to HK\$45 million under the Scheme and the Scheme Shares representing approximately 5% of the Enlarged Issued Share Capital will not be available to the Creditors in the insolvent liquidation of the Company.
- (ii) The Company primarily operates as a holding entity within the Group, and most of the Company's assets are shareholding interests in its subsidiaries. In the event of a Group liquidation, the liquidation analysis requires a nuanced review of asset recovery and liability settlement of each direct and indirect subsidiary of the Company within the Group, and the utilisation of the proceeds from any asset disposals to discharge as many financial obligations of the relevant subsidiary as possible. As the Group has many levels of subsidiaries, and the Company sits at the top of the Group, the abovementioned process would need to be repeated a number of times in order for any value in respect of the indirect subsidiaries of the Company to ultimately back flow to the Company.
- (iii) The order of repayment, settlement, and distribution of the liquidated assets for each individual company within the Group is determined according to the regulations of bankruptcy/winding-up related laws in each company's own jurisdiction, specifically as follows (in order of priority): tax obligations, preferential claims, secured debts to the extent of the secured portion, then finally unsecured debts, the unsecured portion of secured debts, and intercompany debts on a *pari passu* basis. It is only the funds remaining after satisfaction of individual creditors in the context of each subsidiary's independent insolvency proceedings that will be transferred to the Company for

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distribution to the Creditors. This could affect the amount available for distribution to the Company from the liquidation of the subsidiaries, and to the unsecured creditors of the Company in the case of a liquidation, especially when individual companies within the Group may face enforcement actions and/or litigation as a result of the Company's liquidation and/or cessation of business of the Group as a whole. This is relevant to considering the consolidated financial statements of the Group (which are prepared on a going-concern basis) and how the position would differ in a liquidation scenario.

- (iv) The Company's 2022 Annual Report suggests that the Group has current and non-current assets valued at the total amount of HK\$864 million. These figures are book values determined in accordance with accounting standards. However, they do not necessarily reflect the realisable value of the assets in a liquidation scenario. Factors such as market conditions, the related costs incurred during the process of the sale, the urgency of the sale, and the specific circumstances of the assets can significantly impact the actual realisable value, often resulting in a lower value than the book value in a forced sale scenario, such as liquidation. This is particularly relevant for the following types of assets (which form the bulk of the Company's assets):
- a. machinery and equipment are often obsolete or hold minimal residual value during liquidation, as they are customarily designed for specific production processes related to the business;
  - b. real estate property related assets such as investment properties and properties for sale, given the recent economic downturn and the weakening performance of the overall real estate market conditions in PRC; and
  - c. certain prepayments, deposits, or receivables, which may decrease in value due to relevant reductions or termination costs, or become difficult to collect as external creditors may leverage the Company's liquidation to evade repayment (even when said receivables are recoverable, the insolvency practitioner may have to involve debt collection agents or legal representation, thereby incurring additional costs that diminish the recovery from receivables).
- (v) Although there exists a possibility that the subsidiaries holding the above assets could be sold as a going concern and hence realise a higher value, this likelihood is generally slim. The liquidation of a holding company often leads to disruption in the underlying business, potentially resulting in a rapid decline. As a result, the sale process must be expedited, leading to a lower recovery rate even if the subsidiaries are sold as a going concern. The level of cooperation from local management, especially in the PRC, introduces further significant uncertainties regarding the viability of selling subsidiaries as a going concern.
- (vi) The Company has no significant assets situated in Hong Kong, except for the deposit in its bank accounts maintained in various licensed banks in Hong Kong. This further limits the potential recovery for Creditors of the Company in the event of liquidation as the transfer of funds from the PRC to Hong Kong could result in potential tax implications and considerations related to foreign exchange control.

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(vii) A thorough analysis of the potential recovery to the Creditors of the Company in a liquidation scenario has been conducted. Given the various factors listed above, the proceeds that can be recovered by the Creditors from intercompany receivables is estimated to be HK\$44.7 million and the liquidation dividends from the Company's subsidiaries that will be available for distribution is estimated to be HK\$3.2 million.

Liquidation is also a time-consuming process. It could take many months if not years for a winding-up to be completed and for dividends to be distributed to the Company's creditors. The process envisaged under the Scheme is quicker and the dividends under the Scheme may be distributed to the Scheme Creditors under a relatively shorter timeframe.

### 4.2 Disadvantages

The possible disadvantage in implementing the Scheme are as follows:

- (i) Creditors will not be entitled to make claims in relation to any of their Claims made after the Effective Date.
- (ii) Creditors will, upon the Scheme becoming effective, discharge all of their Claims against the Company and lose the benefits of such Claims against the Company's assets.
- (iii) Creditors will lose the right to commence proceedings and to appeal to the High Court in respect of their Claims have been determined by the Scheme Administrators and/or the Adjudicator.

### 4.3 Qualifications and warnings

The information and estimates contained in this Scheme Document is for information purpose only. While every effort has been made to ensure the accuracy and completeness of the information, no guarantee is given nor responsibility taken for errors or omissions in the Scheme Document.

No warranty is given in relation to the accuracy, reliability or appropriateness of any information. The information contained in this Scheme Document does not constitute professional advice and should not be relied upon as such. Creditors are therefore encouraged to consult with their chosen professional advisers before making any decision.

The publication of this Scheme Document does not indicate the Debt Restructuring has been endorsed and/or approved by the Hong Kong Court, the Stock Exchange and/or relevant regulators. Creditors should note that the transactions contemplated under the Debt Restructuring are subject to certain conditions.

The Company does not accept any liability for any loss or damages for the information or advice provided in this Scheme Document, or which is incurred as a result of the use or, or reliance upon, the information contained on in this Scheme Document.

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### Section 5

#### RISK FACTORS

The risk factors described below are those that the Company believes are potentially significant but should not be regarded as a comprehensive or exhaustive statement of all potential risks and uncertainties relating to the Debt Restructuring. Additional risks and uncertainties not presently known to the Company, or that the Company currently considers to be less material, may also have an adverse effect on the Debt Restructuring and no assurance can be given that all material risks relating to the Debt Restructuring have been set out below. Scheme Creditors should carefully consider these risk factors and the other information set out herein.

If a Scheme Creditor is in any doubt about the action it should take, such Scheme Creditor is advised to consult an appropriately authorised independent financial adviser who specialises in advising on the acquisition of equity, debt and other securities.

#### 5.1 Risks relating to the Restructuring

*(a) Effectiveness of the Scheme requires the approval of the Creditors and the Shareholders or Independent Shareholders (as the case may be)*

The Scheme will be conditional upon the obtainment of the requisite approval from the Scheme Creditors on the Scheme. Under the applicable laws in Hong Kong and Cayman Islands, the Scheme will be approved if the majority in number representing more than 75% in value of the Creditors present and voting either in person or by proxy at the Scheme Meeting agree to such Scheme. There is no assurance that, in the Scheme Meeting, the votes cast from the Creditors in favour of the Scheme will be sufficient to approve the Scheme.

The Scheme is also conditional upon the receipt of the Initial Cash Payment within 30 days after the Registration Date (or such extended date as may be agreed by the Company with the Scheme Administrators). This requires the Subscription to proceed towards completion (among other things), and the Subscription and the allotment and issue of Scheme Shares are each subject to approval by the Shareholders or Independent Shareholders (as the case may be). There is no assurance that such approval would be given by the Shareholders or Independent Shareholders (as the case may be) at the EGM.

In any event that the Subscription does not proceed towards completion, the requisite approval is not given by the Shareholders or Independent Shareholders (as the case may be) at the EGM, or the Scheme could be not approved by the Creditors, the Scheme will be withdrawn and the Debt Restructuring will not be implemented.

*(b) Effectiveness of the Scheme requires the sanction of the Hong Kong Court*

In order for the Scheme to become effective, it must receive sanction of the Hong Kong Court. The Hong Kong Court will not sanction the Scheme unless they are satisfied that the correct procedures have been followed, the proposed arrangements are reasonable and

## EXPLANATORY STATEMENT

that there are no other reasons why the Scheme should not be approved. There can be no assurance that the Hong Kong Court will find that the Scheme is reasonable or that the Hong Kong Court will not conclude that there are other reasons why the Scheme should not be approved. If the Hong Kong Court does not approve the Scheme, or approves them subject to conditions or amendments which: (i) the Company deems unacceptable, or (ii) would have (directly or indirectly) a material adverse effect on the interests of any Creditor and such conditions or amendments are not approved by the Creditors, the Scheme will not become effective and the Debt Restructuring will not be implemented.

**(c) *Even if the Scheme Creditors approve the Scheme, the Scheme may be objected to and may not be completed***

If the Scheme is approved at the Scheme Meeting(s), it is possible for a Person with an interest in the Scheme (whether a Scheme Creditor or otherwise) to lodge objections to the Scheme with the Hong Kong Court, and, if such objections have been lodged, to attend or be represented at the hearing of the Hong Kong Court to sanction the Scheme in order to make representations that the Scheme should not be approved and to appeal against the granting of the orders. Therefore, there can be no assurance that objections will not be made at or before the Hong Kong Court hearings or that an appeal will not be made against the grant of the order by the Hong Kong Court and that any such objections or appeal will not delay or possibly prevent the Debt Restructuring.

**(d) *Uncertain amount of proceeds from realisation of Scheme Assets and Scheme Shares (if applicable) may be available for distribution to the Scheme Creditors whose claims are admitted***

The value of the Scheme Shares, the cash proceeds from sale of the Scheme Shares (should any Scheme Creditor elects to receive cash *in lieu* of Scheme Shares) and the amount of proceeds which can be realised from the Scheme Assets and made into Scheme Funds for distribution to the Scheme Creditors is uncertain and is contingent on a number of factors including the overall market conditions in relation to the continuing operations of the Company's core business, the financial status and repayment ability of debtors of the loan receivables held by the Scheme Subsidiaries, as well as the prevailing conditions in the PRC's real estate market, where the properties held by the Scheme Subsidiaries are located at. There is no guarantee that the estimated return from implementation of the Scheme can be realised by the Scheme Administrators.

**(e) *Allegations raised by China Vered***

In or around July and August 2023, China Vered by way of written correspondence raised various allegations against the Company. China Vered claims to be a 80% shareholder of the Fund. The Fund is one of the Creditors of the Company under the Scheme as set out in Appendix 5 to this Document.

China Vered has alleged, *inter alia*, that: (i) it had never consented to the terms of the Proposed Restructuring and/or supported the Scheme; (ii) the Company failed to disclose the alleged fact that Mr. Jiang Jianjun was arrested by enforcement agencies in mainland China; (iii) the Company failed to take into account penalty interest to which the Fund is

## EXPLANATORY STATEMENT

allegedly entitled in its 2020 to 2022 Annual Reports; (iv) the Company is allegedly not insolvent according to its Annual Reports, and the liquidation analysis set out in this Scheme Document does not reflect the financial condition of the Company and/or the Scheme; (v) the disposal transaction described in the Company's announcement dated 13 July 2023 was carried out at a significant undervalue; (vi) the Company failed to involve the independent non-executive directors in discussions regarding the Scheme; (vii) the Investor may be a connected party to the Company; (viii) the Scheme appears to discharge the personal guarantee provided by Mr. Jiang Jianjun; and (ix) there appears to be a conflict of interest as the person in-charge of the Debt Restructuring and the Scheme, Mr. Benny Lai Yubin, is the chairman and executive director of a creditor excluded from the Scheme.

Aside from the above, China Vered may raise further allegations in relation to the Company and/or the Scheme before and after the dispatch of this Scheme Document to the Creditors.

The Company maintains the view that the complaints made by China Vered are false and/or unsubstantiated. To the extent that the allegations are relevant to the Scheme, the Company's position is as follows:

- (i) China Vered is only a shareholder of the Fund. It is not a creditor of the Company (contingent or otherwise) and does not have any standing to participate and/or vote in relation to the Scheme;
- (ii) the Company has received letters from the Fund confirming in-principle support of the Scheme;
- (iii) the Company has published an announcement on 6 July 2023 explaining that the Company suspected that Mr. Jiang Jianjun is cooperating with an investigation conducted by certain authority/authorities in the PRC;
- (iv) in relation to the alleged penalty interest: (i) the terms of the underlying debt provide that penalty interest is only payable on demand, and the Fund had never demanded payment of any penalty interest from the Company nor raised any objections regarding the characterisation of the amount of debt owed by the Company to the Fund in the 2020 to 2022 Annual Reports, and (ii) the high rate of penalty interest may in any event not be enforceable as a matter of law;
- (v) the Company is cash flow insolvent according to the 2022 Annual Report and, for reasons set out in Section 4.1 of the Explanatory Statement, the insolvent liquidation of the Company will also result in a substantially lower return to the Creditors than the implementation of the Scheme;
- (vi) as explained in the Company's announcement dated 13 July 2023 and 2022 annual report, the group of companies that were disposed by the Company were primarily engaged in sub-leasing commercial properties in Beijing and Shanghai. Due to the effect of the Covid-19 pandemic, the real estate market in these cities took a tremendous hit which had a drastic impact on the profitability of the target group's

## EXPLANATORY STATEMENT

rental business. As at the date of disposal, on 25 November 2022, the target group had net liabilities of around HK\$21 million (a breakdown of the impact of the disposal on the Group's assets and liabilities is set out in pages 184 and 185 of the 2022 Annual Report). As the Company was already in financial distress at the time, it was unable to continue to shoulder such liabilities and it was necessary to dispose of the target group to minimise the losses to the Group. The purchaser of the target group is an Independent Third Party and the disposal was determined after arms' length negotiation between the vendor and the purchaser;

- (vii) the independent non-executive directors of the Company have participated in all formal and informal meetings of the board to discuss and approve the Debt Restructuring and the Scheme;
- (viii) the relationship between the Investor and the Company has been clearly stated in Section 7 of the Explanatory Statement. While Mr. Chen Chen, an executive director of the Company, is the son of a Shareholder of the Company and one of the underlying investors of the Investor, Mr. Chen Chen will abstain from voting on all relevant Board resolutions concerning the Scheme. The Restructuring Agreement with the Investor will also be submitted to the Stock Exchange for pre-vetting to ensure that the Subscription complies with all requirements under the Listing Rules and the Takeovers Code;
- (ix) the Scheme does not seek to discharge the personal guarantee provided by Mr. Jiang Jianjun to any persons; and
- (x) the Scheme will not exclude any Creditor from participation in the Scheme — including the Creditor questioned by China Vered (Creditor No. 21 — TC Orient Lighting Holdings Limited).

In light of the allegations raised by China Vered, there is a risk that (i) China Vered will make objections before the Hong Kong Court or appeal against any order granted by the Hong Kong Court; (ii) the Hong Kong Court will refuse to sanction the Scheme on the basis of the complaints made by China Vered; (iii) any such objections or appeal will delay or possibly prevent the Debt Restructuring; and/or (iv) China Vered will take further action to prevent and/or delay the implementation of the Scheme and the Debt Restructuring.

### 5.2 Risks relating to the Group

#### (a) *Currency risk*

The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, restricted bank deposits, trade and other receivables, trade and other payables, and bank and other borrowings that are denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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### *(b) Liquidity risk*

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of the Group's borrowings and ensures compliance with loan covenants.

### **5.3 Risks relating to the resignation of Director**

As disclosed in the Company's announcement dated 14 June 2023 and 6 July 2023, Mr. Jiang Jianjun, the former executive Director and chairman of the Company, resigned from his positions with effect from 14 June 2023. Following his resignation, the Company has suspected that Mr. Jiang Jianjun is cooperating with an investigation conducted by certain authority/authorities in the PRC. However, as of the date of this Scheme Document, the Company has been having difficulties in establishing contact with Mr. Jiang Jianjun.

While the Company, after reasonable inquiries, is not aware of any information linking Mr. Jiang Jianjun's unavailability or the suspected investigation to the Group's business, operations, and affairs, the Company acknowledges the potential negative impact his previous significant role in the Company could have on its operations. The management is closely monitoring the progress of the suspected investigation.

## **Section 6**

### **ENTRY INTO FORCE OF THE SCHEME OF ARRANGEMENT**

The Scheme of Arrangement proposed by the Company will become effective and binding on the Company and its Creditors under Hong Kong law if the following conditions are satisfied:

- (i) over 50% in number, representing not less than 75% in value of the Creditors present and voting in person or by proxy at the Scheme Meeting, vote in favour of the Scheme;
- (ii) the Hong Kong Court sanctions the Scheme and an office copy of the Court Order sanctioning the Scheme is delivered to the Companies Registry in Hong Kong for registration; and
- (iii) the Initial Cash Payment is received by the SchemeCo within 30 days after the Registration Date or such extended date as may be agreed by the Company with the Scheme Administrators.

## EXPLANATORY STATEMENT

### Section 7

#### INFORMATION ON THE INVESTOR

The information in this Section has been provided to the Company by the Investor.

The Investor is

<b>Company name:</b>	<b>China Dynamic (Hong Kong) Limited</b>
Place of Incorporation:	Hong Kong
Date of Incorporation:	28 February 2023
Shareholder:	The Investor is a wholly-owned subsidiary of China Qujiang Fund, a sub-fund of CIS Fund OFC, an open-ended fund company incorporated in Hong Kong.
Scope of Business:	The Investor is a wholly-owned subsidiary of China Qujiang Fund, a sub-fund of CIS Fund OFC, an open-ended fund company incorporated in Hong Kong with an investment fund mandate to invest in equities, bonds, debentures, currencies, financial and/or other instruments issued by private and/or listed companies in Hong Kong or other countries and/or private equity funds.
Subscription Price per Subscription Share:	HK\$0.1
Number of Subscription Shares subscribed:	850,000,000
Consideration of the Subscription Shares:	HK\$85,000,000

To the best knowledge, information and belief of the Board, save for Mr. Chen Chen, an executive Director who 1) is a son of Mr. Chen Jiayi, a Shareholder holding 188,604,515 Shares (representing approximately 2.98% of the issued Shares of the Company) and an investor in China Qujiang Fund, which in turn wholly-owns the Investor, and 2) is a cousin of Chen Guofeng, another investor in China Qujiang Fund, the Directors are independent of, not connected with and not acting in concert with the Investor or any of its subsidiaries or associates or concert parties within the meanings prescribed by the Listing Rules and the Takeovers Code.

While Mr. Chen Chen has no direct interest in the Investor or any of its subsidiaries, associates or concert parties within the meanings prescribed by the Listing Rules and the Takeovers Code, given the interests of his father and his cousin in the Investor, Mr. Chen Chen will abstain from voting on all relevant Board resolutions concerning the Scheme.

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### Section 8

#### INTEREST OF THE DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules, were as follows:

#### Long position in ordinary shares of the Company:

Name of directors	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company’s issued shares
Mr. Jiang Jiancheng	Beneficial owner	27,868,000	0.44%
Mr. Ke Xionghan	Beneficial owner	10,120,000	0.16%
Mr. Chen Zhifeng	Beneficial owner	900,000	0.01%
Mr. Yang Yunguang	Beneficial owner	900,000	0.01%
Ms. Ho Wing Yan	Beneficial owner	900,000	0.01%
Mr. Li Dawei	Beneficial owner	40,000	0.00%

*Note:* At the Latest Practicable Date, Mr. Jiang Jianjun, a former director of the Company, held 456,173,182 shares as a beneficial owner, which represents 7.20% of the Company’s issued shares. He is also deemed to be interested as to 3,800,000 shares, which are held by Ms. Li Zhuoxun, the spouse of Mr. Jiang Jianjun, and which represents 0.06% of the Company’s issued shares.

#### Long position in share options of the Company:

Name of directors	Number of shares options directly beneficially owned
Mr. Chong Cha Hwa	900,000

Pursuant to section 671(3) of the Companies Ordinance, the Company has asked each Director whether he has any material interest, whether as a director or a member or a creditor of the Company or otherwise under the Scheme, and the effect thereon of the Scheme in so far as it is different from the effect on the like interests of other Persons.

The Company has received confirmation from the Directors, save as (i) disclosed above and (ii) in respect of Mr. Chen Chen, an executive Director who 1) is a son of Mr. Chen Jiayi, a Shareholder holding 188,604,515 Shares (representing approximately 2.98% of the issued Shares of the Company) and an investor in China Qujiang Fund, which in turn wholly-owns the Investor, and 2) is a cousin of Mr. Chen Guofeng, another investor in China Qujiang Fund,

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each of the Directors confirmed that they do not have any material interest under the Scheme nor an interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save for Mr. Chen Chen, to the best knowledge, information and belief of the Board, the Scheme's effect on each Directors' interest as a member of the Company is not different from its effect on the like interests of other Persons.

As at the Latest Practicable Date, save as disclosed above, the Company was not aware of any Directors having any material interest, whether as a director, member or creditor of the Company under the Scheme.

### **Section 9**

#### **PROCEDURE**

Based on the information currently available to the Company, a list of the possible Creditors can be found in Appendix 5 to this Document. The inclusion in the list at Appendix 5 of a Creditor shall not be treated as an admission by the Company that he is a Scheme Creditor entitled to distribution or of the amount of his Claim, whether for the purposes of adjudication under the Scheme or for the purposes of voting at the Scheme Meeting or otherwise.

#### **9.1 Creditor classes**

The Board is of the view that the rights of the Creditors are sufficiently similar that they can consult together given their common interest. The Board further holds the view that the rights which are to be released and/or varied under the Scheme and the new rights which the Scheme gives in their place are, as between the Creditors and among themselves, not so different that the Scheme must be treated as a compromise or arrangement with more than one class of Creditors.

Secured Creditors can only participate in the Scheme to the extent of the unsecured portions of their claims, unless they are willing to release their security interest (in which event), the entirety of their claims will be treated as unsecured.

Preferential Creditors are to be paid in full to the extent of their Preferential Claims and in priority to the Admitted Claims of Scheme Creditors which are non-Preferential Claims. Preferential Creditors who have both Preferential Claims and non-Preferential Claims against the Company will have the non-preferential parts of their Claims treated in the same way as the Claims of non-Preferential Creditors.

In the premises, in respect of the unsecured and/or non-preferential portions of their Claims, the Secured Creditors and Preferential Creditors are essentially in the same position as every other unsecured non-Preferential Creditors and they all can consult together as to their common interest.

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The Board has accordingly formed the view that all Creditors fall into one “class” for the purpose of voting on the Scheme, such that at the Scheme Meeting there will only be a single class voting.

### 9.2 Valuation of Claims for Voting Purpose

**Creditors are asked to complete a form of Notice of Claim for Voting Purpose and deliver it to the Company at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (Attention: Mr. Benny Lai Yubin) as soon as practicable and in any event by 2:00 p.m. (Hong Kong time) on 10 November 2023.** For the purpose of voting at the Scheme Meeting, the chairman of the Scheme Meeting will estimate the amounts of Creditors’ Claims as at the date of the Scheme Meeting which will be admitted for voting purpose based on the records of the Company in its possession and any other relevant information, including details received from the Creditors in and enclosed with the form of Notices of Claim for Voting Purpose, if any. These estimates will be the Voting Claims.

In determining Voting Claims, the chairman of the Scheme Meeting, in his sole discretion, may admit or reject any Creditor’s Claim in whole or in part. If Voting Claims are denominated in currencies other than Hong Kong Dollars, they shall, for voting purpose, be converted to Hong Kong Dollars based on the rate for the purchase of the relevant currency offered by The Hongkong and Shanghai Banking Corporation Limited at close of business on the Business Day immediately preceding the date of the Scheme Meeting or, in the case of manifest error or non-publication, the relevant offered rate of such other licensed bank in Hong Kong as the Company shall determine.

The decision of the chairman of the Scheme Meeting as to the value to be placed on a Claim for voting purpose is final. The chairman’s remuneration, costs and expenses shall not be dependent upon the level at which Claims are agreed and/or admitted under the Scheme.

Such estimates of Voting Claims are for voting purpose only and will not constitute any admission on the part of the Company or the Scheme Administrators of the amount comprised therein and will not be relevant for the purpose of calculating entitlement of the Scheme Creditors under the Scheme.

### 9.3 Voting

Creditors whose Claims have been admitted for voting purpose may vote on the Scheme by attending the Scheme Meeting in person or by proxy. A proxy need not be a Creditor but must attend the Scheme Meeting personally. In the event that a Creditor who has lodged a Form of Proxy attends the Scheme Meeting, his Form of Proxy will be deemed to have been revoked.

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In the case of a Creditor being a corporation, it must appoint an individual to attend the Scheme Meeting as its representative. To attend and vote at the Scheme Meeting, the representative must produce at the Scheme Meeting to the satisfaction of the chairman of the Scheme Meeting an appropriately certified copy of the resolution of the board of directors or other governing body of the corporation evidencing that he is authorised to act as its representative for such purpose.

**Creditors must return the Notice of Claim for Voting Purpose to the Company at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (Attention: Mr. Benny Lai Yubin) by no later than 2:00 p.m. (Hong Kong time) on 10 November 2023, being 10 days prior to the date of the Scheme Meeting and the completed Form of Proxy should be returned to the same address and reference by no later than 2:00 p.m. (Hong Kong time) on 16 November 2023, being 2 Business Days prior to the date of the Scheme Meeting.**

### **9.4 Attending the Scheme Meeting by Zoom Call**

Any Creditor (or his proxy) wishing to attend the Scheme Meeting by Zoom call must indicate his intention to do so in the Notice of Claim for Voting Purpose, the form of which is at Appendix 3 to the Scheme Document, by no later than 2:00 p.m. (Hong Kong time) on 10 November 2023. The instructions for lodging the Notice of Claim for Voting Purpose are set out in the Notes to the form.

Attendance by Zoom call is conditional upon the Creditor (i) having a webcam function attached to the device from which the Creditor will be accessing the Zoom call, and (ii) agreeing to activate the webcam function and being visible to the Chairman throughout the Scheme Meeting.

At least 24 hours before the Scheme Meeting, the Company will send a unique PIN by email to each Creditor, who has indicated his intention to attend the Scheme Meeting by Zoom call (in addition to any other necessary Zoom call joining instructions), so that he or his proxy can participate. The unique PIN will be sent to the Creditor's designated email address as stated in his Notice of Claim for Voting Purpose.

### **9.5 Currency Conversion**

Admitted Claims in currencies other than Hong Kong Dollars shall, for all purposes, be converted to Hong Kong Dollars based on the rate for the purchase of the relevant currency as offered by The Hongkong and Shanghai Banking Corporation Limited at close of business on the Effective Date or, in the case of manifest error or non-publication, the relevant offered rate of such other licensed bank in Hong Kong as the Scheme Administrators shall determine and shall, for the purpose of the Scheme, be due in Hong Kong Dollars.

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### **9.6 Bar to proceedings**

All Claims owing to the Creditors by the Company as of the Effective Date will be discharged and released in full on the Effective Date. From the Effective Date, the Scheme bars the Creditors from taking any action or proceedings against or for the winding-up of the Company and its property or assets or for the purposes of exercising any right of set-off against the Company, or obtaining any payment, property or security from the Company in relation to any Claim, and the payments to be made to the Scheme Creditors under the Scheme will be in full and final settlement and discharge of the Admitted Claims.

The Scheme of Arrangement may not preclude Creditors from taking action against the Company in any other jurisdiction outside Hong Kong. Therefore, even though the Scheme is intended to bind all Creditors, it may not prevent Creditors who are not so bound from instituting legal action against the Company in jurisdictions other than Hong Kong. However, Creditors may not be able to enforce any foreign judgment in respect of any Claim(s) against the Company in Hong Kong after the Effective Date. Creditors in other jurisdictions may attempt to enforce a foreign judgment in other jurisdictions where the assets of the Company are located. Further, a Creditor who is not bound by the jurisdiction of the Court may apply to wind up the Company in a jurisdiction other than Hong Kong, notwithstanding that the Scheme is approved by the Hong Kong Court.

### **9.7 Modification to the Scheme**

Prior to the Effective Date, the Company may consent on behalf of all Creditors to any modifications or additions or any other terms and condition which the Hong Kong Court may think fit to approve or impose and which would not directly or indirectly have a material adverse effect on the interests of any Creditor under the Scheme.

On or after the Effective Date, the Scheme Administrators may at any time, if they consider it expedient and in the interests of the Scheme Creditors to do so and subject to consultation and with the consent of the Scheme Creditors' Committee and the Company, apply to the Hong Kong Court for the purpose of modifying the provision of the Scheme or obtaining direction from the Hong Kong Court on how to deal with any matters or disputes which may arise in respect of the administration of the Scheme, provided that no further obligations or liabilities may be imposed on the Company and the Company may not be adversely affected by such modification or direction. If the Hong Kong Court approves a modification to the Scheme or gives a direction in relation to any matter or dispute which may arise in respect of the Scheme, it shall be binding on the Company and the Scheme Creditors.

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### Section 10

#### TERMINATION OF THE SCHEME

Once the Court Order sanctioning the Scheme has been filed with the Companies Registry in Hong Kong for registration and the Initial Cash Payment is received by the SchemeCo, the Scheme will remain binding and effective.

The Scheme will come to an end if the Scheme Administrators, with the consent of the Scheme Creditors' Committee, give notice to the Scheme Creditors informing the Scheme Creditors that all or substantially all the Scheme Assets and Scheme Shares (if applicable) have been realised and proceeds of which have been transferred to the Scheme Trust Account and the Scheme Trust Account (Shares) as the case may be, and that the Scheme Administrators are satisfied that all Cash Dividend has been distributed to the Scheme Creditors as appropriate and the Scheme Shares have been transferred to the Scheme Creditors as appropriate to settle all the Admitted Claims and the continuation of the Scheme is no longer beneficial to the general body of the Scheme Creditors. In this situation, the Scheme will come to an end from the date of such notice. The duties and responsibilities of the Scheme Administrators and the members of the Scheme Creditors' Committee under the Scheme will cease on the date of such notice.

### Section 11

#### MISCELLANEOUS MATTERS

##### 11.1 Scheme Costs

Save for the HK\$20,000,000 professional fees, of which HK\$9,000,000, HK\$9,000,000 and HK\$2,000,000 are estimated to be paid out of the Subscription Proceeds respectively, for the relevant costs of restructuring adviser, legal adviser, and other miscellaneous expenditures, in order to put forth the Scheme and to materialise the Debt Restructuring prior to the implementation of the Scheme, all costs, charges, expenses and disbursements properly incurred in connection with the administration and implementation of the Scheme, including the fees and remuneration of the Scheme Administrators and the Adjudicator, shall be paid in full out of the Scheme Funds subject to the prior payment of any Preferential Claims but in priority to the payment of Cash Dividend to the Scheme Creditors. An estimate of the Scheme Costs is also provided in Appendix 6.

##### 11.2 Set-off

There shall be a set-off of all cross-claims between the Company and a Scheme Creditor as at the Effective Date if they arise out of mutual dealings between the Company and the Scheme Creditor before the Effective Date.

## **EXPLANATORY STATEMENT**

### **11.3 Notice of Scheme Meeting**

In accordance with the directions of the Hong Kong Court, the Scheme Meeting will be convened for the purpose of considering the approval of the Scheme. The notice convening the Scheme Meeting is attached at Appendix 2 to this Document.

### **11.4 Scheme Creditors' Committee**

The Scheme Creditors' Committee shall act in the best interest of the Scheme Creditors. The Scheme Creditors' Committee will also provide a forum for the Scheme Administrators to turn to for advice and guidance on questions of strategy regarding the administration of the Scheme. If the Scheme Administrators disagree with the advice and guidance of the Scheme Creditors' Committee on any matter they may refer the matter to the Scheme Creditors (either in writing or by general meeting). Alternatively, the Scheme Administrators can apply to the Hong Kong Court for direction and for the purposes only of providing guidance regarding the administration of the Scheme.

The Scheme Creditors' Committee shall comprise three members. The members will be appointed at the Scheme Meeting. The quorum for meeting of the Scheme Creditors' Committee shall be two members present in person or by proxy.

Scheme Creditors will not be entitled to challenge the conduct of members of the Scheme Creditors' Committee provided they have acted in good faith.

## **Section 12**

### **CHAIRMAN OF THE SCHEME MEETING**

The Hong Kong Court has appointed Mr. Jiang Jiancheng, or failing him, one of the directors of the Company, to act as chairman of the Scheme Meeting and to report the result thereof to the Court. As Mr. Jiang Jiancheng is unavailable, the Company has decided that another director will take his place and Mr. Yang Yunguang, an independent non-executive director of the Company, will be appointed to act as chairman of the Scheme Meeting and to report the result thereof to the Court. Mr. Yang Yunguang has consented to act as the chairman of the Scheme Meeting.

## **Section 13**

### **CAPACITY OF THE SCHEME ADMINISTRATORS**

The involvement of the Scheme Administrators in the Scheme is solely for the purpose of receiving and enforcing the obligations and undertakings made by the Company pursuant to the Scheme. None of the Scheme Administrators and their advisers nor any of their representatives, partners, staff or agents shall incur any personal liability under the terms of this Document, the Scheme or otherwise.

## EXPLANATORY STATEMENT

### Section 14

#### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the documents listed below are available for download at <http://www.irasia.com/listco/hk/chinabeidahuang>, and for inspection by Creditors upon reasonable prior notice to the Company at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay between the hours of 10:00 a.m. and 4:00 p.m. on weekdays (excluding public holidays) up to the Business Day before the date scheduled for the Scheme Meeting.

- (i) Memorandum and Articles of Association of the Company;
- (ii) This document containing the Explanatory Statement and the Scheme of Arrangement;
- (iii) The audited consolidated financial statements of the Group for the year ended 31 December 2022; and
- (iv) The court order directing the convening of the Scheme Meeting.

### Section 15

#### WHAT SHOULD CREDITORS DO NOW?

If you are a Creditor, you may be entitled to attend and vote at the Scheme Meeting.

The Scheme Meeting is being convened at the direction of the Hong Kong Court for the purpose of considering and, if thought fit, approving the Scheme.

Formal notice of the Scheme Meeting of the Company is given in Appendix 2 to this Document. Creditors whose Claims have been admitted for voting purpose may attend the Scheme Meeting in person (or, if a corporation, by a duly authorised representative) or may vote by proxy. Creditors or their proxies may also attend the Scheme Meeting by Zoom call.

### Section 16

#### COMPLETION AND RETURN OF RELEVANT NOTICE AND FORM

##### 16.1 Notice of Claim for Voting Purpose

Enclosed with this Document at Appendix 3A is a form of Notice of Claim for Voting Purpose in respect of the Scheme Meeting. Any Person who wishes to vote at the Scheme Meeting must complete and return as soon as practicable a Notice of Claim for Voting Purpose to the Company.

## EXPLANATORY STATEMENT

### 16.2 Form of Proxy

Also enclosed with this Document at Appendix 4 is the Form of Proxy, to be used for voting at the Scheme Meeting. Creditors who intend to be present at the Scheme Meeting by proxy must complete, sign and return the requisite Form of Proxy in accordance with the instructions printed on the form.

### 16.3 Directions for returning documents

**In order to vote at the Scheme Meeting, the Notice of Claim for Voting Purpose must be returned to Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (Attention: Mr. Benny Lai Yubin) by no later than 2:00 p.m. (Hong Kong time) on 10 November 2023, being 10 days prior to the date of the Scheme Meeting.**

**Further, the completed Form of Proxy should be returned to the same address and reference by no later than 2:00 p.m. (Hong Kong time) on 16 November 2023, being 2 Business Days prior to the date of the Scheme Meeting.**

**In order to participate and claim dividends under the Scheme, the Creditor must return a Notice of Claim for Dividend Purpose on or before the Cut-Off Date to 35/F., One Pacific Place, 88 Queensway, Hong Kong (Attention: Ms. Eileen Ma). Subject to the Scheme Administrators' absolute discretion of accepting late submissions of any Notice of Claim for Dividend Purpose, ANYONE WHO FAILS TO SUBMIT THE NOTICE OF CLAIM FOR DIVIDEND PURPOSE BEFORE THE CUT-OFF DATE WILL BE REGARDED AS HAVING FORGONE THEIR CLAIMS AGAINST THE COMPANY AND SHALL NOT BE ENTITLED TO PARTICIPATE IN THE SCHEME.**

## Section 17

### THE SANCTION HEARING

In accordance with section 670 of the Companies Ordinance, if the Scheme is approved at the Scheme Meeting, a further application will be made to the Hong Kong Court to sanction the Scheme. Accordingly, if the Scheme is approved at the Scheme Meeting, the Company will present a petition with the Hong Kong Court seeking the sanction of the Scheme.

In determining whether to exercise their discretion and sanction the Scheme, the Hong Kong Court will determine, among other things, whether the votes cast at the Scheme Meeting fairly represented the decision of the Creditors. If the Hong Kong Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to file the court order sanctioning the Scheme with the Companies Registry in Hong Kong as soon as possible after Scheme has been sanctioned.

**CREDITORS SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR IN PERSON OR BY COUNSEL AT THE SANCTION HEARING AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.**

## EXPECTED TIMETABLE

Scheme hearing	18 August 2023
Creditors' meeting to vote on the Scheme of Arrangement	20 November 2023
Hearing for the sanction of the Scheme of Arrangement	29 November 2023
Court Order registered at the Companies Registry (Registration Date)	By end of December 2023
SchemeCo to be set up and Scheme Trust Account to be opened	By end of January 2024
Initial Cash Payment is received by the SchemeCo	By end of January 2024
Scheme Administrators or Adjudicator determine Claims submitted by Creditors	By end of March 2024
Scheme Shares are allotted and issued to the Scheme Creditors and/or SchemeCo (as appropriate)	By end of April 2024
First Distribution Date	By end of April 2024

**SCHEME OF ARRANGEMENT**

**SCHEME OF ARRANGEMENT**

*(Pursuant to sections 670 and 673 of the companies Ordinance (Cap. 622) of  
Hong Kong, as amended from time to time)*

**BETWEEN**

**CHINA BEIDAHUANG INDUSTRY GROUP HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

and its

**CREDITORS**

*(as defined in this Document)*

# SCHEME OF ARRANGEMENT

## **Clause 1 Preliminary**

### **Interpretation**

- 1.1 In this Scheme of Arrangement, all capitalised terms are defined in the definitions in this Document.
- 1.2 In the Scheme of Arrangement:
  - 1.2.1 references to clauses are references to clauses of the Scheme;
  - 1.2.2 references to a statute or statutory provision include the same as amended or re-enacted from time to time;
  - 1.2.3 the singular includes the plural and vice versa and the masculine and neuter include each other and the feminine;
  - 1.2.4 headings to clauses are for ease of reference only and shall not affect the interpretation of the Scheme; and
  - 1.2.5 references to time of day are references to time of day in Hong Kong.

### **The Company**

- 1.3 The Company was incorporated with limited liability in the Cayman Islands on 6 September 2000.
- 1.4 The Shares became listed on the Main Board of the Stock Exchange on 16 January 2001 with stock code 00039.
- 1.5 The Company is an investment holding company. The Group is principally engaged in the trading of food products business, leasing of logistic facilities in Hong Kong and office facilities in the PRC.

### **Application and purposes of the Scheme**

- 1.6 The Scheme shall apply to all Creditors who have Claims against the Company.
- 1.7 The purpose of the Scheme is to discharge and release all Claims against the Company and, in return, all Creditors with Admitted Claims will become Scheme Creditors and be entitled to participate in the Scheme and receive Cash Dividend and Scheme Shares (or in the case of Scheme Creditors who have validly elected to receive cash *in lieu* of the Scheme Shares, the sale proceeds arising from the Scheme Shares that they would otherwise be entitled to but for the election) based on the Admitted Claims on a *pari passu* basis.
- 1.8 All Claims owing by the Company to the Creditors as of the Effective Date will be discharged and released in full as against the Company on the Effective Date.

## SCHEME OF ARRANGEMENT

### Implementation of the Scheme

1.9 The Scheme of Arrangement shall be conditional upon and shall come into effect and be legally binding on the Company and its Creditors under Hong Kong law after the occurrence of the following:

1.9.1 the requisite majority representing:

1.9.1.1 more than 50% in number of; and

1.9.1.2 not less than 75% in value of the Claims of

the Creditors present and voting in person or by proxy, vote in favour of the Scheme of Arrangement at the Scheme Meeting pursuant to the directions of the Hong Kong Court;

1.9.2 the Hong Kong Court then sanctions the Scheme of Arrangement;

1.9.3 an office copy of the Court Order is filed with and registered by the Companies Registry in Hong Kong; and

1.9.4 within 30 days after the Registration Date or such extended date as may be agreed by the Company with the Scheme Administrators, the Initial Cash Payment is received by the SchemeCo for the purpose of and, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors.

### Scheme Administrators and Scheme Creditors' Committee

1.10 Messrs. Chan Man Hoi (Ivan) and Chan Chi Chung (Adrian) of Deloitte Touche Tohmatsu or their successors are appointed as the Scheme Administrators of the Scheme, with the power to act jointly and severally. If at any time any Scheme Administrator wishes to resign or is incapable of acting, he shall be replaced as Scheme Administrator by such other Person as the Scheme Creditors' Committee shall nominate. Any Scheme Administrator so appointed shall as soon as practicable following his appointment, give written notice of his appointment to all Scheme Creditors.

1.11 Each Scheme Administrator (in his capacity as such):

1.11.1 shall have only those duties and responsibilities expressly specified in the Scheme and shall not have any implied duties or responsibilities whatsoever; and

1.11.2 may refrain from doing anything which would or might in his opinion be contrary to any law, directive or regulation of any applicable jurisdiction and may do anything which is, in his opinion, necessary to comply with any such law, directive or regulation and such Scheme Administrator shall not be liable for any loss occasioned thereby.

## SCHEME OF ARRANGEMENT

- 1.12 The Scheme Administrators shall be entitled to exercise such rights and powers as are necessary or desirable to give effect to the provisions of the Scheme and matters incidental thereto, and shall, without limitation, also be vested with powers equivalent to those vested in a liquidator in a winding-up of a company by the Hong Kong Court, save that in the Scheme, any power which would be exercisable by a liquidator only with the sanction of the Hong Kong Court or of a committee of inspection shall only be exercisable by Scheme Administrators with the sanction of the Scheme Creditors' Committee (which sanction shall not be unreasonably withheld, conditioned or delayed).
- 1.13 The Scheme Administrators shall act in the best interests of the Scheme Creditors at all times and use their best endeavours to realise the Scheme Assets and Scheme Shares (if applicable) at the highest value. While the Scheme Administrators will endeavour to obtain the highest price for the Scheme Assets and Scheme Shares (if applicable) as reasonably practicable in the circumstances, the Scheme Administrator cannot guarantee the price at which they will be sold. The Scheme Administrators may, but are not obliged to, seek directions from the Scheme Creditors' Committee before disposing of any Scheme Assets and/or Scheme Shares (if applicable) at any time if they consider appropriate.
- 1.14 A Scheme Creditors' Committee shall be formed in respect of the Scheme as soon as practicable after the Effective Date. The Scheme Creditors' Committee shall comprise three members. The members will be appointed at the Scheme Meeting. The quorum for the meeting of the Scheme Creditors' Committee shall be two members of the Scheme Creditors' Committee present in person or by proxy. Any decision shall be by a majority of those present and in the case of an equality of votes the member with the highest value of Admitted Claim present shall have a casting vote.
- 1.15 The Scheme Creditors' Committee shall act in the best interests of the Scheme Creditors. The Scheme Creditors' Committee will also provide a forum for the Scheme Administrators to turn to for advice and guidance on questions of strategy regarding the administration of the Scheme. If the Scheme Administrators disagree with the advice and guidance of the Scheme Creditors' Committee on any matter, they may refer the matter to the Scheme Creditors (either in writing or by general meeting). Alternatively, the Scheme Administrators can apply to the Hong Kong Court for direction and for the purpose only of providing guidance regarding the administration of the Scheme.
- 1.16 Each corporate member of the Scheme Creditors' Committee shall be represented by a nominated representative. The relevant Scheme Creditor shall notify the Scheme Administrators in writing as soon as practicable after any change of the identity of any nominated representative.

## SCHEME OF ARRANGEMENT

- 1.17 The Scheme Creditors' Committee shall receive oral or written reports from and meet with the Scheme Administrators as often as deemed necessary by the Scheme Administrators or the Scheme Creditors' Committee and shall consider requests, if any, by the Scheme Administrators for approval or directions on matters concerning the administration of the Scheme, which approval or directions may not be unreasonably withheld or delayed. The Scheme Administrators shall provide to the Scheme Creditors' Committee such relevant information as they may from time to time reasonably require in relation to any decision that the Scheme Creditors' Committee is required to make.
- 1.18 Each member of the Scheme Creditors' Committee (in its capacity as such):
- 1.18.1 shall have only those duties and responsibilities expressly specified in the Scheme and shall not have any implied duties or responsibilities whatsoever; and
  - 1.18.2 may refrain from doing anything which would or might in its opinion be contrary to any law, directive or regulation of any applicable jurisdiction and may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation and such Scheme Creditors' Committee member shall not be liable for any loss occasioned thereby.
- 1.19 Resignation procedures for a member of the Scheme Creditors' Committee are as follows:
- 1.19.1 A member of the Scheme Creditors' Committee may give seven days' prior notice in writing at any time to the Scheme Administrators that it wishes to resign from the Scheme Creditors' Committee.
  - 1.19.2 Upon receipt of such notice of intended resignation, the Scheme Administrators with the prior consent of the majority in number of the Scheme Creditors shall in writing appoint another Scheme Creditor to be the successor to the resigning Scheme Creditor.
  - 1.19.3 The resignation of any member of the Scheme Creditors' Committee and the appointment of any successor member will become effective only upon the successor member notifying the Scheme Administrators that it accepts its appointment.
  - 1.19.4 Any Scheme Creditor so appointed to the Scheme Creditors' Committee shall, from the date of appointment, be bound by all of the duties and responsibilities of the Scheme Creditors' Committee expressly specified in the Scheme.
  - 1.19.5 The resigning member shall, at its own costs, make available to the successor member such documents and records and provide such assistance as the successor member may reasonably request for the purposes of performing its functions as a member of the Scheme Creditors' Committee.

## SCHEME OF ARRANGEMENT

### Clause 2 Terms of the Scheme

#### Effective Date of the Scheme

- 2.1 The Scheme will be implemented in Hong Kong. The Creditors will be asked to consider and, if thought fit, approve the terms of the Scheme as contained in this Document at the Scheme Meeting. Where the Scheme is approved by the Creditors at the Scheme Meeting, then the sanction of the Hong Kong Court will be sought for the Scheme.
- 2.2 After the sanction of the Hong Kong Court is obtained, an office copy of the Court Order sanctioning the Scheme will be delivered to the Companies Registry in Hong Kong for registration and the date of the registration shall be the Registration Date for the purpose of the Scheme.
- 2.3 The SchemeCo will be established to hold the Scheme Assets (on trust for the benefit of Scheme Creditors) and Scheme Shares (on trust for the benefit of those Scheme Creditors who have validly elected to receive cash *in lieu* of the Scheme Shares that they would otherwise be entitled to receive under the Scheme) (if applicable) for settlement of all Admitted Claims of the Scheme Creditors under the Scheme.
- 2.4 The Scheme will become unconditional and come into effect upon the Effective Date, being the date on which all of the conditions set out in Clause 1.9 above are satisfied. The Scheme will remain binding and effective after the Effective Date.
- 2.5 All the Claims owing by the Company to the Creditors as of the Effective Date will be discharged and released in full as against the Company on the Effective Date.
- 2.6 Subject to the terms hereof, the Scheme Creditors will receive Cash Dividend (after the settlement of any Preferential Claims and the Scheme Costs and subject to any reserve which the Scheme Administrators may make for Unadmitted Claims) and, in the case of Scheme Creditors who have not elected to receive cash *in lieu* of Scheme Shares, the Scheme Shares, proportionally based on their respective Admitted Claims. The amount of Claims to be admitted by the Scheme Administrators or the Adjudicator shall not include any interest accrued on the Principal owed by the Company.

#### SchemeCo & Scheme Trust Account

- 2.7 The SchemeCo is wholly-owned and controlled by the Scheme Administrators. The SchemeCo shall hold all Scheme Assets (on trust for the benefit of Scheme Creditors) and Scheme Shares (on trust for the benefit of those Scheme Creditors who have validly elected to receive cash *in lieu* of Scheme Shares) (if applicable), which shall be distributed to the Scheme Creditors, subject to the payment of the Preferential Claims and the Scheme Costs, in accordance with the provisions of the Scheme.

## SCHEME OF ARRANGEMENT

- 2.8 If the Scheme is implemented, the Scheme Administrators shall on the Effective Date, or as soon as reasonably practicable thereafter and by date(s) as agreed with the Scheme Creditors' Committee, (i) open the Scheme Trust Account for the SchemeCo and shall deposit all proceeds from the Scheme Assets realised or recovered by them in their capacity as the Scheme Administrators into the Scheme Trust Account, and (ii) open the Scheme Trust Account (Shares) for the SchemeCo and shall deposit all proceeds from the sale and realisation of those Scheme Shares that are subject to a valid election by Scheme Creditors who have validly elected to receive cash *in lieu* of Scheme Shares into the Scheme Trust Account (Shares). If no agreement is reached with the Scheme Creditors' Committee, the Scheme Administrators can apply to the Hong Kong Court to seek directions for the purpose of carrying out their obligations under this clause.
- 2.9 The Scheme Administrators shall take such steps as are appropriate, having regard to the potential costs of and benefits from such steps, to realise the Scheme Assets which have been transferred to the SchemeCo. The net proceeds realised from the Scheme Assets and received by the Scheme Administrators shall be paid into the Scheme Trust Account as Scheme Funds.

### **Constitution of Scheme Funds and Scheme Assets**

- 2.10 From the Effective Date, the source of Cash Dividend to be made available to Scheme Creditors will be the Scheme Assets transferred to the SchemeCo from time to time which become Scheme Funds after realisation and payment into the Scheme Trust Account as Scheme Funds.
- 2.11 The following Scheme Assets will be transferred to the SchemeCo and will be, after realisation if so required, paid into the Scheme Trust Account and maintained by the Scheme Administrators and will be available for distribution to the Scheme Creditors, subject to the prior payment of any Preferential Claims and the Scheme Costs:
- 2.11.1 the Initial Cash Payment, being the amount of HK\$45 million in cash and a part of the Subscription Proceeds;
- 2.11.2 the Interests in Scheme Subsidiaries, the underlying major assets of which are loan receivables, real estate properties, and interests in associates; and
- 2.11.3 any claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group and the benefit of all sums resulting from such rights or claims.<sup>6</sup>
- 2.12 The Scheme Administrators shall have no liability for the Scheme Costs. All property received by the Scheme Administrators in their capacity as such, including the Scheme Funds, shall be held on trust to pay the Scheme Costs, any Preferential Claims and to pay the Cash Dividend to the Scheme Creditors.

<sup>6</sup> As at the date of the Scheme Document, to the best knowledge of the Company, there are no claim or rights to claim of the Company against Mr. Jiang Jianjun.

## SCHEME OF ARRANGEMENT

- 2.13 The Admitted Claims will be settled by the Scheme Administrators paying to each Scheme Creditor in respect of their respective Admitted Claims on a *pari passu* basis, from the Scheme Funds from time to time credited to the Scheme Trust Account. The Scheme Administrators have power to make interim distributions provided that they reserve in full for the Unadmitted Claims, if necessary.
- 2.14 The distribution of the Cash Dividend and the Scheme Shares (or in the case of Scheme Creditors who have validly elected to receive cash *in lieu* of the Scheme Shares, the sale proceeds arising from the Scheme Shares that they would otherwise be entitled to receive but for the election) to the Scheme Creditors under the Scheme shall be in full and final settlement of the Scheme Creditors' Claims. Upon receiving the Cash Dividend and where applicable, any Scheme Shares, the Scheme Creditors shall have no claim or whatsoever nature of claim against the Company and/or the SchemeCo.

### **Realisation of Scheme Assets**

- 2.15 Within 30 days after the Registration Date or such extended date as may be agreed by the Company with the Scheme Administrators, as a condition to the Scheme, the Initial Cash Payment will be paid from the Subscription Proceeds, which would be deposited into the Scheme Trust Account thereafter.
- 2.16 On the Effective Date, or such later date agreed in writing between the Company and the Scheme Administrators, the Company shall execute all necessary documentation, as may be reasonably requested by the Scheme Administrators, in order to transfer the interests in Scheme Subsidiaries to the SchemeCo, and shall take such other steps and execute such other documents as, in the opinion of the Scheme Administrators, are necessary for the realisation of the shares in or the assets of the Scheme Subsidiaries.
- 2.17 From the Effective Date to the date of termination of the Scheme in accordance with Clause 9 of the Scheme, the Company shall, from time to time: (i) execute all necessary documentation, as may be reasonably requested by the Scheme Administrators, in order to assign to the SchemeCo unconditionally and irrevocably any claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group and the benefit of all sums resulting from such rights or claims subsisting the Effective Date, and (ii) provide to the Scheme Administrators and the SchemeCo full access of any information and/or documents for the purpose of investigating and/or pursuing any claims against Mr. Jiang Jianjun as requested by the Scheme Administrators with reasonable notice given to the Company.
- 2.18 On or before the Long Stop Date, or such later date may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors' Committee, the Scheme Administrators shall complete the disposal of the Interests in Scheme Subsidiaries with the proceeds deposited into the Scheme Trust Account and thereafter applied in accordance with Clause 7 of the Scheme.

## SCHEME OF ARRANGEMENT

2.19 The Scheme Administrators will use their best endeavours to realise the Scheme Assets to generate the highest return reasonably practicable in the circumstances, subject to the payment of the Preferential Claims and the Scheme Costs, for the benefit of the Scheme Creditors. Where the Scheme Assets are held in the form of cash, the Scheme Administrators shall transfer the Scheme Assets to the Scheme Trust Account as soon as practicable.

### **Clause 3 Preferential Claims, guarantee Claims and non-Preferential Claims**

#### **Preferential Claims**

- 3.1 The Scheme Administrators shall discharge all Preferential Claims, if any, against the Company out of the Scheme Funds in priority to the Scheme Costs and the distribution(s) in respect of any Admitted Claims of Ordinary Creditors.
- 3.2 A Preferential Creditor who has an Admitted Claim comprising a Preferential Claim and non-Preferential Claim will be paid in full to the extent of its Preferential Claim, and in respect of the non-Preferential Claim, it will be entitled to receive the Cash Dividend and, if it so elects, Scheme Shares in accordance with Clause 2 of the Scheme.

#### **Guarantee Claims and non-Preferential Claims**

- 3.3 A Creditor may claim in full in respect of any guarantee(s) given by the Company, after set-off in respect of mutual debts, except that the amount of its Admitted Claim will be reduced by the amount of its receipts from the primary obligor.
- 3.4 If a Scheme Creditor's aggregate receipts from the Scheme and the primary obligor exceed the total amount of the Scheme Creditor's Admitted Claim, the Scheme Creditor shall repay such excess to the Scheme Administrators.
- 3.5 All guarantees given by the Company forming the basis for or part of any Admitted Claims shall be unconditionally satisfied and discharged in full upon implementation of the Scheme and requisite payment being made in respect of such Admitted Claims.
- 3.6 For non-Preferential Claims, the Cash Dividend will, subject to prior payment of any Preferential Claim and the Scheme Costs, be distributed to the Scheme Creditors in respect of their respective Admitted Claims on a *pari passu* basis.

## SCHEME OF ARRANGEMENT

### **Clause 4 Proof and determination of Claims**

4.1 As soon as practicable after the Effective Date, the Scheme Administrators will issue notices to all Creditors of whom they have knowledge by letter and by advertisement in one English language newspaper and one Chinese language newspaper in Hong Kong stating that Creditors must submit a Notice of Claim for Dividend Purpose to the Scheme Administrators on or before the Cut-Off Date. At the time of the notification by post, the Scheme Administrators shall also send to the Creditors a Notice of Claim for Dividend Purpose substantially in the form set out in Appendix 3B to this Document.

4.2 No later than 5:00 p.m. (Hong Kong time) on the Cut-Off Date, each Creditor shall deliver to the Scheme Administrators at its own expense:

4.2.1 A Notice of Claim for Dividend Purpose in respect of the amount of the indebtedness claimed to be owed to it by the Company as at the Effective Date, completed substantially in accordance with the instructions printed on such notice; and

4.2.2 such documents or other evidence necessary or as the Scheme Administrators shall reasonably require for the purpose of substantiating the whole or any part of its Claim.

Any subsequent Notice of Claim for Dividend Purpose delivered to the Scheme Administrators in compliance with this Clause shall supersede any prior Notice of Claim for Voting Purpose. If any Creditors fail to submit the Notice of Claim for Dividend Purpose on or before the Cut-Off Date, subject to the Scheme Administrators' absolute discretion of accepting late submission of any Notice of Claim for Dividend Purpose, the corresponding Creditors will be regarded as forgoing their Claims against the Company and shall not be entitled to participate in the Scheme.

4.3 The Scheme Administrators shall examine every Notice of Claim for Dividend Purpose lodged with them and the related evidence, and shall as soon as practicable decide whether to admit or reject the Claim, in whole or in part, or require further evidence in support of it. The Scheme Administrators shall send to each Creditor notice in writing of their decision relating to that Creditor's Claim. Where the decision is to reject the Claim in whole or in part, the Scheme Administrators' notice of decision is to be accompanied by written reasons for the decision.

4.4 Any amount of an Admitted Claim which is in a currency other than Hong Kong Dollars shall for all purposes be converted to Hong Kong Dollars based on the rate for the purchase of the relevant currency offered by The Hongkong and Shanghai Banking Corporation Limited at the close of business on the Effective Date or, in the event of manifest error or non-publication, the offered rate for the purchase of the relevant currency of such other licensed bank in Hong Kong as the Scheme Administrators shall select and shall, for the purpose of the Scheme, be due in Hong Kong Dollars.

4.5 Interest on any amount of the indebtedness owing under a Claim which is payable at a certain time or otherwise shall not be provable or admissible as part of the Claim.

## SCHEME OF ARRANGEMENT

- 4.6 Where there are mutual credits, mutual debts or other mutual dealings between the Company and any Creditor before the Effective Date, set-off shall be provided for in the process of determining a Claim.
- 4.7 In respect of Secured Creditors:
- 4.7.1 as expressly stated in Clause 4.7.2 and 4.7.3 below, the Scheme is without prejudice to Secured Creditors' rights and entitlements in any Security Interest they hold over any assets of the Company. Unless a Secured Creditor has agreed an appraised value for its Security Interest pursuant to Clause 4.7.2 below or released its Security Interest pursuant to Clause 4.7.3 below, that Secured Creditor's Claim will be treated as an Unadmitted Claim for which appropriate reserves will be made by the Scheme Administrators out of the Scheme Funds, pending the Secured Creditor notifying the Scheme Administrators that it has realised its Security Interest and providing details of its unsecured Claim (if any), or, if earlier, releasing or agreeing with the Scheme Administrators a value for its Security Interest.
- 4.7.2 A Secured Creditor may agree with the Scheme Administrators an appraised value for its Security Interest and participate in the Scheme as a Scheme Creditor for the unsecured portion of its Admitted Claim. The agreed appraised value of the Security Interest shall be deducted from its Claim for the purposes of determining the amount of its Admitted Claim.
- 4.7.3 A Secured Creditor may release its Security Interest and participate in the Scheme as a Scheme Creditor whereupon its entire Claim will be treated as unsecured. In such case, no deduction on account of its Security Interest shall be made from its Claim for the purpose of calculating the amount of its Admitted Claim. The Security Interest so released, in so far as it is the Company's property, shall become Scheme Asset and will be realised with the proceeds to be deposited into the Scheme Trust Account and thereafter applied in accordance with Clause 7 of the Scheme.
- 4.7.4 A Secured Creditor shall pay to the Scheme Administrators any amount received in excess of its Claim from the net proceeds of realisation of its Security Interest and distributions received by it under the Scheme.
- 4.8 Each Creditor will:
- 4.8.1 in completing its Notice of Claim for Dividend Purpose take into account any amount received from the primary obligor prior to the date on which it submits its Notice of Claim for Dividend Purpose pursuant to Clause 4.2 above; and
- 4.8.2 pay to the Scheme Administrators any amounts received from the primary obligor or any surety or co-surety if and to the extent the aggregate amount of the Scheme Creditor's receipts under the Scheme and from the primary obligor or any surety or co-surety exceed the total amount of its Admitted Claim.

## SCHEME OF ARRANGEMENT

### 4.9 Adjudication

- 4.9.1 If a Creditor is dissatisfied with the Scheme Administrators' decision in respect of his Claim, he may within twenty-one days from the date of service of the notice of the decision as provided in Clause 4.3 above, apply in writing (with a copy to the Scheme Administrators) to the Adjudicator for a review of such decision. The Creditor must, at the time of making application to the Adjudicator, pay to the Adjudicator on account of the Adjudicator's costs the sum of HK\$50,000, failing which the Creditor's application for review will be invalid.
- 4.9.2 The Adjudicator, acting as an expert and not as an arbitrator shall adopt such procedures as the Adjudicator may think fit to enable him to decide whether the decision should be upheld, reversed or varied, provided that the Adjudicator shall not be entitled to rely on any information provided to him by the relevant Creditor that was not provided to the Scheme Administrators for the purposes of their determination. The Scheme Administrators will use reasonable endeavours to procure that the Adjudicator delivers notice of his decision to the relevant Creditor and the Scheme Administrators as soon as practicable after the Creditor's application for review. The Adjudicator's decision shall be final, conclusive and binding on the Creditor and the Scheme Administrators.
- 4.9.3 If no valid application for a review of the Scheme Administrators' decision is served on the Adjudicator by the Creditor to whose Claim that decision relates within twenty-one days of service of notice of the Scheme Administrators' decision, that decision will be binding on the Creditor.
- 4.9.4 Any Adjudicator's costs which exceed the payment on account referred to in Clause 4.9.1 above shall be paid out of Scheme Funds as Scheme Costs.
- 4.9.5 If the Adjudicator upholds the Scheme Administrators' decision in full the relevant Creditor shall pay to the Scheme Administrators an amount equal to any payment made under Clause 4.9.4 above.
- 4.9.6 If the Adjudicator decides to vary or reverse the Scheme Administrators' decision, the Scheme Administrators will pay to the relevant Creditor out of Scheme Funds an amount equal to the payment on account under Clause 4.9.1 above.
- 4.10 A Notice of Claim for Dividend Purpose may be withdrawn or varied only with the prior written agreement of the Scheme Administrators.
- 4.11 The Scheme Administrators may but are not obliged to accept a Notice of Claim for Dividend Purpose received after the Cut-Off Date but before the First Distribution Date if and only if they are satisfied, in their absolute discretion, that there is a reasonable explanation for the failure to deliver the Notice of Claim for Dividend Purpose by the Cut-Off Date.

## SCHEME OF ARRANGEMENT

4.12 Any Claim or part of a Claim which is not proved in accordance with this Clause 4 or which is rejected by the Scheme Administrators or the Adjudicator or not received on or before the Cut-Off Date (subject to Clause 4.11), shall be treated (and, if rejected in part, as to that part only) for all purposes as having been wholly and irrevocably discharged and released, and no Creditor shall be entitled to payment thereof or make any Claim or initiate any proceedings against the Company or the SchemeCo in relation thereto.

### **Clause 5 Bar to further proceedings**

- 5.1 All Claims owing to the Creditors as of the Effective Date will be discharged and released in full as against the Company on the Effective Date.
- 5.2 From the Effective Date, none of the Creditors shall be entitled to demand or exercise any right of set-off against the Company in respect of its Claim, nor be able to seek to recover from the Company by legal process or otherwise, or to take any step or proceedings against the Company or its property or assets, for the purpose of enforcing its Claim or recovering any part of its Claim by way of execution or otherwise, or to commence or prosecute or join in any proceedings to wind up the Company based upon its Claim.
- 5.3 The complete implementation of the Scheme shall constitute full and final satisfaction of all Claims the Creditors have against the Company and all obligations and liabilities of the Company under the Scheme.

### **Clause 6 Issue and Disposal of Scheme Shares**

- 6.1 The Company shall issue and allot the Scheme Shares, credited as fully paid, to the Scheme Creditors or, in the case of any Scheme Creditor who has validly elected to receive cash *in lieu* of the Scheme Shares that they would otherwise be entitled to receive under the Scheme, to the SchemeCo for the benefit of such Scheme Creditor, in accordance with this Clause 6.
- 6.2 For any Scheme Creditors who do not elect to receive cash *in lieu* of Scheme Shares, within 28 days after the completion of the proof and determination of all claims by the Scheme Administrator and/or the Adjudicator in accordance with Clause 4 above, the Company shall in accordance with the directions of the Scheme Administrator allot and issue the Scheme Shares to the relevant Scheme Creditors, and the Scheme Administrator will either (1) deliver (or procure to be delivered) to the Scheme Creditors the relevant share certificate(s) issued in the name of the Scheme Creditor (subject to the completion of any necessary procedures imposed by the Company's share registrar), or (2) deposit (or procure the same to be deposited) the same into an account of a CCASS participant with whom the Scheme Creditor has an account which has been notified to the Scheme Administrator, in each case in such time as may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors' Committee.

## SCHEME OF ARRANGEMENT

- 6.3 Scheme Creditors may elect to receive cash *in lieu* of Scheme Shares by giving notice in writing given to the Scheme Administrator, in which case the Scheme Creditors concerned would receive cash arising from the sale of the Scheme Shares that they would otherwise be entitled to receive under the Scheme but for the election proportionate to their respective Admitted Claims.
- 6.4 No election shall be valid (and in that case the relevant Scheme Creditor will receive the Scheme Shares it is entitled to receive under the Scheme) unless the Scheme Administrator is notified
- 6.4.1 in writing;
- 6.4.2 supplemented by such supporting documents as the Scheme Administrators may reasonably request for the purposes of effecting the transfer to the Scheme Creditor, and
- 6.4.3 such notice is delivered to the Scheme Administrators in accordance with Clause 12 on or before the Cut-Off Date.
- 6.5 The Scheme Administrators shall have the right to reject any election that it determines as being invalid or otherwise deficient in any respect (in which case the relevant Scheme Creditor will receive the Scheme Shares it is entitled to receive under the Scheme). In addition, the Scheme Administrators shall also have the right in their sole and absolute discretion to treat any election that has not been completed in accordance with the terms of the Scheme as being valid. Any election shall be irrevocable and incapable of being withdrawn, and the Scheme Administrators shall not be obliged to give notice acknowledging the receipt of any election or any defects or irregularities therein.
- 6.6 Should any Scheme Creditor elect to receive cash *in lieu* of Scheme Shares, the Company shall in accordance with the directions of the Scheme Administrator allot and issue the Scheme Shares in concern to the SchemeCo (on trust for benefit of the Scheme Creditors) within 28 days after the completion of the proof and determination of all claims by the Scheme Administrator and/or the Adjudicator in accordance with Clause 4 above, which shall remain under the control of the Scheme Administrators to be sold and proceeds distributed in accordance with Clauses 6.7 to 6.9 below.
- 6.7 The Scheme Administrators shall endeavour to procure the disposal and realisation of the Scheme Shares taking into account of the prevailing and reasonably expected market conditions. While the Scheme Administrators will endeavour to obtain the highest price for the Scheme Shares concerned as reasonably practicable in the circumstances, the Scheme Administrators cannot guarantee the price at which they will be sold.
- 6.8 The relevant Scheme Shares shall be disposed of within 3 months of their issue and allotment, or within such other timeframe as the Scheme Administrators may determine in their sole and absolute discretion in consultation with the Scheme Creditors' Committee.

## SCHEME OF ARRANGEMENT

6.9 The Scheme Administrator shall pay the cash proceeds from realisation of the relevant Scheme Shares that is subject to a valid election to the relevant Scheme Creditor that had made such election to receive cash *in lieu* of the Scheme Shares in such time as may be reasonably prescribed by the Scheme Administrators in consultation with the Scheme Creditors' Committee.

### **Clause 7 Distribution of Scheme Funds in the Scheme Trust Account**

7.1 The Scheme Funds whilst controlled by the Scheme Administrators shall be applied in or towards payment of (in the following order): firstly, the Preferential Claims, if any; secondly, the Scheme Costs, and thereafter, where applicable subject to any reserve which the Scheme Administrators may make as described in Clauses 7.3 and 7.4 below, the balance shall be applied toward payment of the Cash Dividend to the Scheme Creditors and rateably amongst them in respect of the Admitted Claims as determined by the Scheme Administrators pursuant to Clauses 7.3 and 7.4 below.

7.2 Subject to the admission of a Claim of a Creditor, the Scheme Creditors shall be entitled to be paid in full from the Scheme Funds, subject to Clause 7.1 above, in respect of the preferential parts of such Admitted Claim and to receive the Cash Dividend in respect of the non-preferential part of such Admitted Claim of an amount to be determined and distributed from time to time by the Scheme Administrators under the Scheme, having regard to:

7.2.1 the amount of the Scheme Funds then available;

7.2.2 the current aggregate amount of the Admitted Claims and Unadmitted Claims; and

7.2.3 any sum to be retained out of the Scheme Funds for the Scheme Costs as may be determined by the Scheme Administrators under the Scheme.

7.3 After payment of any Preferential Claims, the Scheme Administrators shall reserve sufficient sum in the Scheme Funds for the payment of all Scheme Costs (including anticipated Scheme Costs). As soon as practicable after the Effective Date, and from time to time during their administration of the Scheme, the Scheme Administrators shall determine the amount of Scheme Funds available for distribution having regard to the reserve required for the payment of Scheme Costs and the aggregate amount of Unadmitted Claims. The Scheme Administrators shall then pay interim Cash Dividend to Scheme Creditors with Admitted Claims in amounts determined in accordance with Clause 7.4 below.

7.4 The Scheme Administrators shall have the power to make interim distributions of the Cash Dividend to the Scheme Creditors. The Scheme Administrators shall set the interim Cash Dividend at a level which will enable them to pay a percentage distribution to the Scheme Creditors and at the same time reserve in Scheme Funds an amount equal to the amount which would be required to pay the same Cash Dividend to Creditors with Unadmitted Claims if their Claims were to be admitted in full. As soon as practicable after an Unadmitted Claim becomes an Admitted Claim, the Scheme Administrators shall distribute to the Creditor whose Claim has become an Admitted Claim the proportion of

## SCHEME OF ARRANGEMENT

the Admitted Claim equal to the proportion paid to all other Scheme Creditors with Admitted Claims. The Scheme Administrators will review the interim Cash Dividend percentage on a regular basis.

- 7.5 From the Effective Date, each of the Creditors discharges and releases all its Claims against the Company in consideration of the right to participate with each other Scheme Creditor in the distribution of the Scheme Funds on the terms of the Scheme.

### **Clause 8 Payment and delivery of Cash Dividend and discharge**

- 8.1 All Cash Dividend and any cash *in lieu* of Scheme Shares (if applicable) payable to the Scheme Creditors will be paid by cheque drawn in favour of the relevant Scheme Creditor and will be sent by post (or at the Scheme Administrators' discretion by ordinary airmail if posted to an address outside Hong Kong) to the address of the relevant Scheme Creditor as appearing in that Scheme Creditor's Notice of Claim for Dividend Purpose or as provided by the Scheme Creditor to the Scheme Administrators under the Scheme, at the relevant Scheme Creditor's sole risk. The encashment of the cheque shall be a good discharge to the SchemeCo and the Scheme Administrators.
- 8.2 Neither the SchemeCo nor the Scheme Administrators shall be liable to a Scheme Creditor for any loss in transmission of a cheque drawn and sent in accordance with Clause 8.1 above. If a cheque drawn in favour of a Scheme Creditor which is dispatched in accordance with Clause 8.1 above is not encashed within six months of the date of the issuance of the cheque, the Scheme Creditor's entitlement under the Scheme in the amount of such cheque shall cease and determine and the amount thereof shall become Scheme Funds.
- 8.3 Alternatively, Scheme Creditors may choose to receive the Cash Dividend and any cash *in lieu* of Scheme Shares (if applicable) by way of remittance from Scheme Trust Account to their respective bank accounts (with bank account details being provided to the Scheme Administrators under the Scheme) at the relevant Scheme Creditor's sole risk.
- 8.4 Neither the SchemeCo nor the Scheme Administrators shall be liable to a Scheme Creditor for any costs and/or loss in remittance of the Cash Dividend in accordance with Clause 8.3 above.
- 8.5 Each Ordinary Creditor (and/or each Preferential Creditor to the extent of any Claim of theirs that is non-preferential) shall accept payment of the Cash Dividend, any cash *in lieu* of Scheme Shares (if applicable), and where applicable, the receipt of Scheme Shares, in accordance with the provisions of the Scheme in full and final satisfaction and discharge of his non-Preferential Claim.

## SCHEME OF ARRANGEMENT

### **Clause 9 Termination of the Scheme**

- 9.1 The Scheme will come to an end if the Scheme Administrators, with the consent of the Scheme Creditors' Committee, give notice to the Scheme Creditors informing the Scheme Creditors that all or substantially all of the Scheme Assets and Scheme Shares (and any cash *in lieu* of Scheme Shares, should any Scheme Creditor elect to receive cash *in lieu* of Scheme Shares) have been realised, and proceeds of which have been transferred to the Scheme Trust Account and that the Scheme Administrators are satisfied that all Cash Dividend has been distributed to the Scheme Creditors as appropriate and the continuation of the Scheme is no longer beneficial to the general body of the Scheme Creditors. In this situation, the Scheme will come to an end from the date of such notice. The duties and responsibilities of the Scheme Administrators and the members of the Scheme Creditors' Committee under the Scheme will cease on the date of such notice.
- 9.2 The Scheme Administrators shall give notice of the date of termination of the Scheme to the Scheme Creditors in writing as soon as practicable after such termination.

### **Clause 10 Liability and indemnity**

- 10.1 Save in respect of fraud, dishonesty or breach of trust, none of the Scheme Administrators and their representatives, partners, staff, agents and advisers (including legal advisers) shall have or incur any liability for actions taken or omitted to be taken in good faith under, or in connection with the negotiation and preparation of the Scheme or otherwise.
- 10.2 None of the Scheme Administrators or any of their representatives, partners, staff, agents and advisers (including legal advisers) shall incur any personal liability under the terms of the Scheme or otherwise.
- 10.3 The Creditors or the Company shall not be entitled to challenge the validity of any act done or omitted to be done in good faith by the Scheme Administrators or by a member of the Scheme Creditors' Committee or nominated representatives in accordance with and to implement the provisions of the Scheme or the exercise by such Person in good faith of any power conferred upon it or him for the purpose of the Scheme and no such Person shall be liable for any loss of any kind whatsoever unless such loss is attributable to its or his own wilful default, fraud, dishonesty or wilful breach of duty or trust.
- 10.4 Save for clause 10.5 below, the Company shall under no circumstances be liable for any claim or liability arising out of or relating to the implementation or performance of the terms of the Scheme.
- 10.5 The Company and the Scheme Creditors shall, out of the Scheme Funds only, indemnify the Scheme Administrators against all expenses and against all costs, claims, expenses, losses, damages and liabilities of any description which may be incurred or suffered by the Scheme Administrators in good faith and commensurate with the standard of a reasonable Scheme Administrator in the performance of their role.

## SCHEME OF ARRANGEMENT

### **Clause 11 Modification to the Scheme**

- 11.1 The Company may, at any hearing to sanction this Scheme, consent on behalf of all Creditors to any modification of this Scheme or any additions or any other terms or conditions which the Hong Kong Court may think fit to approve or impose and which would not directly or indirectly have a material adverse effect on the interests of any Creditor under this Scheme.
- 11.2 On or after the Effective Date, the Scheme Administrators may at any time, if they consider it expedient and in the interests of the Scheme Creditors to do so and subject to consultation and with the consent of Scheme Creditors' Committee and the Company, apply to the Hong Kong Court for the purpose of modifying the provision of the Scheme or obtaining direction from the Hong Kong Court on how to deal with any matters or disputes which may arise in respect of the administration of the Scheme, provided that no further obligations or liabilities may be imposed on the Company and the Company may not be adversely affected by such modification or direction. If the Hong Kong Court approves a modification to the Scheme or gives a direction in relation to any matter or dispute which may arise in respect of the Scheme, it shall be binding on the Company and the Scheme Creditors.

### **Clause 12 General**

#### 12.1 Notice or demand

- 12.1.1 Save as otherwise provided in the Scheme, any notice or demand hereby required to be given shall be sufficiently given by posting the same by ordinary post (or airmail if outside Hong Kong) or transmission by fax or by leaving the same at:
- 12.1.2 in the case of the Scheme Administrators, the office of Deloitte Touche Tohmatsu at 35/F., One Pacific Place, 88 Queensway, Hong Kong (Fax: +852 2541 1911) (Attention: Ms. Eileen Ma); and
- 12.1.3 in the case of any of the Scheme Creditors, the Scheme Creditor's address or its fax number as set out in its Notice of Claim for Voting Purpose.
- 12.1.4 If such notice or demand is posted, it shall be deemed to have been received by the addressee 48 hours (or 72 hours, if to be sent outside Hong Kong) after the same shall have been posted and proof that an envelope containing such notice or demand was properly addressed, prepaid and posted shall be sufficient evidence that such notice or demand has been duly served or given. If such notice or demand is delivered by hand, it shall be deemed to have been received by the addressee when the same is left at the relevant address and proof that the same was so left shall be sufficient evidence that such notice or demand has been duly served or given. If such notice or demand is transmitted by fax, it shall be deemed to have been received at the time of transmission, save that if such transmission is effected otherwise than between 9:00 a.m. and 4:00 p.m. on a Business Day in the territory in which the person to whom such transmission is effected is located, such transmission shall be deemed to have been received at 9:00 a.m. on the next

## SCHEME OF ARRANGEMENT

Business Day in such territory and proof that such notice or demand was successfully transmitted to the correct fax number (by way of transmission confirmation or otherwise) shall be sufficient evidence that such notice or demand has been duly served or given.

### 12.2 Currency Conversion

Admitted Claims in currencies other than Hong Kong Dollars shall, for all purposes, be converted to Hong Kong Dollars based on the rate for the purchase of the relevant currency as offered by The Hongkong and Shanghai Banking Corporation Limited at close of business on the Effective Date or, in the case of manifest error or non-publication, the relevant offered rate of such other licensed bank in Hong Kong as the Scheme Administrators shall select and shall, for the purpose of the Scheme, be due in Hong Kong Dollars.

### 12.3 Legality, validity and enforceability

Notwithstanding anything contrary in any provision of the Scheme, if any provision of the Scheme is held or found to be void, invalid or otherwise unenforceable under the laws of Hong Kong, such provision will be deemed to be severed from the Scheme to the extent only that it is void, invalid or unenforceable but the remaining provisions of the Scheme will remain in full force and effect.

### 12.4 Governing law and jurisdiction

The Scheme shall be governed by, and construed in accordance with, the laws of Hong Kong and the Creditors agree that the Hong Kong Court will have exclusive jurisdiction to determine any dispute or proceeding arising out of the construction of this Document, the Scheme, or the administration and implementation of the Scheme. In respect of the administration of the Scheme after the Effective Date, Creditors shall submit to the exclusive jurisdiction of the Hong Kong Court in respect of the resolution of their Claims.

HCMP 397/2023

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 397 OF 2023**

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IN THE MATTER OF CHINA BEIDAHUANG  
INDUSTRY GROUP HOLDINGS LIMITED

and

IN THE MATTER OF SECTIONS 670, 671, 673  
AND 674 OF THE COMPANIES ORDINANCE  
(CAP. 622)

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**BEFORE THE HONOURABLE MADAM JUSTICE LINDA CHAN IN CHAMBERS**

**ORDER**

UPON THE APPLICATION of China Beidahuang Industry Group Holdings Limited (the “**Applicant**”) by way of Ex-parte Originating Summons filed on 10 March 2023

AND UPON READING the Affirmation of Chen Chen filed on 12 June 2023, the 2nd Affirmation of Chen Chen filed on 15 June 2023, the 3rd Affirmation of Chen Chen filed on 25 July 2023, the 1st Affirmation of Wong Jun Yin Benjamin filed on 15 August 2023 (“**Wong 1st**”) together with the exhibits respectively referred thereto, the Letter from Simmons & Simmons to the Court dated 17 August 2023

AND UPON HEARING counsel for the Applicant

**IT IS ORDERED that:**

1. The Applicant DO HAVE LEAVE TO CONVENE a meeting to be held in Hong Kong (the “**Scheme Meeting**”) of the Creditors of the Company as defined in the Scheme hereinafter mentioned, with any adjournments as may be appropriate, for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement under section 673 of the Companies Ordinance (Cap. 622) proposed to be made between the Company and such Creditors (the “**Scheme**”) substantially in the form provided for in the Scheme Document exhibited as Exhibit “**WJYB-1/1**” to Wong 1st (together with such amendments as proposed by the Applicant).

2. At least twenty-one (21) days before the day appointed for the Scheme Meeting, a notice convening the same (the “**Notice of Scheme Meeting**”) and stating, *inter alia*, that a copy of the printed composite document (the “**Composite Document**”) containing the Scheme and an explanatory statement required to be furnished under section 671 of the Companies Ordinance (Cap. 622) (the “**Explanatory Statement**”), together with a form a proxy (“**Form of Proxy**”), can be obtained by any person entitled to attend the Scheme Meeting during usual business hours on any day (other than a Saturday, a Sunday or a public holiday) prior to the day appointed for the Scheme Meeting at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay, BE PLACED AND INSERTED as follows:
  - (1) once in one English language newspaper, namely “the Standard”, in circulation in Hong Kong; and
  - (2) once in one Chinese language newspaper, namely “Sing Tao Daily”, in circulation in Hong Kong.
3. At least twenty-one (21) days before the day appointed for the Scheme Meeting, a copy of the Notice of Scheme Meeting and the Composite Document containing the Scheme and Explanatory Statement, together with a Form of Proxy, be made available for download at <http://www.irasia.com/listco/hk/chinabeidahuang/>, and BE SENT to each of the Creditors as follows:
  - (1) in the case of such Creditors having their last known addresses in Hong Kong, by hand or by prepaid surface mail to such addresses; and
  - (2) in the case of such Creditors having their last known addresses elsewhere, by courier posted to such addresses.
4. The accidental omission to serve any Creditor with the Notice of Scheme Meeting or any of the documents referred to in paragraph 2 above, or the non-receipt by any Creditor of the same, shall not invalidate the proceedings at the Scheme Meeting or any resolutions passed thereat.
5. Subject to any further directions of the Court, the sanction of the Scheme is reserved to be heard in Open Court before the Honourable Madam Justice Linda Chan at 10:00 am on 29 November 2023.

AND THE COURT HEREBY APPROVED the proposed Notice of Scheme Meeting (substantially in the form of **Annexure 1** hereto) to be advertised in one English language newspaper and one Chinese language newspaper and the proposed Form of Proxy (substantially in the form of **Annexure 2** hereto).

AND THE COURT HEREBY APPOINTED Mr. Jiang Jiancheng, or failing him, one of the directors of the Company, to act as Chairman of the Scheme Meeting.

AND THE COURT ORDERED that the Chairman of the Scheme Meeting do report the results of the Scheme Meeting to the Court.

AND THAT the costs of this application be paid out of the assets of the Company.

AND THAT there be liberty to apply generally.

Dated this 18th day of August 2023

Registrar

IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 397 OF 2023

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IN THE MATTER OF  
CHINA BEIDAHUANG INDUSTRY GROUP HOLDINGS LIMITED  
(中國北大荒產業集團控股有限公司)

and

IN THE MATTER OF  
SECTIONS 670, 671, 673 AND 674 OF THE COMPANIES ORDINANCE  
(CAP. 622 OF THE LAWS OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION)

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NOTICE OF SCHEME MEETING

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Unless otherwise specified, terms used in this Notice have the same meanings as in the Explanatory Statement and the Scheme relating to the proposed scheme of arrangement between China Beidahuang Industry Group Holdings Limited (the “**Company**”) and the Creditors under Section 670 of the Companies Ordinance (Cap. 622).

NOTICE IS HEREBY GIVEN that, by an Order dated 18 August 2023 (the “**Court Order**”) made by the High Court of the Hong Kong Special Administrative Region (“**Court**”) in the above matter, the Court has granted leave to convene a Scheme Meeting (the “**Scheme Meeting**”) of the Creditors of the Company for the purpose of considering and, if thought fit, approving (with or without modification or condition approved and imposed by the Court) the Scheme proposed to be made between the Company and the Creditors pursuant to Sections 670, 671, 673 and 674 of the Companies Ordinance (Cap. 622).

The Scheme Meeting will be held at 2:00 p.m. (Hong Kong time) on 20 November 2023 at 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong, with any adjournment as may be appropriate. All Creditors are entitled (but not obligated) to attend the Scheme Meeting at such place and time either in person (or, if a corporation, by a duly authorised representative) or by proxy.

By the Court Order, the Court has appointed Mr. Jiang Jiancheng, or failing him, one of the directors of the Company, to act as chairman of the Scheme Meeting and to report the result thereof to the Court. As Mr. Jiang Jiancheng is unavailable, another director will take his place and Mr. Yang Yunguang, an independent non-executive director of the Company, shall act as chairman of the Scheme Meeting and report the result thereof to the Court.

A copy of the Scheme and a copy of the Explanatory Statement required to be furnished pursuant to Section 671 of the Companies Ordinance (Cap. 622) are incorporated in the Scheme Document of which this Notice forms part. The Scheme Document together with the Form of Proxy, a Notice of Claim for Voting Purpose and a Notice of Claim for Dividend Purpose have been posted to the registered or last known addresses of the Creditors in the books and records of the Company.

The Scheme Document together with the Form of Proxy, a Notice of Claim for Voting Purpose and a Notice of Claim for Dividend Purpose can also be obtained free of charge by any Creditor between the hours of 10:00 a.m. and 4:00 p.m. on weekdays (excluding public holidays in Hong Kong) prior to the day appointed for the Scheme Meeting at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay and are available for download at <http://www.irasia.com/listco/hk/chinabeidahuang>.

Creditors who intend to attend and vote at the Scheme Meeting must sign and return the Notice of Claim for Voting Purpose to Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (attention: Mr. Benny Lai Yubin), no later than 2:00 p.m. (Hong Kong time) on 10 November 2023 (i.e. ten (10) days before the date of the Scheme Meeting).

The Creditors may vote in person at the Scheme Meeting or they may appoint another person, whether a Creditor or not, as their proxy to attend and vote in their stead. A corporate Creditor may also appoint a representative to attend and vote at the Scheme Meeting. A Form of Proxy is included in Appendix 4 of the Scheme Document and can be obtained at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay during usual business hours as stated above. The Form of Proxy must be delivered to Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (attention: Mr. Benny Lai Yubin), no later than 2:00 p.m. (Hong Kong time) on 16 November 2023 (i.e. two (2) business days before the date of the Scheme Meeting).

Completion and return of the Form of Proxy by a Creditor will not preclude the Creditor from attending and voting in person at the Scheme Meeting, but in such event the Form of Proxy will be deemed to have been revoked.

The Scheme will be subject to subsequent approval and sanction of the Court and to the fulfilment of the conditions set out in Section 3 of the Explanatory Statement.

Dated 27 October 2023

Yang Yunguang  
Chairman of the Scheme Meeting

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 397 OF 2023  
IN THE MATTER OF CHINA BEIDAHUANG INDUSTRY  
GROUP HOLDINGS LIMITED  
AND IN THE MATTER OF SECTIONS 670 AND 673 OF THE  
COMPANIES ORDINANCE**

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**NOTICE OF CLAIM FOR VOTING PURPOSE**

*(Note 1)*

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TO: China Beidahuang Industry Group Holdings Limited (the “**Company**”) Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (Attention: Benny Lai Yubin)

1. Full name of Creditor (to be inserted in BLOCK CAPITALS):

\_\_\_\_\_

2. Address of registered office/residential address of Creditor (to be inserted in BLOCK CAPITALS):

\_\_\_\_\_

Tel No.: \_\_\_\_\_ Fax No: \_\_\_\_\_

E-mail: \_\_\_\_\_

Contact Person: \_\_\_\_\_

3. Total amount of Claim as at the date of the Scheme Meeting (i.e. 20 November 2023) (*Notes (2) and (5)*):

\_\_\_\_\_

4. If the total amount above includes capitalised or outstanding uncapitalised interest, please state (*Notes (3) and (5)*):

\_\_\_\_\_

Total amount of interest claimed as at 20 November 2023:

\_\_\_\_\_

Whether it is capitalised or uncapitalised:

\_\_\_\_\_

Ground for claim of interest:

\_\_\_\_\_

Basis of calculation:

\_\_\_\_\_

5. Details of any document or facts by reference to which the claim (including interest, if any) can be substantiated and provide copies of relevant documents if not previously provided to the Company (*Notes (4) and (5)*):

\_\_\_\_\_

\_\_\_\_\_

6. Particulars of any security held, the value of the security and the date on which it was given (*Notes (2) and (5)*):

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Signature of Creditor or person authorised to  
act on its behalf: \_\_\_\_\_ :

Name of signatory in BLOCK LETTERS: \_\_\_\_\_ :

Relationship or position of person authorised  
to act on behalf of Creditor: \_\_\_\_\_ :

Date: \_\_\_\_\_ :

*Notes:*

- (1) The words and expressions used in this Notice of Claim for Voting Purpose shall, except where the context otherwise requires, have the same meanings as ascribed thereto in the Explanatory Statement dated 27 October 2023.
- (2) Please specify the original currency of the debt if not in Hong Kong Dollars. In the case of a Creditor holding any security or who has received any satisfaction from the Company, such amount should be the amount of the shortfall, if any, after applying the proceeds of the realisation of the security or the amount of such satisfaction or after deducting the estimated value of the security.
- (3) Please specify the original currency if not in Hong Kong Dollars. Please also state the ground on which interest is claimed (i.e. contract or judgment) and the basis of calculation.
- (4) The Company may call for any further document or evidence to substantiate the claim at its discretion.
- (5)
  - (a) Where the space provided for a particular purpose in this Notice of Claim for Voting Purpose is insufficient to contain all the required information in relation to a particular item, that information may be set out in an annexure.
  - (b) An annexure to this Notice of Claim for Voting Purpose shall have an identifying mark and be endorsed with the words:
 

“This is the annexure of [\*] pages marked [\*] referred to in the Notice of Claim for Voting Purpose signed by me/us and dated [\*] in respect of the Scheme of Arrangement between China Beidahuang Industry Group Holdings Limited and its Creditors.”
  - (c) The pages in an annexure shall be numbered consecutively.
  - (d) Where a document, copy of a document or other evidence is annexed to this Notice of Claim for Voting Purpose, reference made herein to the annexure shall be by its identifying mark, the number of pages in it and a brief description of the nature of the document and its contents.
  - (e) Any reference to an annexure herein includes a document, copy of a document or other matter accompanying attached to or annexed to this Notice of Claim for Voting Purpose.

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 397 OF 2023  
IN THE MATTER OF CHINA BEIDAHUANG INDUSTRY  
GROUP HOLDINGS LIMITED  
AND IN THE MATTER OF SECTIONS 670 AND 673 OF THE  
COMPANIES ORDINANCE**

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**NOTICE OF CLAIM FOR DIVIDEND PURPOSE**

*(Note 1)*

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TO: China Beidahuang Industry Group Holdings Limited (the “**Company**”) c/o 35/F., One Pacific Place, 88 Queensway, Hong Kong (Attention: Ms. Eileen Ma)

1. Full name of Creditor (to be inserted in BLOCK CAPITALS):

\_\_\_\_\_

2. Address of registered office/residential address of Creditor (to be inserted in BLOCK CAPITALS):

\_\_\_\_\_

Tel No.: \_\_\_\_\_ Fax No: \_\_\_\_\_

E-mail: \_\_\_\_\_

Contact Person: \_\_\_\_\_

3. Total amount of Claim as at the date of the Effective Date (*Notes (2) and (5)*):

\_\_\_\_\_

4. If the total amount above includes capitalised or outstanding uncapitalised interest, please state (*Notes (3) and (5)*):

\_\_\_\_\_

Total amount of interest claimed as at Effective Date:

\_\_\_\_\_

Whether it is capitalised or uncapitalised:

\_\_\_\_\_

Ground for claim of interest:

\_\_\_\_\_

Basis of calculation:

5. Details of any document or facts by reference to which the claim (including interest, if any) can be substantiated and provide copies of relevant documents if not previously provided to the Company (*Notes (4) and (5)*):

\_\_\_\_\_

\_\_\_\_\_

6. Particulars of any security held, the value of the security and the date on which it was given (*Notes (2) and (5)*):

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Signature of Creditor or person authorised to  
act on its behalf : \_\_\_\_\_

Name of signatory in BLOCK LETTERS: : \_\_\_\_\_

Relationship or position of person authorised  
to act on behalf of Creditor: : \_\_\_\_\_

Date: : \_\_\_\_\_

*Notes:*

- (1) The words and expressions used in this Notice of Claim for Dividend Purpose shall, except where the context otherwise requires, have the same meanings as ascribed thereto in the Explanatory Statement dated 27 October 2023.
- (2) Please specify the original currency of the debt if not in Hong Kong Dollars. In the case of a Creditor holding any security or who has received any satisfaction from the Company, such amount should be the amount of the shortfall, if any, after applying the proceeds of the realisation of the security or the amount of such satisfaction or after deducting the estimated value of the security.
- (3) Please specify the original currency if not in Hong Kong Dollars. Please also state the ground on which interest is claimed (i.e. contract or judgment) and the basis of calculation.
- (4) The Company may call for any further document or evidence to substantiate the claim at its discretion.
- (5)
  - (a) Where the space provided for a particular purpose in this Notice of Claim for Dividend Purpose is insufficient to contain all the required information in relation to a particular item, that information may be set out in an annexure.
  - (b) An annexure to this Notice of Claim for Dividend Purpose shall have an identifying mark and be endorsed with the words:
 

“This is the annexure of [\*] pages marked [\*] referred to in the Notice of Claim for Dividend Purpose signed by me/us and dated [\*] in respect of the Scheme of Arrangement between China Beidahuang Industry Group Holdings Limited and its Creditors.”
  - (c) The pages in an annexure shall be numbered consecutively.
  - (d) Where a document, copy of a document or other evidence is annexed to this Notice of Claim for Dividend Purpose, reference made herein to the annexure shall be by its identifying mark, the number of pages in it and a brief description of the nature of the document and its contents.
  - (e) Any reference to an annexure herein includes a document, copy of a document or other matter accompanying attached to or annexed to this Notice of Claim for Dividend Purpose.

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS 397 OF 2023  
IN THE MATTER OF CHINA BEIDAHUANG INDUSTRY  
GROUP HOLDINGS LIMITED  
AND IN THE MATTER OF SECTIONS 670 AND 673 OF THE  
COMPANIES ORDINANCE**

Form of proxy for use at the meeting (or at any adjournment thereof) (the “**Scheme Meeting**”) of creditors of the above mentioned company (the “**Company**”) convened by the direction of the High Court of Hong Kong under sections 670 and 673 of the Companies Ordinance.

**FORM OF PROXY**

I/We (*Note 1*), \_\_\_\_\_ of \_\_\_\_\_  
being a creditor of the Company HEREBY APPOINT (*Note 2*) \_\_\_\_\_ of \_\_\_\_\_

as my/our proxy to act for me/us at the Scheme Meeting convened by direction of the High Court of Hong Kong to be held at 2:00 p.m. (Hong Kong time) on 20 November 2023 at 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, approving, with or without modification, the proposed Scheme of Arrangement referred to in the Notice convening the Scheme Meeting and at such Scheme Meeting, or at any adjournment thereof, to vote for me/us and in my/our name(s) as hereunder indicated for the Scheme of Arrangement either with or without modification (as my/our proxy may approve) or against the Scheme of Arrangement and if no such indication is given, as my/our proxy thinks fit.

I/We confirm that the total amount of the debt claimed by me/us against the Company as at the date of the Scheme Meeting will be (*Note 3*) HK\$ \_\_\_\_\_

I/We confirm that the amount claimed by me/us includes capitalised or outstanding uncapitalised interest of (*Note 3*) HK\$ \_\_\_\_\_

Particulars of the grounds upon which interest is claimed (i.e. contract or judgment) and the basis of calculation (e.g. rate of interest and period) are as follows:

Proxy vote (*Note 4*)

FOR the Scheme of Arrangement		AGAINST the Scheme of Arrangement	
-------------------------------------	--	---	--

Signature \_\_\_\_\_ Dated \_\_\_\_\_  
(*Note 5*)

For and on behalf of \_\_\_\_\_

*Notes:*

- (1) Full name and address to be inserted in BLOCK CAPITALS.
- (2) Insert the name and address of the proxy desired in the space provided. Any alteration made to this Form of Proxy must be initialled by the person who signs it. The proxy need not be a creditor of the Company but must attend the Scheme Meeting in person to represent you.
- (3) Insert the total amount of the Company's indebtedness to you and the interest thereon (if any) as appropriate as at the date of the Scheme Meeting in Hong Kong Dollars or if the original currency of the debt or interest is in a currency other than Hong Kong Dollars, that currency. In the case of a Creditor holding any security or who has received any satisfaction from the Company, such amount should be the amount of the shortfall, if any, after applying the proceeds of the realisation of the security or the amount of such satisfaction or after deducting the estimated value of the security.

**IMPORTANT: The admission of an amount for which a creditor or his proxy can vote at the Scheme Meeting does not constitute the admission by the Company or by the Scheme Administrators (as defined in the Scheme of Arrangement) of the amount for the purposes of the Scheme of Arrangement if approved.**

- (4) IMPORTANT: If you wish to vote for the Scheme of Arrangement, mark "X" in the box to the right of the box marked "FOR the Scheme of Arrangement". If you wish to vote against the Scheme of Arrangement, mark "X" in the box to the right of the box marked "AGAINST the Scheme of Arrangement". Failure to mark in either box will entitle your proxy to cast your vote at his discretion or abstain. Your proxy will also be entitled to vote at his discretion or abstain on any resolution properly put to Scheme Meeting other than that referred to in the Notice convening the Scheme Meeting.
- (5) This Form of Proxy must be signed by you or your attorney duly authorised in writing or in the case of a company must be either under its common seal or under the hand of an officer or attorney duly authorised.
- (6) You are requested to lodge this Form of Proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof, to the Company at Unit E, 30/F, Block B, Billion Centre, Kowloon Bay (Attention: Mr. Benny Lai Yubin) by no later than 2:00 p.m. (Hong Kong time) on 16 November 2023, being two business days prior to the date of the Scheme Meeting. Completion and return of this Form of Proxy will not preclude you from attending and voting in person at the Scheme Meeting, but in such event this Form of Proxy will be deemed to have been revoked.
- (7) Each proxy must bring to the Scheme Meeting a duplicate copy of the Notice of Claim for Voting Purpose of the Creditors that was duly completed and the Form of Proxy authorising him or her to act as proxy on behalf of the Creditor and evidence of personal identity (for example, a passport, driving license or other picture identification).
- (8) Completion and return of this Form of Proxy will not preclude you from attending the voting in person at the Scheme Meeting, but in such event this Form of Proxy will be deemed to have been revoked. Any Creditor that wishes to attend the Scheme Meeting in person should produce at the Scheme Meeting a duplicate copy of the Notice of Claim for Voting Purpose that was duly completed, evidence of personal identity (for example, a passport, driving license or other picture identification) and, in the case of a corporation attending by a duly authorised representative, evidence of corporate authority (for example, a valid power of attorney and/or board minutes).
- (9) Unless a Creditor is an individual attending in person or a corporation attending by a duly authorised representative, it must appoint a proxy to vote on its behalf at the Scheme Meeting.

No.	Creditor	Outstanding amount as at 31 December 2022 (in HKD)	Jurisdiction	Remarks
1	Central China Dragon Growth Fund	187,969,434.62*/ 414,499,150.82**	Hong Kong	
2	China Sky Securities Limited	153,410,118.27	Hong Kong	
3	江蘇基柱建設工程有限公司	78,782,694.82	PRC	corporate guarantee provided by the Company to guarantee certain payments of its wholly-owned subsidiary
4	劉柏權	42,008,219.18	Hong Kong	
5	BAPP Ethanol Holdings Limited	35,905,306.62	Hong Kong	
6	方香崽	32,793,346.87	Hong Kong	
7	深圳市前海大荒緣融資租賃有限公司	20,932,643.25	Hong Kong	
8	邱振	16,096,655.41	Hong Kong	
9	姜勝利	15,765,479.75	Hong Kong	
10	劉翠華	14,002,739.73	Hong Kong	
11	謝紅連	14,002,739.73	Hong Kong	
12	謝春連	14,002,739.73	Hong Kong	
13	中國菜籃子集團有限公司	9,996,750.00	Hong Kong	
14	Prime Sonic Limited	8,549,059.50	Hong Kong	
15	張智廣	7,904,000.00	Hong Kong	
16	中國鳳凰集團有限公司	6,402,081.17	Hong Kong	
17	嚴惠娟	5,715,000.00	Hong Kong	
18	Cao Xinyu	4,960,000.00	Hong Kong	
19	屈順才	4,394,400.00	Hong Kong	
20	HLB Hodgson Impey Cheng Limited	4,028,068.00	Hong Kong	
21	TC Orient Lighting Holdings Limited	1,942,608.40	Hong Kong	
22	Li Jiehong	1,160,877.82	Hong Kong	
23	中國嶺南集團有限公司	1,026,377.09	Hong Kong	
24	A Plus Financial Press Limited	483,881.00	Hong Kong	
25	Gemini Funds Limited	300,000.00	Hong Kong	
26	Huang Wuguang	240,000.00	Hong Kong	
27	Shi Shuyu	218,790.00	Hong Kong	
28	Gladson Secretaries Limited	198,113.00	Hong Kong	
29	王鵬程	168,900.00	PRC	
30	Jin Yuan	160,180.00	Hong Kong	

No.	Creditor	Outstanding amount as at 31 December 2022 (in HKD)	Jurisdiction	Remarks
31	Yu Zicong	140,048.28	Hong Kong	
32	Zeng Jixiang	140,048.28	Hong Kong	
33	Ho Man Fai	73,763.00	Hong Kong	
34	Gu Chunyang	67,994.51	Hong Kong	
35	Union Registrars Limited	60,541.00	Hong Kong	
36	BMI Appraisals Limited	40,000.00	Hong Kong	
37	Liu Tao	38,404.45	Hong Kong	
38	Unicorn Consulting and Appraisal Limited	38,000.00	Hong Kong	
39	Chan Siu Fung	36,500.00	Hong Kong	
40	Vincorn Group Holdings Limited	34,200.00	Hong Kong	
41	Yuen Yuk Fung	15,750.00	Hong Kong	
42	BTR Consultancy Services Limited	15,000.00	Hong Kong	
43	Zeng Fanxiong	7,795.60	Hong Kong	
44	Yang Xiyan	2,000.00	Hong Kong	
	<b>Total:</b>	<b>684,231,249.08*/ 910,760,965.28**</b>		

\* The outstanding amount is exclusive of the additional penalty interest in the sum of HK\$226,529,716.20, which is alleged by China Vered, an alleged shareholder of the Fund, to be due and owing.

\*\* The outstanding amount is inclusive of the additional penalty interest in the sum of HK\$226,529,716.20, which is alleged by China Vered, an alleged shareholder of the Fund, to be due and owing.

## LIQUIDATION ANALYSIS

Below is a Liquidation Analysis comparing the return to the Creditors between the scenarios where the Scheme is approved and where the Scheme is not approved and the Company is put into liquidation.

		Scheme approved		Scheme not approved and the Company is liquidated	
		Penalty Interest included	Penalty Interest excluded	Penalty Interest included	Penalty Interest excluded
		Estimated realisable value and recovery ( <i>HK\$'million</i> ) ( <i>note</i> )			
		Penalty Interest included	Penalty Interest excluded	Penalty Interest included	Penalty Interest excluded
<b>Assets available:</b>					
Proceeds from the Company's bank accounts	1	—	—	—	—
Proceeds recovered from intercompany receivables	2	—	—	44.7	44.7
Liquidation dividend from subsidiaries	3	—	—	3.2	3.2
Initial Cash Payment	4	45.0	45.0	—	—
Scheme Shares**	5	37.8	37.8	—	—
Proceeds from disposal of Interests in Scheme Subsidiaries	6	142.0	142.0	—	—
Proceeds from the realisation of the claims or rights to claim against Mr. Jiang Jianjun	7	—	—	—	—
<b>Total</b>		<b>224.8</b>	<b>224.8</b>	<b>47.9</b>	<b>47.9</b>
Less: Scheme Costs/liquidation costs*	8	8.0	8.0	9.3	9.3
Less: preferential claims		3.0	3.0	3.0	3.0
<b>Net assets available to Creditors</b>		<b>213.8</b>	<b>213.8</b>	<b>35.6</b>	<b>35.6</b>
<b>Debts owed by the Company:</b>					
Unsecured Creditors	9	444.4	444.4	444.4	444.4
Corporate guarantee creditor	9	70.0	70.0	70.0	70.0
Interest accrued on unsecured Creditors and corporate guarantee Creditor	10, 11	393.0	167.0	393.0	167.0
<b>Total debts owed by the Company</b>		<b>907.4</b>	<b>681.4</b>	<b>907.4</b>	<b>681.4</b>
<b>Estimated recovery rate to the Creditors</b>		<b>23.6%</b>	<b>31.4%</b>	<b>3.9%</b>	<b>5.2%</b>

**Assumption/Notes:**General Assumptions

- (i) The Liquidation Analysis in the event that the Scheme is not approved and the Company is liquidated is based on the audited financial information of the Company and each of its subsidiary as at 31 December 2022.
- (ii) The Company primarily operates as a holding entity within the Group, and most of the Company's assets are shareholding interests in its subsidiaries. The assets recovery amount derived from each individual subsidiary within the Group under the Liquidation Analysis will flow out in the form of repayments of secured debts, intercompany debts, unsecured debts, and distribution of residual amount to the shareholders after the repayment/settlement of liabilities. As the Group has many levels of subsidiaries, and the Company sits at the top of the Group, the abovementioned process would need to be repeated a number of times in order for any value in respect of the indirect subsidiaries of the Company to ultimately back flow to the Company.
- (iii) In the Liquidation Analysis, the priority of repayment/settlement and distribution of the liquidated assets for each individual company within the Group is paid according to the regulations of bankruptcy/winding-up related laws in individual company's own jurisdiction, specifically as follows:
  - (1) tax obligations;
  - (2) preferential claims such as the claims against the Company which would be paid in priority to the claim of the general unsecured creditors of the Company pursuant to section 265 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance if the individual company is put into liquidation;
  - (3) secured debts to the extent of the secured portion; and
  - (4) unsecured debts, the unsecured portion of secured debts, intercompany debts on a *pari passu* basis.
- (iv) The assets recovery rate used in the Liquidation Analysis is based on the Company's estimation on the amounts that could be recovered in the scenario of a liquidation sale for illustrative purposes only. The actual recovery value of assets will be influenced by several unpredictable factors, including but not limited to the relevant market status at the time of the sale, the related costs incurred during the process of the sale, and the amount of time required for the buyer to pay the consideration of the transaction, and therefore the actual recovery value of assets in the scenario of a liquidation sale may deviate from the results of the Liquidation Analysis.
- (v) The assets recovery amount derived from each individual company within the Group under the liquidation analysis, after the application of the assets recovery rate, is often lower than the corresponding book value of such assets because, whilst the book value is determined in accordance with relevant accounting standards, the assets recovery amount under the Liquidation Analysis also takes into consideration of factors such as market conditions, the urgency of the sale, and the specific circumstances of the assets. These factors can significantly impact the realisable value of certain assets in a forced sale scenario, such as liquidation, especially for the following types of assets:
  - (1) machinery and equipment are often obsolete or hold minimal residual value during liquidation, as they are customarily designed for specific production processes related to the business;
  - (2) real estate property related assets such as investment properties and properties for sale, given the recent economic downturn and the weakening performance of the overall real estate market conditions in PRC; and
  - (3) certain prepayments, deposits and other receivables assets as these may decrease in value due to relevant reductions or termination costs, or become difficult to collect as external creditors may leverage the Company's liquidation during the collection process.

- (vi) The possibility that the subsidiaries holding the above assets could be sold as a going concern and hence realise a higher value, is generally slim and has not been taken into account in the Liquidation Analysis. The liquidation of a holding company often leads to disruption in the underlying business, potentially resulting in a rapid decline. As a result, the sale process must be expedited, leading to a lower recovery rate even if the subsidiaries are sold as a going concern. The level of cooperation from local management, especially in the PRC, introduces further significant uncertainties regarding the viability of selling subsidiaries as a going concern.
- (vii) The Liquidation Analysis also takes into account the fact that the Company has no significant assets situated in Hong Kong, except for the deposit in its bank accounts maintained in various licensed banks in Hong Kong. This further limits the potential recovery for Creditors of the Company in the event of liquidation as the transfer of funds from the PRC to Hong Kong could result in potential tax implications and considerations related to foreign exchange control.

*Notes to Line Items*

1. The Company has no material assets situated in Hong Kong, except for the deposit in its bank accounts maintained in various licensed banks in Hong Kong. The said sum of HK\$5,000 as at 31 December 2022 would be used, along with the remaining Subscription Proceeds after deducting the Initial Cash Payment and the related professional fees to put forth the Scheme, as working capital to sustain the business operations of the Group.
2. The amount represents the sum of amounts potentially recoverable arising from the intercompany receivables of the Company against its subsidiaries within the Group.
3. The amount represents the residual amounts recoverable by the Company (as shareholder) from the winding-up of the companies within the Group after the repayment/settlement of liabilities incurred at subsidiary-level;
4. The issue of the Subscription Shares to the Investor will raise HK\$85 million in cash, out of which HK\$45 million would be used for the benefit of the Scheme Creditors pursuant to the Scheme. The completion of the issue of the Subscription Shares is conditional upon, amongst others, sanction in respect of the Scheme having been granted by the Hong Kong Court.
5. Approximately 377.88 million Shares, representing approximately 5% of the Enlarged Issued Share Capital shall be allotted and issued by the Company from the capitalisation of HK\$37,787,979.30 of the Company's existing debts owed to the Scheme Creditors into Shares at HK\$0.1 per Share, which is consistent with the Subscription Price.
6. The estimation on the amount of proceeds from the disposal of Interests in Scheme Subsidiaries, with the underlying major assets being loan receivables, real estate properties, and interests in associates, is based on: (1) the total book value of the Scheme Subsidiaries' net assets as at 31 December 2022; (2) the current status of litigations against defendants/debtors, and their overall financial state and their repayment capacity, for the loan receivables held by the Scheme Subsidiaries; (3) the market value of the real estate properties held by the Scheme Subsidiaries; and (4) the book value of each of the associates that the Scheme Subsidiaries have interests in as at 31 December 2022. As a result, this amount is expected to be higher than the assets recovery amount derived from the winding-up of the Scheme Subsidiaries in the scenario of a liquidation sale, in which the amounts recoverable by the Company from the Scheme Subsidiaries, if any, will only be the residual amounts recovered from the winding-up of the Scheme Subsidiaries after the repayment/settlement of their liabilities incurred and distribution to immediate shareholder companies at subsidiary-level.
7. As disclosed in the Company's announcement dated 14 June 2023 and 6 July 2023, Mr. Jiang Jianjun, the former executive Director and chairman of the Company, resigned from his positions with effect from 14 June 2023. Following his resignation, the Company has suspected that Mr. Jiang Jianjun is cooperating with an investigation conducted by certain authority/authorities in the PRC. However, as of the date of this Scheme Document, the Company has been having difficulties in establishing contact with Mr. Jiang Jianjun.

While the Company, after reasonable inquiries, is not aware of any information linking Mr. Jiang Jianjun's unavailability or the suspected investigation to the Group's business, operations and affairs, the Company acknowledges the potential negative impact his previous significant role in the Company could have on its operations. As such, to protect the interest of Company and the Scheme Creditors without compromising the effectiveness of the Scheme, the Company will assign any claims or rights to claim of the Company against Mr. Jiang Jianjun in respect of loss or damages to the assets of the Company and/or Group and the proceeds resulting from the realisation of such rights or claims to the SchemeCo as part of the Scheme Assets.

As at the date of the Scheme Document, the Company is not aware of any claims or rights to claim of the Company against Mr. Jiang Jianjun. Therefore, the estimated value of the proceeds from the realisation of any claims or rights to claim against Mr. Jiang Jianjun is nil.

8. In the event that the Scheme is approved and sanctioned by the Hong Kong Court, the amount represents the Scheme Administrators' fees, expenses and disbursements, as well as other professional fees, expenses and disbursements to be incurred for the implementation of the Scheme. The Scheme Costs is estimated to be approximately HK\$8 million.

In the event that the Company is wound up, the amount represents the estimated fee for the liquidators and other relevant professional fees, and therefore it is expected that the relevant costs to be incurred would amount to approximately HK\$9.3 million, which would be more than that to be incurred should the Scheme be approved.

For the avoidance of doubt, the above cost estimation does not include any costs and expenses to be incurred in relation to taking potential causes of action against third parties in respect of losses or damages suffered by the Company (if any) and/or civil actions in regard to asset recovery (if deemed necessary by the Scheme Administrators/the liquidators).

9. The amount is based on the indebtedness breakdown to the best knowledge of the Company as at 31 December 2022, whereas the amount of the Admitted Claims would be subject to lodgement of claims against the Scheme by the Creditors and the determination by the Scheme Administrators/Adjudicator.
10. The amount of Claims to be admitted by the Scheme Administrators or the Adjudicator for the purpose of determining Scheme Creditors' entitlement to Cash Dividend and, in the case of Scheme Creditors who have not validly elected to receive the Scheme Shares *in lieu* of the cash proceeds from their disposal, the Scheme Shares shall not include any interest accrued on the Principal owed by the Company.
11. As indicated in Section 5.1(e) of the Explanatory Statement, China Vered has claimed that the Company owes the Fund additional penalty interest in the sum of HK\$226 million which had not been incorporated in the Company's 2020 to 2022 Annual Reports. Although the Company maintains the view that the Fund is not entitled to claim penalty interest against the Company, for the purpose of full transparency, the liquidation analysis has been prepared with two scenarios in contemplation: (i) one scenario where the claimed penalty interest due to the Fund is not admitted, and (ii) another scenario where the claimed penalty interest is admitted.

## ESTIMATE OF SCHEME COSTS

Save for the HK\$20,000,000 professional fees, of which HK\$9,000,000, HK\$9,000,000, and HK\$2,000,000 are estimated to be paid out of the Subscription Proceeds, respectively, for the relevant costs of restructuring adviser, legal adviser, and other miscellaneous expenditures, in order to put forth the Scheme and to materialise the Debt Restructuring prior to the implementation of the Scheme, it is estimated that the Scheme Costs to be paid out of the Scheme Funds will be no more than approximately HK\$8.0 million. The estimate is indicative only, and there are factors that are beyond the control of the Company that can easily affect the estimate substantially. An approximate breakdown of the Scheme Costs is as follows:

	<b>Scheme approved (Note 2) HK\$'000 approximately</b>
<i>Administration and implementation of the Scheme (Note 1)</i>	
Scheme Administrators' fees and out-of-pocket disbursements (work including initial set up of SchemeCo, adjudication, distribution of Scheme Funds, operational monitoring, etc.)	6,100
Professional fee and out-of-pocket disbursements of the legal adviser to the Scheme Administrators	1,200
Adjudicator's costs and out-of-pocket disbursements	700
<b>Total:</b>	<b>8,000</b>

*Notes:*

1. The above cost estimate does not include any costs and expenses to be incurred in relation to taking potential causes of action against third parties in respect of losses and damages suffered by the Company (if any) and/or civil action in regard to asset recovery (if deemed necessary by the Scheme Administrators).
2. Assuming the time required for the Scheme Administrators' duties to administrate the Scheme will be discharged in around 2 years.