

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Shen You Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

**MAJOR AND CONNECTED TRANSACTION —
PROVISION OF FINANCIAL ASSISTANCE TO CONNECTED PERSON
AND
NOTICE OF EGM**

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



Euto Capital Partners Limited

Terms used on this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 4 to 13 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 35 of this circular. A notice convening the EGM to be held at Unit 1603-1604, 16/F, Causeway Bay Plaza 1, 489 Hennessy Road, Causeway Bay, Hong Kong on Monday, 8 March 2021 at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not the Shareholders are able to attend and vote at the EGM in person, they are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (i.e. Saturday, 6 March 2021 at 2:30 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof should they so wish and, in such event, the instrument appointing the proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Due to the on-going COVID-19 pandemic, to safeguard the health and safety of Shareholders, the Company will implement the following precautionary measures at the EGM:

- compulsory body temperature checks
- compulsory wearing of a surgical face mask for each attendee
- submission of personal information form, which may be used for contact tracing, if required
- no distribution of corporate gift nor provision of refreshment

Shareholders or their proxies who does not comply with these precautionary measures may be denied entry into the EGM venue. Shareholders are reminded that, in order to avoid attending the meeting in person, they may appoint the chairman of the meeting as their proxy to vote on any resolutions at the EGM in accordance with the voting preferences indicated on the enclosed proxy form.

This circular with a form of proxy will remain on the "Latest Company Announcements" page of the website of GEM at www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.shenyouholdings.com.

16 February 2021

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 31 March 2020 in relation to, among other things, the PRC Loan Agreement and the HK Loan Agreement
“Board”	the board of Directors
“Company”	Shen You Holdings Limited (申酉控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on GEM
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Current Account Receivables”	the intra-group current account balance due from Mr. Wong to Guangzhou Xinhua
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the PRC Loan Agreement and the transactions contemplated thereunder
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guangzhou Xinhua”	廣州新華線業有限公司 (Guangzhou Xinhua Thread Company Limited*), a company established under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Loan Agreement”	the shareholder’s loan agreement dated 31 March 2020 entered into between Tseyu International and Mr. Wong in relation to the Shareholder’s Loans previously advanced by Mr. Wong to Tseyu International during the Relevant Period
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board consisting of all independent non-executive Directors established for the purpose of advising the Independent Shareholders as to the fairness and reasonableness of the PRC Loan Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Euto Capital”	Euto Capital Partners Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders on the terms of the PRC Loan Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	the shareholders of the Company other than those who are required to abstain under the GEM Listing Rules from voting at the EGM for the resolution(s) approving the PRC Loan Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	third party(ies) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, are independent of and not acting in concert or connected with the Company and its connected persons or any of their respective associates
“Latest Practicable Date”	8 February 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing”	the listing of the Shares on GEM
“Mr. Wong”	Mr. Wong Kwok Wai, Albert, the Chairman, an executive Director and the chief executive officer of the Company
“PRC”	The People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Loan Agreement”	the loan agreement dated 31 March 2020 entered into between Guangzhou Xinhua and Mr. Wong in relation to the Current Account Receivables previously advanced by Guangzhou Xinhua to Mr. Wong
“Relevant Period”	the period from 15 December 2017, which is the date on which dealings in Shares of the Company first commence on GEM, to the date of the Announcement, which is 31 March 2020

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued share(s)
“Shareholder’s Loans”	the shareholder’s loans provided by Mr. Wong to Tseyu International from time to time during the Relevant Period
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tseyu International”	Tseyu International Trading Company Limited (至裕國際貿易有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“%”	percentage

The exchange rates of RMB1.00 to HK\$1.17 are used in this circular for illustration purpose only. No representation is made that any amounts in RMB or HK\$ could be converted at such rates or any other rates.

** For identification purpose only*

LETTER FROM THE BOARD

SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

Executive Directors:

Mr. Wong Kwok Wai, Albert
(Chairman and Chief Executive Officer)
Mr. Chan Yiu Tung, Enoch
Mr. Leung King Yue, Alex

Registered Office:

Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Independent non-executive Directors:

Mr. Sung Alfred Lee Ming
Mr. Chan Tsun Choi, Arnold
Mr. Chow Chin Hang, Joel

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

Unit 1302, 13/F
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

16 February 2021

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION —
PROVISION OF FINANCIAL ASSISTANCE TO CONNECTED PERSON**

INTRODUCTION

Reference is made to the Announcement in relation to, among other matters, the entering of the PRC Loan Agreement between Guangzhou Xinhua and Mr. Wong, and the entering of the HK Loan Agreement between Tseyu International and Mr. Wong.

Background

Prior to the Listing, there were several intra-group current account advances made among Tseyu International, Guangzhou Xinhua and Mr. Wong, which involved advances made by (i) Mr. Wong to Tseyu International and (ii) Guangzhou Xinhua to Mr. Wong, and the corresponding amount of the current account due to and from the Group were eliminated on a consolidated basis.

After Listing and during the Relevant Period, the Current Account Receivables due by Mr. Wong to Guangzhou Xinhua has remained static, while there had been advances from Mr. Wong to Tseyu International and repayments from Tseyu International to Mr. Wong and from Mr. Wong to Guangzhou Xinhua from time to time, resulting in fluctuations of the current account balances among Mr. Wong and the Group during the Relevant Period.

LETTER FROM THE BOARD

The balance of amount due to Guangzhou Xinhua by Mr. Wong was RMB33,152,956 (equivalent to approximately HK\$38,788,959) as at 31 December 2017, RMB18,252,956 (equivalent to approximately HK\$21,355,959) as at 31 December 2018, and RMB16,760,277 (equivalent to approximately HK\$19,609,524) as at 31 December 2019, respectively; and the balance of amount due to Mr. Wong by Tseyu International was HK\$39,030,503 as at 31 December 2017, HK\$21,640,234 as at 31 December 2018, and HK\$19,415,261 as at 31 December 2019, respectively.

The intra-group current account balances under the consolidated accounts of the Group as at the end of each financial year in the Relevant period, i.e. as at 31 December 2017, 2018 and 2019, respectively, were nil, as the balance of amount due to Guangzhou Xinhua by Mr. Wong is equal to the amount due to Mr. Wong by Tseyu International as at 31 December 2017, 2018 and 2019, and therefore the amount due from/to Mr. Wong were fully eliminated at consolidation level.

It was discovered during the audit process of the Group's financial statements for the year ended 31 December 2019 that although the corresponding amount of the current account due to and from the Group would be eliminated on a consolidated basis, the Shareholder's Loans and the Current Account Receivables due to Guangzhou Xinhua from Mr. Wong should be taken into account separately when assessing the relevant GEM Listing Rules implications.

The Shareholder's Loans provided by Mr. Wong to Tseyu International during the Relevant Period constituted financial assistance from Mr. Wong to the Group. As the Shareholder's Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder's Loans are fully exempt from the reporting, announcement, independent financial advice and shareholders' approval requirements under Rule 20.88 of the GEM Listing Rules.

However, the Current Account Receivables due to Guangzhou Xinhua from Mr. Wong represents a provision of financial assistance to connected person which constituted non-exempt connected transactions on the part of the Company under the GEM Listing Rules and subject to the reporting, announcement, independent financial advice and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above situation and in compliance with the requirements of connected transactions under Chapter 20 of the GEM Listing Rules, on 31 March 2020, the PRC Loan Agreement was signed between Guangzhou Xinhua and Mr. Wong, and the HK Loan Agreement was signed between Tseyu International and Mr. Wong, to record, confirm and agree on the arrangements concerning the Shareholder's Loans and the Current Account Receivables.

The purpose of this circular is to provide you with, among other things, (i) details of the PRC Loan Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee setting out their advice and recommendations in relation to the PRC Loan Agreement to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser setting out their advice to the Independent Board Committee and the Independent Shareholders in the same regard; and (iv) a notice of the EGM.

LETTER FROM THE BOARD

Principal terms of the HK Loan Agreement and PRC Loan Agreement are set out below.

HK Loan Agreement

Date: 31 March 2020

Parties: Mr. Wong (as lender)

Tseyu International (as borrower)

Pursuant to the HK Loan Agreement, Mr. Wong and Tseyu International confirm that the Shareholder's Loan in an aggregated sum of HK\$19,171,000 have been advanced and remain outstanding as at the date of the HK Loan Agreement.

It is agreed that the Shareholder's Loan shall be interest-free and unsecured. Mr. Wong may, by serving a written notice to Tseyu International, require Tseyu International to repay the Shareholder's Loan by way of cash, in whole or in part, within 7 business days after Tseyu International has received such written notice. Notwithstanding such right of Mr. Wong to require Tseyu International to repay the Shareholder's Loan, it is the intention of the parties that Tseyu International shall repay the Shareholder's Loan when its cash flow permits. As at the Latest Practicable Date, Mr. Wong has not made such request requiring Tseyu International to repay the Shareholder's Loan. Tseyu International may give prior written notice of not less than 5 business days to Mr. Wong and make early repayment of all or part of the outstanding balance of the Shareholder's Loan.

The Shareholder's Loan is used by Tseyu International for its daily working capital.

PRC Loan Agreement

Date: 31 March 2020

Parties: Mr. Wong (as borrower)

Guangzhou Xinhua (as lender)

As Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company, Mr. Wong is considered to be a connected person of the Company.

Principal amount and interest rate

Pursuant to the PRC Loan Agreement, Mr. Wong and Guangzhou Xinhua confirm that a sum of RMB16,760,277 (equivalent to approximately HK\$19,609,524) has been advanced by Guangzhou Xinhua to Mr. Wong and remain outstanding as at the date of the PRC Loan Agreement. Interest shall also be payable by Mr. Wong to Guangzhou Xinhua to be accrued at a rate of 2% per annum on the outstanding Current Account Receivables from the date of the PRC Loan Agreement.

LETTER FROM THE BOARD

Repayment and default interest

It is agreed that the outstanding Current Account Receivables (together with the interest accrued thereon) shall be repaid by Mr. Wong within three years from the date of the PRC Loan Agreement. Any request for an extension of repayment date shall be given to Guangzhou Xinhua by written notice within 10 business days prior to the due date of repayment, and an agreement shall be entered by the parties for such extension of repayment date as agreed by Guangzhou Xinhua. If such an agreement to extend the repayment date has not be entered into by the parties before the repayment date as provided in the PRC Loan Agreement, any outstanding sums after the repayment date shall be treated as overdue and default interest shall be applied thereon and repayable to Guangzhou Xinhua. Default interest shall be accrued at a rate of 0.05% per day on the overdue sum.

Undertaking by Mr. Wong

Mr. Wong has also undertaken in the PRC Loan Agreement that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua.

There had been repayments from Tseyu International to Mr. Wong and from Mr. Wong to Guangzhou Xinhua from time to time after entering into the HK Loan Agreement and PRC Loan Agreement on 31 March 2020. The outstanding balance of advances due from (i) Tseyu International to Mr. Wong has been reduced to HK\$17,192,925; and (ii) Mr. Wong to Guangzhou Xinhua has been reduced to RMB15,010,277 (equivalent to approximately HK\$17,562,024) as at the Latest Practicable Date.

Basis for determining the interest rate

The interest rate under the PRC Loan Agreement was determined after taking into account that the Current Account Receivables were advances historically made and which had been interest-free, the Shareholder's Loans advanced by Mr. Wong to the Group and of the aforesaid undertaking by Mr. Wong.

As the Shareholder's Loan is interest-free and unsecured, the Board considers that the Group enjoys interest saving from the Shareholder's Loans as under normal commercial terms, interests would otherwise be payable by the Group for loans borrowed from third parties lenders. Further, Mr. Wong has undertaken that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International under the HK Loan Agreement shall be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua (the "**Settlement Undertaking**"). On the other hand, the Board had considered that it would be the likely alternative for the Group to deposit any cash surplus as current or fixed deposit in the banks had there been no PRC Loan Agreement, and the fixed deposit rates for a term of three years as stipulated by the People's Bank of China would be only 2.75% per annum. As such, taking into account the benefits to the Company from the aforesaid gain in interest income under the PRC Loan Agreement, the interest saving from the Shareholder's Loans, and Settlement Undertaking which outweighed the slight difference of the fixed deposit interest that the Group may enjoy, the Company is of the view that the PRC Loan Agreement and the

LETTER FROM THE BOARD

HK Loan Agreement as a whole and interest rate under the PRC Loan Agreement is on normal commercial term, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

REASONS FOR ENTERING INTO THE HK LOAN AGREEMENT AND THE PRC LOAN AGREEMENT

The Directors were not aware of the implications of the aforesaid historical current account transactions which involved payments from (i) Mr. Wong to Tseyu International and (ii) Guangzhou Xinhua to Mr. Wong under the GEM Listing Rules because the Directors mistakenly believed that the intra-group current accounts balances could be offset against each other on the consolidated basis and only the balance would be required to be taken into account when considering the GEM Listing Rules implications. The historical advances were used as working capital for the operation of the Group's production facilities in the PRC and the offices in Hong Kong. No interest charge was considered by the Group prior to the entering of the PRC Loan Agreement. The Directors only became aware that the outstanding historical payments from Guangzhou Xinhua to Mr. Wong may have constituted a non-exempt connected transaction pursuant to requirements under the GEM Listing Rules during the audit process of the Group's financial statements for the year ended 31 December 2019 when the management accounts of the Group for the year ended 31 December 2019 were finalised.

Upon becoming aware of the incidents, the management of the Group has sought professional advice from its advisors immediately as to the requirements under the GEM Listing Rules for the Current Accounts Receivables. The Company was informed that the Current Accounts Receivables would constitute a financial assistance from the Group to its connected person, and that the Company would not have complied in full with the requirements under Chapter 19 and Chapter 20 of the GEM Listing Rules. In the circumstances, the Company has immediately taken all initiatives to re-comply with the GEM Listing Rules as soon as it can. Going forward, Mr. Wong expects to repay the outstanding balances due to Guangzhou Xinhua within three years of the date of the PRC Loan Agreement and Tseyu International would repay the amount due to Mr. Wong when cash flow of Tseyu International permits.

The HK Loan Agreement and PRC Loan Agreement were entered into by the respective parties to record, confirm and agree on as well as to govern the arrangements concerning the Shareholder's Loans and the Current Account Receivables, including but not limited to repayments terms, and to re-comply with the requirement to enter into a written agreement for connected transactions under Rule 20.32 of GEM Listing Rules in respect of the Current Account Receivables. The Company will also benefit from the interest income under the terms of the PRC Loan Agreement.

Pursuant to the terms of the HK Loan Agreement, the Shareholder's Loan which was historically advanced by Mr. Wong to Tseyu International shall be interest-free and unsecured and therefore on normal commercial terms or better, the directors consider that the terms of the HK Loan Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

In relation to the PRC Loan Agreement, in consideration of the undertaking given by Mr. Wong to apply any repayment received from Tseyu International from time to time to first settle the outstanding Current Account Receivables and the interest income under the PRC Loan Agreement, and that there had been no similar arrangements agreed between Mr. Wong and Guangzhou Xinhua previously for such historical Current Account Receivables, the Directors consider that the terms of the PRC Loan Agreement were no less favourable to the Group than terms available to or from Independent Third Parties and are fair and reasonable and in the interests of the Shareholders as a whole.

On the above bases, the Directors (excluding Mr. Wong but including the independent non-executive Directors whose view is contained in the “Letter from the Independent Board Committee” on page 14 of this circular after considering the recommendations from the Independent Financial Adviser) considers that the terms and conditions of the PRC Loan Agreement are on normal commercial terms and fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

Remedial steps taken

In order to strengthen and enhance the adequacy and effectiveness of the Company’s internal controls, the Company has engaged an independent internal control adviser, Asian Alliance Financial Advisory Services Limited (the “**Internal Control Adviser**”) which had confirmed its independence with the Company, to conduct an internal control review and identify any material deficiency of the internal control mechanism of the Company. The Internal Control Adviser has extensive experience in providing corporate governance and internal control review and advisory services to companies listing on the Stock Exchange. The Board has received the first draft report of the internal control review from the Internal Control Adviser in mid-January 2021. The management of the Company has been communicating and liaising with the Internal Control Adviser in connection with their findings and the management of the Company will continue to provide information to the Internal Control Adviser to clarify some of the findings. The Company will also review and consider the findings and suggestions to be made by the Internal Control Adviser and will adopt any suggested measures which may be proposed. It is expected that the final report of the internal control review will be completed and issued by the end of February 2021 and the management of the Company expects that the recommended measures will be implemented by the end of June 2021. The Internal Control Adviser will perform further review on the implementation status of the recommended measures which is expected to be completed by the end of June 2021. The Company will provide further update on the findings of the internal control review and the suggestions made by the Internal Control Adviser as and when appropriate by way of announcement.

The Company had also arranged specific training provided by legal advisers on the relevant requirements for notifiable and connected transactions under Chapters 19 and 20 of the GEM Listing Rules for the Directors and relevant staff members to reinforce their understanding of compliance of the GEM Listing Rules. The management has also reviewed the relevant records of the Group and confirmed that no other connected transactions of the Company are not in full compliance with the GEM Listing Rules.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ADVANCEMENT OF THE CURRENT ACCOUNT RECEIVABLES

Assets and liabilities

The advances under the PRC Loan Agreement will be recorded as loan receivables under current assets of the Group. As the Current Account Receivables had been historically advanced to Mr. Wong, the cash of the Group had been decreased when such advances was made prior to the entering of the PRC Loan Agreement, while the increase in loan receivable of the Group had been recorded during the relevant time of advance. The advancement of the Current Account Receivables will not have any influence on the liabilities of the Group.

Earnings

The interest income for the Current Account Receivables pursuant to the PRC Loan Agreement will be recorded as interest income of the Group.

Financial impact

Save as aforesaid, there will be no substantial impact immediately after the effective date of the PRC Loan Agreement on the earnings, assets and liabilities of the Group.

GENERAL

Information of the Group

The Group is principally engaged in the manufacture and selling of high-performance sewing threads and broad categories of garment accessories.

Information of Guangzhou Xinhua

Guangzhou Xinhua is a company established under the laws of the PRC with limited liability in 1993 and is principally engaged in the manufacturing and trading of sewing threads and broad categories of garment accessories.

Information of Mr. Wong

Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company.

Information of Tseyu International

Tseyu International is a company incorporated in Hong Kong with limited liability in 1978 and is principally engaged in the trading of sewing threads and broad categories of garment accessories.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATIONS

As Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company, Mr. Wong is considered to be a connected person of the Company.

As the Shareholder's Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder's Loans and the entering into of the HK Loan Agreement are fully exempt under Rule 20.88 of the GEM Listing Rules.

As one or more of the applicable percentage ratio for the transactions contemplated under the PRC Loan Agreement exceed 25% but are less than 100%, the transactions contemplated under the PRC Loan Agreement would constitute a major transaction under Chapter 19 of the GEM Listing Rules, and therefore subject to the reporting, announcement, circular and Shareholders' approval requirements.

In addition, as the applicable percentage ratios as defined in the GEM Listing Rules in respect of the PRC Loan Agreement and the transactions contemplated thereunder are more than 25% and the principal amount of the term loan under the PRC Loan Agreement is more than HK\$10,000,000, the PRC Loan Agreement and the transactions contemplated thereunder constitute financial assistances and connected transactions for the Company under Chapter 20 of the GEM Listing Rules and therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. As disclosed above, the Directors mistakenly believed that the intra-group current accounts balances could be offset against each other on the consolidated basis and only the balance would be required to be taken into account when considering the GEM Listing Rules implications. The Company has not timely complied with the requirements of reporting, announcement, circular and Independent Shareholders' approval under Chapters 19 and 20 of the GEM Listing Rules. Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, had abstained from voting on the resolutions of the Board approving the PRC Loan Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee consisting of all independent non-executive Directors has been established for the purpose of advising the Independent Shareholders as to the fairness and reasonableness of the PRC Loan Agreement and the transactions contemplated thereunder. The letter from the Independent Board Committee is set out on page 14 of this circular.

INDEPENDENT FINANCIAL ADVISER

Euto Capital has been appointed as the Independent Financial Adviser with approval of the Independent Board Committee to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the PRC Loan Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders on

LETTER FROM THE BOARD

how to vote at the EGM. Your attention is drawn to the advice of Euto Capital to the Independent Board Committee and the Independent Shareholders as set out in the letter on pages 15 to 35 of this circular.

EGM

A notice convening the EGM to be held at Unit 1603–1604, 16/F, Causeway Bay Plaza 1, 489 Hennessy Road, Causeway Bay, Hong Kong on Monday, 8 March 2021 at 2:30 p.m. (Hong Kong time) is set out on pages EGM-1 to EGM-2 of this circular. Ordinary resolutions will be proposed to the Independent Shareholders at the EGM to consider and, if thought fit, to approve the PRC Loan Agreement and the transactions contemplated thereunder.

The voting in respect of the financial assistance to connected person at the EGM will be conducted by way of poll. In accordance with the GEM Listing Rules, any Shareholder who has a material interest in the Disposal shall abstain from voting on the resolution(s) to approve the PRC Loan Agreement and the transactions contemplated thereunder at the EGM. Three Gates Investment Limited, being a controlling Shareholder and is wholly-owned by Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, shall abstain from voting on the resolutions approving the financial assistance to connected person at the EGM. Save for the aforesaid and to the best of the information, knowledge and belief of the Directors having made all such reasonable enquiries, no other Shareholder is required to abstain from voting at the EGM.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the EGM or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting thereof (as the case may be) should you so desire.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon its ultimate beneficial owners and their respective associates; and (ii) no obligation or entitlement of its ultimate beneficial owners and their respective associates as at the Latest Practicable Date, whereby it or he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its or his Shares to a third party, either generally or on a case-by-case basis.

RECOMMENDATIONS

The Directors (excluding Mr. Wong and including the independent non-executive Directors whose recommendation is contained in the “Letter from the Independent Board Committee” on page 14 of this circular) consider that the terms of the PRC Loan Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of

LETTER FROM THE BOARD

the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all resolutions to be proposed at the EGM to approve the PRC Loan Agreement and the transactions contemplated thereunder.

Accordingly, the Directors recommends the Independent Shareholders to vote in favour of the resolutions to approve the PRC Loan Agreement and the transactions contemplated thereunder at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” set out on page 14 of this circular which contains its recommendation to the Independent Shareholders on the PRC Loan Agreement and the transactions contemplated thereunder; and (ii) the letter of advice from the Independent Financial Adviser set out on pages 15 to 35 of this circular, which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the PRC Loan Agreement and the transactions contemplated thereunder and the principal factors considered by it in arriving at its advice.

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

Yours faithfully,
By the order of the Board
Shen You Holdings Limited
Chan Yiu Tung, Enoch
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders prepared for the purpose of inclusion in this circular:

SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

16 February 2021

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION —
PROVISION OF FINANCIAL ASSISTANCE TO CONNECTED PERSON**

We refer to the circular of the Company dated 16 February 2021 (the “**Circular**”), of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the PRC Loan Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Euto Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice to you and us on pages 15 to 35 of the circular, we are of the opinion that the PRC Loan Agreement and the transactions contemplated thereunder are on normal commercial terms, are in the ordinary and usual course of business, are in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the PRC Loan Agreement and the transactions contemplated thereunder.

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

Mr. Sung Alfred Lee Ming
*Independent non-executive
Director*

Mr. Chan Tsun Choi, Arnold
*Independent non-executive
Director*

Mr. Chow Chin Hang, Joel
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the PRC Loan Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



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16 February 2021

*To the Independent Board Committee and
the Independent Shareholders of Shen You Holdings Limited*

Dear Sirs and Madams,

MAJOR AND CONNECTED TRANSACTION — PROVISION OF FINANCIAL ASSISTANCE TO CONNECTED PERSON

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the PRC Loan Agreement, details of which are set out in the “Letter from the Board” (the “**Letter**”) contained in the circular of the Company to the Shareholders dated 16 February 2021 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Circular, during the period from 15 December 2017 to 31 March 2020, there were (i) Shareholder’s Loans made by Mr. Wong, a controlling shareholder of the Company and an executive Director, to Tseyu International, a wholly-owned subsidiary of the Company, and (ii) a historical outstanding balance due from Mr. Wong to Guangzhou Xinhua, a wholly-owned subsidiary of the Company.

On 31 March 2020, the outstanding Shareholder’s Loans due from Tseyu International to Mr. Wong amounted to HK\$19,171,000, and the outstanding intra-group current account balance due from Mr. Wong to Guangzhou Xinhua was RMB16,760,277 (equivalent to approximately HK\$19,609,524). On the same date, the HK Loan Agreement was signed between Tseyu International and Mr. Wong, and the PRC Loan Agreement was signed between Guangzhou Xinhua and Mr. Wong to record, confirm and agree on the arrangements concerning the Shareholder’s Loans and the Current Account Receivables in compliance with the requirements under Chapter 20 of the GEM Listing Rules.

GEM LISTING RULES IMPLICATION

As Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company, Mr. Wong is considered to be a connected person of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Shareholder's Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder's Loans and the entering into of the HK Loan Agreement are fully exempt under Rule 20.88 of the GEM Listing Rules.

As one or more of the applicable percentage ratio for the transactions contemplated under the PRC Loan Agreement exceed 25% but are less than 100%, the transactions contemplated under the PRC Loan Agreement would constitute a major transaction under Chapter 19 of the GEM Listing Rules, and therefore subject to the reporting, announcement, circular and Shareholders' approval requirements.

In addition, as the applicable percentage ratios as defined in the GEM Listing Rules in respect of the PRC Loan Agreement and the transactions contemplated thereunder are more than 25% and the principal amount of the term loan under the PRC Loan Agreement is more than HK\$10,000,000, the PRC Loan Agreement and the transactions contemplated thereunder constitute financial assistances and connected transactions for the Company under Chapter 20 of the GEM Listing Rules and therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Directors mistakenly believed and considered that the intragroup current accounts balances could be offset against each other on the consolidated basis and only the balance would be required to be taken into account when considering the GEM Listing Rules implications. The Company has not timely complied with the requirements of reporting, announcement, circular and the Independent Shareholders' approval under Chapters 19 and 20 of the GEM Listing Rules. Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, had abstained from voting on the resolutions of the Board approving the PRC Loan Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Sung Alfred Lee Ming, Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel, has been established to advise the Independent Shareholders as to whether the terms of the PRC Loan Agreement are fair and reasonable and entering into the PRC Loan are in the interests of the Company and the Shareholders as a whole. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the GEM Listing Rules, our role is to give an independent opinion in such regard.

OUR INDEPENDENCE

We, Euto Capital Partners Limited ("**Euto Capital**"), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders. Mr. Manfred Shiu ("**Mr. Shiu**") is the person signing off the opinion stated in this letter contained in the Circular. Mr. Shiu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under SFO since 2009 and has participated in and completed various independent financial advisory transactions in Hong Kong.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, we were not aware of any relationships or interest between Euto Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Euto Capital's independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the PRC Loan Agreement. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we are eligible to give independent advice on the PRC Loan Agreement.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the PRC Loan Agreement, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the "**Management**").

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management.

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

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to this transaction, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the PRC Loan Agreement

Prior to the Listing, there were several intra-group current account advances made among Tseyu International, Guangzhou Xinhua and Mr. Wong, which involved advances made by (i) Mr. Wong to Tseyu International and (ii) Guangzhou Xinhua to Mr. Wong, for which all current account balances were net off under the consolidated accounts of the Group.

After Listing and during the Relevant Period, the Current Account Receivables due by Mr. Wong to Guangzhou Xinhua has remained static, while there had been advances from Mr. Wong to Tseyu International and repayments from Tseyu International to Mr. Wong and from Mr. Wong to Guangzhou Xinhua from time to time, resulting in fluctuations of the current account balances among Mr. Wong and the Group during the Relevant Period. The intra-group current account balances under the consolidated accounts of the Group as at the end of each financial year in the Relevant Period were nil.

The balance of amount due to Guangzhou Xinhua by Mr. Wong was RMB33,152,956 (equivalent to approximately HK\$38,788,959) as at 31 December 2017, RMB18,252,956 (equivalent to approximately HK\$21,355,959) as at 31 December 2018, and RMB16,760,277 (equivalent to approximately HK\$19,609,524) as at 31 December 2019, respectively; and the balance of amount due to Mr. Wong by Tseyu International was HK\$39,030,503 as at 31 December 2017, HK\$21,640,234 as at 31 December 2018, and HK\$19,415,261 as at 31 December 2019, respectively.

The intra-group current account balances under the consolidated accounts of the Group as at the end of each financial year in the Relevant period, i.e. as at 31 December 2017, 2018 and 2019, respectively, were nil, as the balance of amount due to Guangzhou Xinhua by Mr. Wong is equal to the amount due to Mr. Wong by Tseyu International as at 31 December 2017, 2018 and 2019, and therefore the amount due from/to Mr. Wong were fully eliminated at consolidation level.

It was discovered during the audit process of the Group's financial statements for the year ended 31 December 2019 that although the current account due to and from the Group would be eliminated on a consolidated basis, the Shareholder's Loans and the Current Account Receivables due to Guangzhou Xinhua from Mr. Wong should be taken into account separately when assessing the relevant GEM Listing Rules implications.

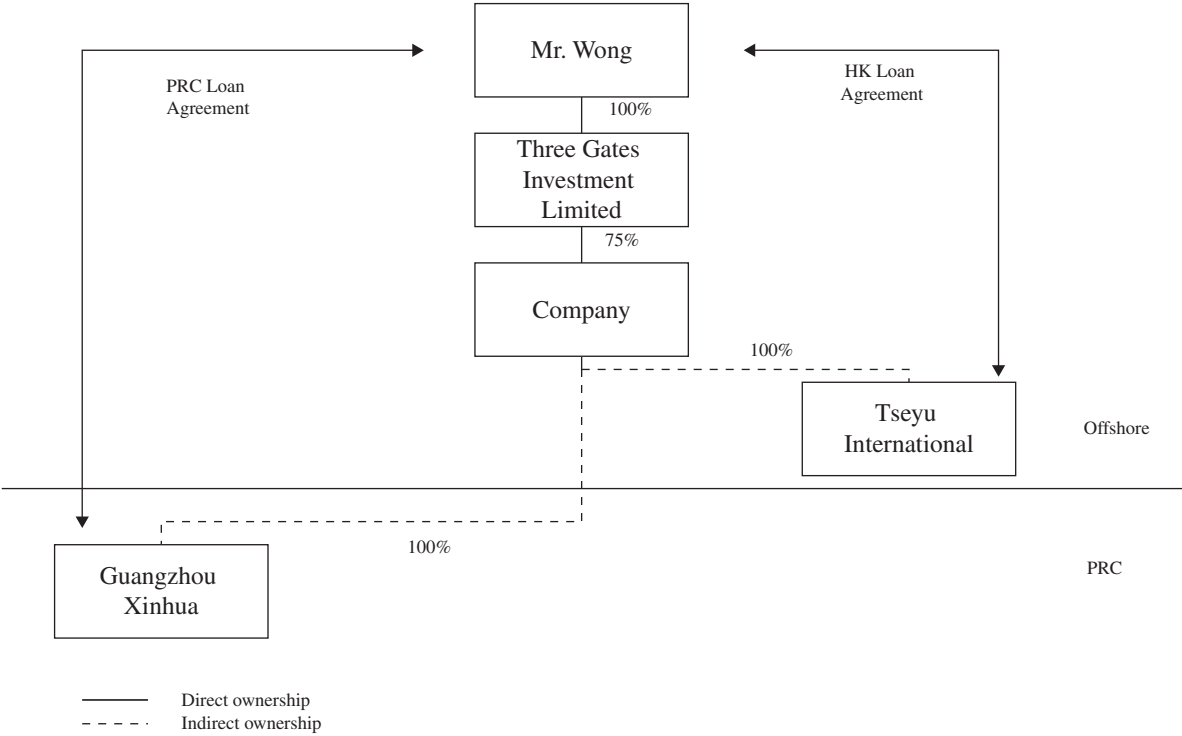
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Shareholder’s Loans provided by Mr. Wong to Tseyu International during the Relevant Period, which shall be interest-free and unsecured, and shall be repayable in cash on demand, constituted financial assistance from Mr. Wong to the Group. As the Shareholder’s Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder’s Loans are fully exempt from the reporting, announcement, independent financial advice and shareholders’ approval requirements under Rule 20.88 of the GEM Listing Rules.

However, the Current Account Receivables due to Guangzhou Xinhua from Mr. Wong represents a provision of financial assistance to connected person which constituted non-exempt connected transactions on the part of the Company under the GEM Listing Rules and subject to the reporting, announcement, independent financial advice and shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above situation and in compliance with the requirements of connected transactions under Chapter 20 of the GEM Listing Rules, on 31 March 2020, the PRC Loan Agreement was signed between Guangzhou Xinhua and Mr. Wong, and the HK Loan Agreement was signed between Tseyu International and Mr. Wong, to record, confirm and agree on the arrangements concerning the Shareholder’s Loans and the Current Account Receivables.

Below please find a diagram showing the parties involved for the HK Loan Agreement and the PRC Loan Agreement.



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

There had been repayments from Tseyu International to Mr. Wong and from Mr. Wong to Guangzhou Xinhua from time to time after entering into the HK Loan Agreement and the PRC Loan Agreement on 31 March 2020. The outstanding balance of advances due from (i) Tseyu International to Mr. Wong has been reduced to HK\$17,192,925; and (ii) Mr. Wong to Guangzhou Xinhua has been reduced to RMB15,010,277 (equivalent to approximately HK\$17,562,024) as at the Latest Practicable Date.

2. Background information of the Group

The principal activity of the Company is investment holding, and through its subsidiaries, the Group is principally engaged in manufacture and trading of sewing threads and broad categories of garment accessories.

3. Financial information of the Group

(a) Historical financial performance

Set out below is a summary of the financial information of the Group for (i) the financial years ended 31 December 2018 (“FY2018”) and 31 December 2019 (“FY2019”) as extracted from the annual report of the Company for the year ended 31 December 2019 (“Annual Report 2019”) and (ii) the six months ended 30 June 2020 and 30 June 2019 as extracted from the interim report of the Company for the six months ended 30 June 2020 (“Interim Report 2020”):

	For the six months			
	30 June			
	2020	2019	FY2019	FY2018
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue (all from manufacture and trading of sewing threads and broad categories of garment accessories)				
— Mainland China	11,060	16,114	32,968	39,056
— Overseas	5,063	10,998	22,233	21,995
— Hong Kong	1,400	1,782	3,545	3,459
	17,523	28,894	58,746	64,510
Cost of Sales	(14,531)	(22,496)	(47,416)	(51,232)
Gross Profit	2,992	6,398	11,330	13,278
Gross Profit Margin	17.07%	22.14%	19.29%	20.58%
Loss for the year	5,317	2,705	19,219	10,855

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) Comparison of FY2019 and FY2018

In FY2019, the Group recorded revenue of approximately HK\$58.75 million, representing a significant decrease of approximately HK\$5.76 million (equivalent to a decrease of approximately 8.93%) from approximately HK\$64.51 million in FY2018 mainly because of the Group's declining sales in the PRC market, which accounted for approximately 56.12% of the total revenue for the year ended 31 December 2019, because of the deepening impact of the China-United States trade war.

The Group's cost of sales primarily consists of direct material costs, processing fees and direct labour costs. In FY2019, the Group's cost of sales decreased from HK\$51.23 million to in FY2018 approximately HK\$47.42 million, representing a decrease of approximately 3.81 million (equivalent to a decrease of approximately 7.44%) mainly as a result of the aforementioned decrease in revenue.

The Group's gross profit margin decreased to approximately 19.29% in FY2019 from 20.58% in FY2018, which was a result of the increase in the charge rate of processing fees and the unit cost of raw materials.

The Group's loss in FY2019 increased significantly by HK\$8.36 million (equivalent to an increase of approximately 76.98%) from HK\$10.86 million to HK\$19.22 million because of, as advised by the Management, (i) an increase of impairment losses on financial assets by approximately HK\$2.60 million; (ii) an increase of other expenses by approximately HK\$2.41 million; (iii) that the Group incurred tax liability of approximately HK\$2.56 million in FY2019 while the Group recognised an income tax credit of approximately HK\$1.55 million in 2018.

(ii) Comparison of the six months ended 30 June 2020 and 30 June 2019

As set out in the Interim Report 2020, for the six months ended 30 June 2020, the Group recorded revenue of approximately HK\$17.52 million, representing a significant decrease of approximately HK\$11.37 million (equivalent to a decrease of approximately 39.36%) from approximately HK\$28.89 million for the six months ended 30 June 2019. The decrease was mainly due to the outbreak of the coronavirus pandemic, which has affected the sales performance in both the PRC and overseas markets.

For the six months ended 30 June 2020, the Group's cost of sales decreased from HK\$22.50 million to approximately HK\$14.53 million for the six months ended 30 June 2019, representing a decrease of approximately 7.97 million (equivalent to a decrease of approximately 35.42%) was mainly due to the significant decrease in revenue during the period.

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The Group's gross profit margin decreased to approximately 17.07% for the six months ended 30 June 2020 from 22.14% for the six months ended 30 June 2019, which was a result of the increase in the charge rate of processing fees and the unit cost of raw materials.

The Group's loss for the six months ended 30 June 2019 increased significantly by HK\$2.61 million (equivalent to an increase of approximately 96.31%) from HK\$2.71 million to HK\$5.32 million because of, as advised by the Management, the decrease of gross profit while expenses including selling and distribution expenses and administrations expenses did not decrease proportionally.

(b) Historical financial position

Set out below is the extract of financial position of the Group as at 31 December 2018 and 2019 as extracted from the Annual Report 2019:

	As at 30 June	For the year ended	
	2020	31 December	
	(unaudited)	2019	2018
	HK\$'000	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	16,605	18,355	23,936
Current assets	49,919	61,138	68,695
Current liabilities	12,679	33,152	28,302
Non-current liabilities	2,710	3,869	1,223
Net assets	51,135	42,472	63,106

The non-current assets of the Group as at 31 December 2019 amounted to HK\$18.36 million, representing a decrease of HK\$5.58 million (equivalent to a decrease of approximately 23.31%) from approximately HK\$23.94 million as at 31 December 2018. Such decrease was due to decrease in prepayments, other receivables and other assets of approximately HK\$4.06 million mainly because of an impairment allowance of approximately HK\$3.54 million. It further decreased to HK\$16.61 million (equivalent to a decrease of approximately 9.53%) due to further decrease of right-of-use assets and financial assets at fair value through profit or loss.

The current assets of the Group as at 31 December 2019 amounted to HK\$61.14 million, representing a decrease of HK\$7.56 million (equivalent to a decrease of approximately 11.00%) from approximately HK\$68.70 million as at 31 December 2018. Such decrease was mainly due to the decrease of trade receivables by approximately HK\$7.04 million. The current assets of the Group decreased further to 49.92 million with a significant decrease of cash and cash equivalents by HK\$16.25 million.

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The current liabilities of the Group as at 31 December 2019 amounted to HK\$33.15 million, representing an increase of HK\$4.85 million (equivalent to an increase of approximately 17.14%) from approximately HK\$28.30 million as at 31 December 2018. Such increase was due to the increase of interest-bearing bank borrowings by approximately HK\$4.75 million. The current liabilities of the Group decreased to HK\$12.68 million mainly because all interest-bearing bank borrowings (amounted to HK\$19.97 million as at 31 December 2019) had been fully settled as at 30 June 2020.

The non-current liabilities of the Group as at 31 December 2019 amounted to HK\$3.87 million, representing a significant increase of HK\$2.65 million (equivalent to an increase of approximately 216.35%) from approximately HK\$1.22 million as at 31 December 2018. Such increase was due to the balance of lease liabilities due to recognition of lease liabilities under the Hong Kong Financial Reporting Standard 16 entitling “Leases”, which was first adopted by the Group for the year ended 31 December 2019. With no new leases added for the six months ended 30 June 2020, the non-current liabilities of the Group decreased to HK\$2.71 million as at 30 June 2020.

As a result of the aforesaid, the Group’s net asset value amounted to HK\$42.47 million as at 31 December 2019, compared to approximately HK\$63.11 million as at 31 December 2018, representing a decrease of approximately HK\$20.64 million or 32.70%. The Group’s net asset value then increased to HK\$51.14 million as at 30 June 2020, representing an increase of approximately HK\$8.67 million or 20.41%.

4. Background information of Guangzhou Xinhua, Tseyu International and Mr. Wong

Guangzhou Xinhua is a company established under the laws of the PRC with limited liability in 1993 and is principally engaged in the manufacturing and trading of sewing threads and broad categories of garment accessories.

Tseyu International is a company incorporated in Hong Kong with limited liability in 1978 and is principally engaged in the trading of sewing threads and broad categories of garment accessories.

Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company.

5. Reasons for entering into the PRC Loan Agreement

As disclosed in the Letter, the Directors were not aware of the implications of the aforesaid historical current account transactions which involved payments from (i) Mr. Wong to Tseyu International and (ii) Guangzhou Xinhua to Mr. Wong under the GEM Listing Rules because the Directors mistakenly believed and considered that the intra-group current accounts balances could be offset against each other on the consolidated basis and only the balance would be required to be taken into account when considering the GEM Listing Rules implications. The historical advances were used as working capital

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for the operation of the Group's production facilities in the PRC and the offices in Hong Kong. No interest charge was considered by the Group prior to the entering of the PRC Loan Agreement. The Directors only became aware that the outstanding historical payments from Guangzhou Xinhua to Mr. Wong may have constituted a non-exempt connected transaction pursuant to requirements under the GEM Listing Rules during the audit process of the Group's financial statements for the year ended 31 December 2019 when the management accounts of the Group for the year ended 31 December 2019 were finalised.

Upon becoming aware of the incidents, the management of the Group has sought professional advice from its advisors immediately as to the requirements under the GEM Listing Rules for the Current Accounts Receivables. The Company was informed that the Current Accounts Receivables would constitute a financial assistance from the Group to its connected person, and that the Company would not have complied in full with the requirements under Chapter 19 and Chapter 20 of the GEM Listing Rules. In the circumstances, the Company has immediately taken all initiatives to re-comply with the GEM Listing Rules as soon as it can. Going forward, Mr. Wong expects to repay the outstanding balances due to Guangzhou Xinhua within three years of the date of the PRC Loan Agreement and Tseyu International would repay the amount due to Mr. Wong when cash flow of Tseyu International permits.

The HK Loan Agreement and PRC Loan Agreement were entered into by the respective parties to record, confirm and agree on as well as to govern the arrangements concerning the Shareholder's Loans and the Current Account Receivables, including but not limited to repayments terms, and to re-comply with the requirement to enter into a written agreement for connected transactions under Rule 20.32 of GEM Listing Rules in respect of the Current Account Receivables. The Company will also benefit from the interest income under the terms of the PRC Loan Agreement.

Pursuant to the terms of the HK Loan Agreement, the Shareholder's Loan which was historically advanced by Mr. Wong to Tseyu International shall be interest-free and unsecured and therefore on normal commercial terms or better, the directors consider that the terms of the HK Loan Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

In relation to the PRC Loan Agreement, in consideration of the undertaking given by Mr. Wong to apply any repayment received from Tseyu International from time to time to first settle the outstanding Current Account Receivables and the interest income under the PRC Loan Agreement, and that there had been no similar arrangements agreed between Mr. Wong and Guangzhou Xinhua previously for such historical Current Account Receivables, the Directors consider that the terms of the PRC Loan Agreement were no less favourable to the Group than terms available to or from Independent Third Parties and are fair and reasonable and in the interests of the Shareholders as a whole.

In order to strengthen and enhance the adequacy and effectiveness of the Company's internal controls, the Company has engaged the Internal Control Adviser, Asian Alliance Financial Advisory Services Limited, which had confirmed its independence with the

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Company, to conduct an internal control review and identify any material deficiency of the internal control mechanism of the Company. The Internal Control Adviser has extensive experience in providing corporate governance and internal control review and advisory services to companies listing on the Stock Exchange. The Board has received the first draft report of the internal control review from the Internal Control Adviser in mid-January 2021. The management of the Company has been communicating and liaising with the Internal Control Adviser in connection with their findings and the management of the Company will continue to provide information to the Internal Control Adviser to clarify some of the findings. The Company will also review and consider the findings and suggestions to be made by the Internal Control Adviser and will adopt any suggested measures which may be proposed. It is expected that the final report of the internal control review will be completed and issued by the end of February 2021 and the management of the Company expects that the recommended measures will be implemented by the end of June 2021. The Internal Control Adviser will perform further review on the implementation status of the recommended measures which is expected to be completed by the end of June 2021. The Company will provide further update on the findings of the internal control review and the suggestions made by the Internal Control Adviser as and when appropriate by way of announcement.

The Company had also arranged specific training provided by legal advisers on the relevant requirements for notifiable and connected transactions under Chapters 19 and 20 of the GEM Listing Rules for the Directors and relevant staff members to reinforce their understanding of compliance of the GEM Listing Rules. The management has also reviewed the relevant records of the Group and confirmed that no other connected transactions of the Company are not in full compliance with the GEM Listing Rules.

6. Principal terms of the PRC Loan Agreement

Set out below is a summary of the principal terms of the PRC Loan Agreement. For easy reference, we also set out the principle terms of the HK Loan Agreement side by side with the PRC Loan Agreement in the table below.

	PRC Loan Agreement	HK Loan Agreement
Date:	31 March 2020	31 March 2020
Lender:	Guangzhou Xinhua	Mr. Wong
Borrower:	Mr. Wong	Tseyu International

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	PRC Loan Agreement	HK Loan Agreement
Principal Loan Amount:	The intra-group current account balance due from Mr. Wong to Guangzhou Xinhua and the amount remain outstanding as at the date of the PRC Loan Agreement was confirmed to be RMB16,760,277 (equivalent to approximately HK\$19,609,524) (the “ PRC Loan ”).	The Shareholder’s Loans and the amount remain outstanding as at the date of the HK Loan Agreement was confirmed to be HK\$19,171,000 (the “ HK Loan ”).
Interest:	2% per annum	Interest-free
Maturity Date:	Three years from the date of the PRC Loan Agreement	Mr. Wong may, by serving a written notice to Tseyu International, require Tseyu International to repay the Shareholder’s Loan by way of cash, in whole or in part, within 7 business days after Tseyu International has received such written notice.
Repayment and Security Arrangement:	Mr. Wong has undertaken in the PRC Loan Agreement that any repayment of the Shareholder’s Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua.	Unsecured

In order to assess the fairness and reasonableness of the PRC Loan Agreement, we have conducted independent research from the public domain on comparable transactions (the “**Comparable Transactions**”) which (i) were announced by companies listed on the Stock Exchange from 1 January 2021 and up to the Latest Practicable Date, which in our view represents a sufficient period of time to reflect the prevailing market conditions for conducting such transactions; (ii) involved the provision of loans/loan facilities by

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companies listed in Hong Kong; (iii) constituted notifiable transactions and/or connected transactions of the issuers under the Listing Rules or GEM Listing Rules. Shareholders should note that the business, operations and prospects of the Comparable Transactions may not be identical to those of the Company and we have not conducted any detailed investigation into the respective businesses and operations of the Comparable Transactions. Nevertheless, we consider that the Comparable Transactions could provide a general reference as to the common market practice of companies listed in Hong Kong for conducting similar transactions under the PRC Loan Agreement. To the best of our knowledge and on a best-effort basis, we have identified an exhaustive list of 43 Comparable Transactions which fit our selection criteria.

Table 1: A summary of the Comparable Transactions

	Name of company	Stock code	Date of announcement	Interest rate per annum (%)	Term to maturity (month)	Whether the loan is secured?	Whether it is a connected transaction?
1	China Communications Construction Company Limited	1800	05 February 2021	7.50	Not disclosed	No	Yes (Note 1)
2	Global International Credit Group Limited	1669	05 February 2021	9.00	24	Yes	No
3	Midland IC&I Limited	459	03 February 2021	8.50	12	Yes	No
4	Dawnrays Pharmaceutical (Holdings) Limited	2348	02 February 2021	3.50	5	No	No
5	NOVA Group Holdings Limited	1360	01 February 2021	12.00	8.7	Yes	No
6	Lee's Pharmaceutical Holdings Limited	950	01 February 2021	4.00	12	12	Yes (Note 3)
7	China Healthwise Holdings Limited	348	29 January 2021	8.00	24	No	No
8	NOVA Group Holdings Limited	1360	28 January 2021	12.00	9	Yes	No
9	Reliance Global Holdings Limited	723	28 January 2021	10.50	12	Yes	No
10	Capital Finance Holdings Limited	8239	28 January 2021	3.60	6	Yes	No
				(Note 4)			
11	NOVA Group Holdings Limited	1360	27 January 2021	12.00	12	Yes	No
12	Capital Finance Holdings Limited	8239	27 January 2021	15.40	12	Yes	No
				(Note 5)			
13	Capital Finance Holdings Limited	8239	27 January 2021	15.40	12	Yes	No
				(Note 6)			
14	Great Water Holdings Limited	8196	26 January 2021	60 basis points below the 5-year loan prime rate, i.e. 4.65%	3	No	No
				(Note 7)			
15	NOVA Group Holdings Limited	1360	25 January 2021	12.00	12	Yes	No
16	Kader Holdings Company Limited	180	22 January 2021	12.00	36	No	Yes (Note 8)
17	Rykadan Capital Limited (Note 9)	2288	20 January 2021	12.00	12	Yes	No
18	Rykadan Capital Limited (Note 9)	2288	20 January 2021	12.00	12	Yes	No
19	Jiashili Group Limited	1285	17 January 2021	5.00	12	Yes	No
20	Power Financial Group Limited	397	15 January 2021	7.00	12	No	No
21	Global International Credit Group Limited (Note 10)	1669	15 January 2021	11.00	12	Yes	No
22	Global International Credit Group Limited (Note 10)	1669	15 January 2021	12.00	12	Yes	No

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	Name of company	Stock code	Date of announcement	Interest rate per annum (%)	Term to maturity (month)	Whether the loan is secured?	Whether it is a connected transaction?
23	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	12.00	12	Yes	No
24	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	12.00	12	Yes	No
25	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	12.00	12	Yes	No
26	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	12.00	12	Yes	No
27	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	12.00	12	Yes	No
28	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	14.00	12	Yes	No
29	Global International Credit Group Limited (<i>Note 10</i>)	1669	15 January 2021	14.00	12	Yes	No
30	Baiying Holdings Group Limited	8525	15 January 2021	5.00	Not disclosed	No	Yes (<i>Note 11</i>)
31	China Jinmao Holdings Group Limited	817	14 January 2021	1-year loan prime rate, i.e. 3.85%, subject to a floating range of 50% higher or lower than such rate (<i>Note 12</i>)	12	No	Yes (<i>Note 13</i>)
32	Capital Finance Holdings Limited (<i>Note 14</i>)	8239	14 January 2021	15.40 (<i>Note 6</i>)	12	Yes	No
33	Capital Finance Holdings Limited (<i>Note 14</i>)	8239	14 January 2021	15.40 (<i>Note 6</i>)	12	Yes	No
34	Ban Loong Holdings Limited	30	14 January 2021	18.00	12	Yes	No
35	Capital Finance Holdings Limited	8239	13 January 2021	3.60 (<i>Note 4</i>)	6	Yes	No
36	China Ever Grand Financial Leasing Group Company Limited	379	12 January 2021	10.00	12	Yes	No
37	Ban Loong Holdings Limited	30	12 January 2021	19.20	12	Yes	No
38	New Century Group Hong Kong Limited	234	12 January 2021	10.00	12	Yes	No
39	NOVA Group Holdings Limited	1360	08 January 2021	12.00	7	Yes	No
40	Reliance Global Holdings Limited	723	07 January 2021	12.50	12	Yes	No
41	China Financial Services Holdings Limited	605	07 January 2021	16.00	180	Yes	No
42	Ban Loong Holdings Limited	30	07 January 2021	18.00	12	Yes	No
43	Power Financial Group Limited	397	04 January 2021	9.00	12	Yes	No
			Maximum	19.20	180		
			Minimum	3.50	6		
			Average	10.84	16.31		
	The Company		31 March 2020	2.00	36.00	Yes	

Source: The official website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. This Comparable Transaction involved (i) the wholly-owned subsidiary of the listed company as lender; and (ii) the indirect subsidiary of the listed company as borrower.
2. As disclosed in the announcement of NOVA Group Holdings Limited dated 1 February 2021, the financing term of the loan was from 2 February 2021 to 23 October 2021. For comparison purpose only, 8.7-month was taken for the analysis of the Comparable Transactions.
3. This Comparable Transaction involved (i) the wholly-owned subsidiary of the listed company as lender; and (ii) the a non-wholly owned subsidiary of the listed company which was owned as to 65% by the lender as borrower.
4. As disclosed in the announcements of Capital Finance Holdings Limited dated 13 January 2021 and 28 January 2021, the interest rate was 0.3% per month (on a 30-day month basis). For comparison purpose only, such interest rate was adjusted to annual basis and 3.6% per annum was then taken for the analysis of the Comparable Transactions.
5. As disclosed in the announcement of Capital Finance Holdings Limited dated 27 January 2021, two loans were considered relevant to the Comparable Transactions.
6. As disclosed in the announcements of Capital Finance Holdings Limited dated 14 January 2021 and 27 January 2021, the interest rate was 1.283% per month (on a 30-day month basis). For comparison purpose only, such interest rate was adjusted to annual basis and 15.4% per annum was then taken for the analysis of the Comparable Transactions.
7. As disclosed in the announcement of Great Water Holdings Limited dated 26 January 2021, the interest of the loan is 60 basis points below the loan prime rate for five-year loan as published by the People's Bank of China. As at the Latest Practicable Date, the five-year loan prime rate is 4.65% per annum. For comparison purpose only, the interest rate of approximately 4.05% per annum was taken for the analysis of the Comparable Transactions.
8. This Comparable Transaction involved (i) the direct wholly-owned subsidiary of the listed company as lender; and (ii) the associate company of the executive director of the listed company as borrower.
9. As disclosed in the announcement of Rykadan Capital Limited Limited dated 20 January 2021, two loans were considered relevant to the Comparable Transactions.
10. As disclosed in the announcement of Global International Credit Group Limited dated 15 January 2021, nine loans were considered relevant to the Comparable Transactions.
11. This Comparable Transaction involved (i) indirectly wholly owned subsidiary of the listed company as lender; and (ii) the entity which was indirectly held as to 37.82% by the controlling shareholder of the listed company as borrower.
12. As disclosed in the announcement of China Jinmao Holdings Group Limited dated 14 January 2021, the interest of the loan is referenced to the loan prime rate for one-year loan as published by the People's Bank of China, subject to a floating range of 50% higher or lower than such rate. As at the Latest Practicable Date, the one-year loan prime rate is 3.85% per annum. For comparison purpose only, we take the highest end and hence an interest rate of approximately 5.78% per annum was taken for the analysis of the Comparable Transactions.
13. This Comparable Transaction involved the connected subsidiaries of the entity which held 14.03% of the total issued shares of the listed company, with (i) the subsidiary of the listed company as lender; and (ii) the other subsidiary of such entity as borrower.

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14. As disclosed in the announcement of Capital Finance Holdings Limited dated 14 January 2021, two loans were considered relevant to the Comparable Transactions.

(i) *Interest rate*

As shown in Table 1 above, the interest rates of the Comparable Transactions ranged from 3.50% to 19.20% per annum with an average of approximately 10.84% per annum. The interest rate of the PRC Loan of 2%, on a prima facie case, is below the interest rate range of the Comparable Transactions.

That said, as set out in the Letter, when the PRC Loan Agreement was entered on 31 March 2020, Mr. Wong also entered into the HK Loan Agreement as a lender and Tseyu International (being an indirect wholly-owned subsidiary of the Company) as a borrower for an amount of HK\$19,171,000, which is of similar amount with the principal loan amount under the PRC Loan Agreement of RMB16,760,277 (equivalent to approximately HK\$19,609,524), which is interest-free and unsecured. There is undertaking from Mr. Wong that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua under the PRC Loan Agreement.

In these circumstances, other than the interest income received by the Group under the PRC Loan Agreement, there are two factors that we should also take into account, being (i) the Group actually enjoys also the interest saving from the Shareholder's Loans which the Group would otherwise be required to pay to third parties; and (ii) the Group's opportunity cost for the RMB to be lent to Mr. Wong under the PRC Loan Agreement.

Regarding the first factor, being the interest saving from the Shareholder's Loans which the Group would otherwise be required to pay to an independent third party, we have referred to the cost of financing of the Group in Hong Kong as set out in the Annual Report 2019, which ranged from 4.6% to 6.2% per annum during the year ended 31 December 2019.

Regarding the second factor, being the Group's opportunity cost for the RMB that would be lent to Mr. Wong under the PRC Loan Agreement, we have discussed with the Management on the Group's cash management for its two major currencies, being RMB and HK\$. According to the Management, the Group (i) earned RMB from its sales in the PRC and HK\$ from its sales overseas while (ii) made payments for its operation in RMB. To make sure the Group has sufficient RMB for its operation, the Accounts Department of the Group would keep track of the monthly cashflow of RMB and, in case they foresee any possible shortfall of RMB, they would in advance exchange more RMB from HK\$ in hand. So far the Management has not encountered any problems for this arrangement with sufficient idle cash of HK\$ in hand (as disclosed in Annual Report 2019, the Group's cash and cash equivalents amounted to HK\$34.53 million with over 95% are denominated in HK\$) and hence the Group has not raised loans in RMB since the Listing. In view of this,

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we are of the view that the Group's opportunity cost of lending out RMB to Mr. Wong under the PRC Loan Agreement shall represent a loss of interest income for the Group on the loan amount under a normal deposit. To assess such loss of income, we have referred to the interest rate as stipulated by the People's Bank of China for a fixed deposit with a term of three years ("**PBC Three Years' Deposit Rate**"), which is 2.75% per annum. In these circumstances, the opportunity cost for the loss of deposit income net of the interest received from Mr. Wong under the PRC Loan Agreement would be 0.75% (i.e. 2.75% – 2%) per annum.

When taking (i) the aforesaid saving of the cost of financing from the HK Loan Agreement (i.e. 4.6% to 6.2% per annum) and (ii) the opportunity cost of the loss of deposit income net of the interest received from Mr. Wong under the PRC Loan Agreement of 0.75%, the effective interest benefit of the Group from entering into the PRC Loan Agreement would hence be 5.85% (i.e. 2% + 4.6% – 0.75%) per annum to 7.45% (i.e. 2% + 6.2% – 0.75%) per annum, which is well within the interest rate range of the Comparable Transactions.

In addition to comparing the Comparable Transactions above, we have also performed an analysis to compare the net impact between two scenarios, which are (i) the PRC Loan Agreement and the HK Loan Agreement are entered into between Mr. Wong and the Group as our case here, with interest rate under the PRC Loan Agreement is 2% per annum and the HK Loan Agreement is interest-free ("**Scenario A**"); and (ii) the PRC Loan Agreement and the HK Loan Agreement are entered into between the Group and the independent third parties, with the interest rate of the PRC Loan and the HK Loan being PBC Three Years' Deposit Rate (2.75%) and the cost of financing of the Group in Hong Kong (being a range from 4.6% to 6.2% per annum) during the year ended 31 December 2019 ("**Scenario B**"). The table below set out the comparison results:

	Scenario A	Scenario B
HK Loan Agreement	Incurring no finance expenses as the Shareholder's Loans provided by Mr. Wong under the HK Loan Agreement is interest-free	Incurring 4.6% to 6.2% finance expenses per annum
PRC Loan Agreement	Received 2% interest income per annum	Received 2.75% interest income per annum
Net effect	Received 2% interest income per annum	Incurring aggregate interest expense 1.85% to 3.45% per annum

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As shown, there is a net gain of interest income amounted 2% per annum from Scenario A while a range of net interest expenses of approximately 1.85% to 3.45% per annum was noted for Scenario B. By comparing the two scenarios, the Company selected Scenario A, which will result in a net interest cost saving amounted 3.85% (being 2% + 1.85%) to 5.45% (being 2% + 3.45%).

Based on the analysis above, we are of the view that the aggregate commercial terms and interest rate of the PRC Loan together with the HK Loan Agreement as a whole is fair and reasonable.

(ii) Maturity

As illustrated in Table 1, the terms to maturity of the Comparable Transactions ranged from 6 months to 180 months with an average term to maturity of around 16.31 months. The term of the PRC Loan of 36 months falls within the range of that of the Comparable Transactions. When taking into consideration that (i) there is undertaking from Mr. Wong that any repayment of the Shareholder's Loans to Mr. Wong from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua under the PRC Loan Agreement; and (ii) the term to maturity of the PRC Loan is within the range of the recent market practice, we are of the view that the term of the PRC Loan is fair and reasonable.

(iii) Default Risk

Taking into account (i) the undertaking from Mr. Wong that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua under the PRC Loan Agreement; and (ii) the loan amount of under the HK Loan Agreement and that of the PRC Loan Agreement are comparable; we are of the view that the default risk under the PRC Loan Agreement is low.

As such, we consider that the terms of the PRC Loan Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Also, when taken into account of the HK Loan Agreement and the PRC Loan Agreement as a whole, the arrangement between the Group and Mr. Wong is more favorable than carrying out similar financial exercise with independent third parties.

7. Financial effects of the PRC Loan Agreement

(i) Net asset value

According to the Interim Report 2020, the audited net asset value of the Group as at 30 June 2020 was approximately HK\$51.14 million. Given (i) the outstanding Shareholder's Loans due from Tseyu International to Mr. Wong (amounted to HK\$19,171,000 as at the date of the HK Loan Agreement) under the HK Loan

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Agreement are more or less the same as that of the outstanding intra-group current account balance due from Mr. Wong to Guangzhou Xinhua (amounted to RMB16,760,277 (equivalent to approximately HK\$18,603,907) as at the date of the PRC Loan Agreement) under the PRC Loan Agreement; and (ii) Mr. Wong has also undertaken that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua under the PRC Loan Agreement, the PRC Loan Agreement is not expected to have any material effect on the net asset value of the Group for the financial year ending 30 June 2020, but has an immaterial impact on cash and cash equivalents of the Group, which then amounted to HK\$18.28 million.

The table below set out the change of cash and cash equivalents of the Group due to the entering into the PRC Loan Agreement:

	<i>HK\$ (million)</i>
Decrease in cash and cash equivalents due to the outflow of cash under PRC Loan Agreement	(18.60)
Increase in cash and cash equivalents due to the inflow of cash under HK Loan Agreement	<u>19.17</u>
Net increase in cash and cash equivalents	<u><u>0.57</u></u>

(ii) Earnings

Pursuant to the PRC Loan Agreement, Mr. Wong and Guangzhou Xinhua confirm that a sum of RMB16,760,277 (equivalent to approximately HK\$19,609,524) has been advanced by Guangzhou Xinhua to Mr. Wong and remain outstanding as at the date of the PRC Loan Agreement, on which an interest at a rate of 2% per annum would accrue from the date thereof. On this basis, it is expected that the Group will receive maximum interest income of RMB1,005,616 (equivalent to approximately HK\$1,116,234) on the maturity date of 31 March 2023. As such, the earnings attributable to shareholders of the Company will be enhanced as a result of the PRC Loan.

(iii) Liquidity

As disclosed in the Annual Report 2019, as at 31 December 2019, the cash and cash equivalents of the Group amounted to approximately HK\$34.53 million while the net current assets of the Group amounted to approximately HK\$27.99 million. In view of the above financial effects, in particular, (i) the PRC Loan would enable the Group to earn additional interest income and accordingly enhance its earnings; and (ii) the liquidity of the Group would not be materially affected as a result of the PRC Loan in particular Mr. Wong has undertaken in the PRC Loan Agreement that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu

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International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua subject to the PRC Loan Agreement and the transactions contemplated thereunder having been approved the Independent Shareholders at the EGM, we consider that the overall financial effects on the Group as a result of the PRC Loan is positive.

(iv) Exchange risk

As the PRC Loan Agreement is denominated in RMB while the HK Loan Agreement is denominated in HK\$, there is an exchange risk that the Company would suffer losses due to exchange rate fluctuations of RMB and HK\$.

Regarding the exchange rate, on 8 February 2021, we looked up Bloomberg (www.bloomberg.com) and noted the exchange rate of RMB1 to HK\$ fluctuated from 1.1990 to 1.2013 during the past 52 weeks with an average of 1.2002, in which case the maximum value and minimum value fluctuated at approximately 0.10% from the average value, which we considerate the exchange fluctuation does not have significant impact on the loan amount.

Taken into (i) we considerate the exchange fluctuation does not have significant impact on the loan amount; (ii) the insignificant interest income to be received from the PRC Loan; (iii) the outstanding Shareholder's Loans due from Tseyu International to Mr. Wong (amounted to HK\$19,171,000 as at the date of the HK Loan Agreement) under the HK Loan Agreement are more or less the same as that of the outstanding intra-group current account balance due from Mr. Wong to Guangzhou Xinhua (amounted to RMB16,760,277 (equivalent to approximately HK\$19,609,524) as at the date of the PRC Loan Agreement) under the PRC Loan Agreement; and (iv) Mr. Wong has undertaken that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua under the PRC Loan Agreement, we do not expect the exchange risk under the PRC Loan Agreement is high.

Shareholders should note that the above analysis are for illustrative purpose only and do not purport to represent the financial position of the Group as a result of the PRC Loan.

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RECOMMENDATIONS

Having taken into consideration the above principal factors and reasons, we are of the opinion that the PRC Loan Agreement are in the ordinary and usual courses of business, fair and reasonable and the terms are on normal commercial terms so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the PRC Loan Agreement.

Yours faithfully,
For and on behalf of
Euto Capital Partners Limited
Manfred Shiu
Director

I. FINANCIAL SUMMARY

The financial information of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019, the three months ended 31 March 2020, the six months ended 30 June 2020 and the nine months ended 30 September 2020 are set out in the following documents which have been published on both the GEM website at www.hkgem.com and the Company's website at www.shenyouholdings.com:

- the annual report of the Company for the year ended 31 December 2017 published on 29 March 2018 (pages 36 to 93) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2018/0329/gln20180329107.pdf>);
- the annual report of the Company for the year ended 31 December 2018 published on 29 March 2019 (pages 61 to 182) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329023.pdf>);
- the annual report of the Company for the year ended 31 December 2019 published on 1 April 2020 (pages 62 to 182) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/0401/2020040103485.pdf>);
- the first quarterly report of the Company for the three months ended 31 March 2020 published on 14 May 2020 (pages 3 to 18) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/0514/2020051402227.pdf>);
- the interim report of the Company for the six months ended 30 June 2020 published on 14 August 2020 (pages 3 to 30) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/0814/2020081402311.pdf>); and
- the third quarterly report of the Company for the nine months ended 30 September 2020 published on 10 November 2020 (pages 3 to 18) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/1110/2020111001690.pdf>).

II. INDEBTEDNESS STATEMENT

As at the close of business on 31 December 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following outstanding indebtedness:

Lease liabilities

As at the close of business on 31 December 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group, as a lessee, had outstanding unpaid contractual lease liabilities of approximately HK\$4.797 million in relation to the remaining lease terms of a right-of-use asset, which is unsecured and unguaranteed.

The translation of RMB into HK\$ is based on the exchange rate of RMB1 to HK\$1.1919 quoted on 31 December 2020 and is for information purpose only.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of the business on 31 December 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans or other borrowings or indebtedness in the nature of borrowing of the Group including bank loans or bank overdrafts or liabilities under acceptances or other similar indebtedness, debenture or other loan capital, charges, or acceptance credits or finance lease or hire purchase commitments, or outstanding mortgages and charges, or contingent liabilities or guarantees.

III. WORKING CAPITAL

The Directors, after due and careful enquiry and taking into account the present internal financial resources available to the Group, the present bank and other facilities and the Group's internally generated funds, are of the opinion that the Group has sufficient working capital to satisfy its present requirements, that is for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

IV. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there was no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, save as disclosed in the first quarterly report of the Company for the three months ended 31 March 2020, the interim report of the Company for the six months ended 30 June 2020 and the third quarterly report of the Company for the nine months ended 30 September 2020.

V. FINANCIAL AND TRADING PROSPECT OF THE GROUP

As disclosed in the annual report of the Company for the year ended 31 December 2019, for the year ended 31 December 2019, the Group's revenue decreased by approximately 8.9% as compared with that for the year ended 31 December 2018. The gross profit margin decreased to approximately 19.3% for the year ended 31 December 2019 from approximately 20.6% for the preceding year. The decrease was mainly attributable to the decrease in sales in the PRC market, which accounted for approximately 56.1% of the total revenue for the year ended 31 December 2019.

On 15 December 2017, the Shares were successfully listed on GEM (the “**Listing**”) by way of share offer (the “**Share Offer**”). After deducting all the relevant commission and expenses in relation to the Listing, net proceeds amounting to approximately HK\$40.7 million have been raised from the Listing. As at 31 December 2019, the unutilised net proceeds from the Share Offer amounted to approximately HK\$29.1 million.

While the Group’s business has experienced some difficulty as a result of the unfavourable market conditions immediately after the Listing, the Board and the senior management of the Company are confident of the Group’s steady performance given its competitive strengths, which include: (i) the long-term business relationships with its customers and suppliers; (ii) adoption of the stringent quality control mechanisms in the course of sewing threads production; (iii) the strategic location of the Guangzhou production facilities for its business development; and (iv) an experienced management team with extensive industry experience.

The future plans and use of proceeds schedule disclosed in the prospectus of the Company (the “**Prospectus**”) were formulated based on the best estimation of the market conditions after the Listing. The discrepancy between the planned use of the net proceeds and the actual use mainly arose as a result of the actual market conditions affecting the Group after the Listing. The continuing trade conflict between the U.S. and the PRC, the PRC’s gradual economic slowdown and the recent outbreak of coronavirus (COVID-19) epidemic have presented the Group with uncertainties and multiple challenges, rendering the need for the Group to be prudent in implementing its future plans as set out in the Prospectus. The Directors believed that a strict adherence to the implementation plan will increase the production capacity of the Group, while the additional machinery may lead to a provision for impairment for such machinery to be made in the future.

Meeting the demands of its customers as to high quality and differentiated products is one of the Group’s priorities in order to maintain long-term business relationships with its customers. Further, the Directors believe that there are considerable business opportunities in the sewing threads industry in the long term. To satisfy its customers’ potential needs and to capture the business opportunities in the sewing threads industry, the Group will continue to implement the expansion plans set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus in a prudent and conservative manner in light of the market conditions at the time.

The Directors will continue to carefully monitor and assess the situation and, if the expansion plans no longer suit the operation and the future development of the Group, the Directors may evaluate and modify them so as to ensure that the Group’s business strategies are in the best interests of the Company and the Shareholders as a whole.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Director's and chief executive's interests in the Company or its associated corporations

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

Long position in the Shares and underlying Shares

Name of Director	Nature of Interest	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Mr. Wong	Interest of controlled corporation (<i>Note 1</i>)	120,000,000	50%
Mr. Leung King Yue, Alex	Beneficial owner	10,000,000	4.17%

Note:

- Mr. Wong beneficially owns the entire issued share capital of Three Gates Investment Limited, a company incorporated in the British Virgin Islands on 15 August 2016, which in turn owns 120,000,000 Shares. By virtue of the SFO, Mr. Wong is deemed to be interested in 120,000,000 Shares held by Three Gates Investment Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated

corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, the persons (other than a Director or chief executive of the Company) who had, or were deemed to have, interests or short positions in the Shares or underlying Shares or debentures of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long position in the Shares and underlying Shares

Name	Nature of Interest	Number of Shares held	Approximate percentage of interest
Three Gates Investment Limited	Beneficial owner	120,000,000	50%
Upbest Group Limited	Interest of controlled corporation (<i>Note 1</i>)	80,000,000	33.33%
Upbest Financial Holdings Limited	Interest of controlled corporation (<i>Note 1</i>)	80,000,000	33.33%
Upbest Strategic Company Limited	Interest of controlled corporation (<i>Note 1</i>)	80,000,000	33.33%
Good Foundation Company Limited	Interest of controlled corporation (<i>Note 1</i>)	80,000,000	33.33%
Upbest Credit and Mortgage Limited	Interest of controlled corporation (<i>Note 1</i>)	80,000,000	33.33%
Gold-Face Finance Limited	Security interest in shares (<i>Note 1</i>)	80,000,000	33.33%
Mr. Leung Tat Chi	Beneficial owner (<i>Note 2</i>)	17,460,466	5.68%

Name	Nature of Interest	Number of Shares held	Approximate percentage of interest
UBA Investments Limited	Interest of controlled corporation (<i>Note 3</i>)	16,852,711	5.48%
Loyal Grace Investments Limited	Beneficial owner (<i>Note 3</i>)	16,852,711	5.48%
DT Capital Limited	Interest of controlled corporation (<i>Note 4</i>)	16,852,711	5.48%
Key Summit Enterprises Limited	Beneficial owner (<i>Note 4</i>)	16,852,711	5.48%
Mr. Leong Chi Wai	Interest of controlled corporation (<i>Note 5</i>)	17,875,972	5.82%
Glory Radiance International Limited	Beneficial owner (<i>Note 5</i>)	17,875,972	5.82%
Mr. Fung Wing Cheung Tony	Beneficial owner (<i>Note 6</i>)	24,000,000	10%

Notes:

- Gold-Face Finance Limited is wholly-owned by Upbest Credit and Mortgage Limited, which is in turn wholly-owned as to 50% by each of Upbest Strategic Company Limited and Good Foundation Company Limited, which in turn are both wholly-owned by Upbest Financial Holdings Limited, which is in turn wholly owned by Upbest Group Limited. A share charge over 80,000,000 Shares held by Three Gates Investment Limited was executed in favour of Gold-Face Finance Limited as security for a loan granted to Mr. Wong. Each of Upbest Group Limited, Upbest Financial Holdings Limited, Upbest Strategic Company Limited, Good Foundation Company Limited and Upbest Credit and Mortgage Limited is deemed to be interested in the 80,000,000 Shares charged in favour of Gold-Face Finance Limited for the purpose of the SFO.
- A sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 18 August 2020 was entered between the Company, Mr. Leung Tat Chi (“**Mr. Leung**” or the “**Vendor A**”), Loyal Grace Investments Limited (“**Loyal Grace**” or the “**Vendor B**”), Key Summit Enterprises Limited (“**Key Summit**” or the “**Vendor C**”) and Glory Radiance International Limited (“**Glory Radiance**” or the “**Vendor D**”, together with Vendor A, Vendor B and Vendor C, the “**Vendors**”), pursuant to which the Company agreed to acquire (the “**Acquisition**”) and the Vendors agreed to sell the entire issued share capital of and all the obligations, liabilities and debts owing or incurred by Diamond Motto Limited (the “**Target Company**”), being a company incorporated in the British Virgin Islands with limited liability, to Vendor B, Vendor C and Vendor D, respectively, on or at any time prior to the completion of the Acquisition.

As at the date of the Sale and Purchase Agreement, 1,600,000 Shares was held by Mr. Leung Tat Chi. Pursuant to the Sale and Purchase Agreement, Mr. Leung Tat Chi agreed to sell and the Company agreed to purchase 165 issued shares in the Target Company, in exchange of the Company allotting and issuing 15,860,466 Shares to Mr. Leung Tat Chi (and/or its nominee(s)) as

consideration. Details of which are set out in the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020, 17 November 2020 and 12 January 2021, respectively and the circular of the Company dated 13 January 2021. As such, Mr. Leung Tat Chi is deemed to be interested in an aggregate of 17,460,466 Shares under the SFO, although 13,860,466 Shares are to be issued and have not yet been issued as at the Latest Practicable Date.

3. Loyal Grace is a direct and wholly-owned subsidiary of UBA Investments Limited. Pursuant to the Sale and Purchase Agreement, Loyal Grace agreed to sell and the Company agreed to purchase 50 issued shares in the Target Company and 100% of all the obligations, liabilities and debts owing or incurred by the Target Company to Loyal Grace on or at any time prior to the completion of the Acquisition, in exchange of the Company allotting and issuing 16,852,711 Shares to Loyal Grace Investments Limited (and/or its nominee(s)) as consideration. UBA Investments Limited is deemed to be interested in the 16,852,711 Shares to be allotted and issued to Loyal Grace pursuant to the Sale and Purchase Agreement for the purpose of the SFO.
4. Key Summit is a direct and wholly-owned subsidiary of DT Capital Limited. Pursuant to the Sale and Purchase Agreement, Key Summit agreed to sell and the Company agreed to purchase 50 issued shares in the Target Company and 100% of all the obligations, liabilities and debts owing or incurred by the Target Company to Key Summit on or at any time prior to the completion of the Acquisition, in exchange of the Company allotting and issuing 16,852,711 Shares to Key Summit (and/or its nominee(s)) as consideration. DT Capital Limited is deemed to be interested in the 16,852,711 Shares to be allotted and issued to Key Summit pursuant to the Sale and Purchase Agreement for the purpose of the SFO.
5. Glory Radiance is wholly and beneficially owned by Mr. Leong Chi Wai. Pursuant to the Sale and Purchase Agreement, Glory Radiance agreed to sell and the Company agreed to purchase 35 issued shares in the Target Company and all the obligations, liabilities and debts owing or incurred by the Target Company to Glory Radiance on or at any time prior to the completion of the Acquisition, in exchange of the Company allotting and issuing 17,875,972 Shares to Glory Radiance (and/or its nominee(s)) as consideration. Mr. Leong Chi Wai is deemed to be interested in the 17,875,972 Shares to be allotted and issued to Glory Radiance pursuant to the Sale and Purchase Agreement for the purpose of the SFO.
6. A subscription agreement (the “**Subscription Agreement**”) dated 19 January 2021 was entered between the Company and Mr. Fung Wing Cheung Tony (“**Mr. Fung**”), pursuant to which Mr. Fung conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 24,000,000 new Shares to Mr. Fung (the “**Subscription**”). Details of which are set out in the announcements of the Company dated 19 January 2021 and 2 February 2021, respectively. As at the Latest Practicable Date, the Subscription has not been completed.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

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

4. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group within the two years immediately preceding the date of this circular which are, or may be, material:

- (i) the underwriting agreement dated 9 April 2020 (the “**Underwriting Agreement**”), and the extension letter dated 27 April 2020 and supplemental underwriting agreement dated 7 May 2020 to modify and vary certain terms of the Underwriting Agreement, entered into between the Company and Upbest Securities Company Limited (“**Upbest Securities**”), corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO in relation to the underwriting arrangement in respect of the relating to the proposed issue of 400,000,000 Shares (“**Rights Shares**”, each a “**Right Share**”) on the basis of one Rights Share for every two Shares held on the relevant record date, at the issue price of HK\$0.043 per Rights Share, details of which are set out in the announcements of the Company dated 9 April 2020, 17 April 2020, 27 April 2020, 8 May 2020, 11 June 2020 and 15 June 2020 and the prospectus of the Company dated 20 May 2020, respectively;
- (ii) the Sale and Purchase Agreement dated 18 August 2020 entered into between the Company and the Vendors in respect of the Acquisition; details of which are set out in the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020, 17 November 2020 and 12 January 2021, respectively and the circular of the Company dated 13 January 2021;
- (iii) the Subscription Agreement dated 19 January 2021 entered into between the Company and Mr. Fung in respect of the Subscription; details of which are set out in the announcements of the Company dated 19 January 2021 and 2 February 2021, respectively;
- (iv) the placing agreement entered into between the Company as the issuer and Upbest Securities Company Limited as the placing agent in relation to the offer by way of private placing of an aggregate of up to 24,000,000 new Shares to be placed by or on

behalf of Upbest Securities to any but not less than six individuals, corporates, institutional investors or other investors to be procured by or on behalf of Upbest Securities; and

- (v) the PRC Loan Agreement and HK Loan Agreement.

6. EXPERT AND CONSENT

The following sets out the qualification of the expert who has given opinions or advice included in this circular:

Name	Qualifications
Euto Capital	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Euto Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and the references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Euto Capital confirmed that it was not interested in any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Euto Capital had no interest, direct or indirect, in any asset since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. AUDIT COMMITTEE

The audit committee of the Board (the “**Audit Committee**”) consists of four independent non-executive Directors, namely Mr. Sung Alfred Lee Ming (being the chairman), Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel. The Audit Committee is mainly responsible for reviewing of the Company’s financial information, monitoring the Company’s financial reporting system, risk management and internal control systems and relationship with the Company’s external auditors. The biography details of the members of the Audit Committee are set out below:

- (i) **Mr. Sung Alfred Lee Ming**, aged 63, has over 30 years of experience in accounting and assurances. Mr. Sung graduated from La Trobe University in Australia in March 1984 with a bachelor’s degree in economics. Mr. Sung was admitted as a fellow of the Taxation Institute of Australia and a member and fellow of the Hong Kong Institute of Certified Public Accountants in November 1987, December 1987 and February 1995, respectively. He was also admitted as an associate of CPA Australia and Chartered Accountants Australia and New Zealand in March 1986 and April

1989, respectively. Mr. Sung has been the sole proprietor of Alfred Sung & Co. since 1999 and he is primarily responsible for overseeing audit and taxation works. Currently, Mr. Sung serves as an executive director of Modern Living Investments Holdings Limited (stock code: 8426), a company listed on GEM. From April 2012 to October 2014, Mr. Sung served as an independent non-executive director of TC Orient Lighting Holdings Limited (stock code: 515), a company listed on the Main Board of the Stock Exchange. Save as disclosed above, Mr. Sung did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

- (ii) **Mr. Chan Tsun Choi, Arnold**, aged 60, obtained his bachelor's degree in business administration from the Chinese University of Hong Kong in 1986, a postgraduate diploma in banking and finance from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong) in 1990 and a master's degree in finance from City University of Hong Kong in 1995. He is a fellow member of Hong Kong Institute of Certified Public Accountants, Hong Kong Securities and Investment Institute, UK Chartered Management Institute, Certified Practising Accountants, Australia, a member of International Institute of Management and a Chartered Financial Analyst charterholder. He is currently an independent non-executive director of JBB Builders International Limited, whose shares are listed on the main board of the Stock Exchange (stock code: 1903). Mr. Chan has extensive experience in project finance and fund-raising activities for construction projects in Hong Kong and Asia Pacific. From January 1998 to December 2019, Mr. Chan worked at Dragages Hong Kong Limited, a subsidiary of Bouygues Construction, with his last position as special advisor to chairman. He was the structured finance director and project finance director of Dragages Hong Kong Limited from March 2005 to March 2019. He was responsible for fund raising activities and financing for construction projects in Hong Kong and Asia Pacific. Save as disclosed above, Mr. Chan did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.
- (iii) **Mr. Chow Chin Hang, Joel**, aged 38, obtained his bachelor of science degree in mathematics, economics and finance from The University of Hong Kong in 2004. Mr. Chow is a Chartered Financial Analyst. Mr. Chow has over 15 years of experience in managing investment funds. Prior to joining the Company, Mr. Chow served at Dah Sing Bank from October 2004 to July 2005 as a risk control assistant and he served at JK Capital Management Limited from July 2005 to December 2017 with his last position as an assistant portfolio manager. From May 2018 to May 2019, Mr. Chow served as an assistant portfolio manager at Step Capital Management (HK) Limited. From May 2019 to August 2020, Mr. Chow served as a portfolio manager at Reliance International Financial Planners Limited. Since September 2020, Mr. Chow has served as a portfolio manager at Perpetuum Wealth Management Limited and since October 2020, he has served as a responsible officer to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated

activities under the SFO. Mr. Chow did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

11. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Chan Yiu Tung, Enoch who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.
- (c) The principal place of business of the Company in Hong Kong is situated at Unit 1302, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong.
- (d) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) In the event of any inconsistency, the English texts of the circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 1302, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays), between the period from the date of this circular up to and including the date of the EGM.

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three financial years ended 31 December 2017, 2018 and 2019, respectively;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 14 of this circular;
- (d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 15 to 35 of this circular;
- (e) the written consents referred to in paragraph headed “6. Expert and Consent” of this appendix;
- (f) the material contracts referred to in the paragraph headed “5. Material Contracts” in this appendix;
- (g) the PRC Loan Agreement and HK Loan Agreement;
- (h) the circulars of the Company dated 10 June 2020, 5 August 2020 and 13 January 2021, respectively, and this circular.

NOTICE OF EGM

SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HERE BY GIVEN that an extraordinary general meeting (the “**EGM**”) of Shen You Holdings Limited (the “**Company**”) will be held at Unit 1603–1604, 16/F, Causeway Bay Plaza 1, 489 Hennessy Road, Causeway Bay, Hong Kong on Monday, 8 March 2021 at 2:30 p.m., for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the form and substance of the loan agreement (the “**PRC Loan Agreement**”) dated 31 March 2020 entered into between 廣州新華線業有限公司 (Guangzhou Xinhua Thread Company Limited*), a company established under the laws of the PRC, an indirect wholly-owned subsidiary of the Company (“**Guangzhou Xinhua**”) and Mr. Wong Kwok Wai, Albert, the chairman, an executive director and the chief executive officer of the Company (“**Mr. Wong**”) in relation to the intra-group current account balance previously advanced by Guangzhou Xinhua to Mr. Wong (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one or more of the directors (the “**Directors**”) of the Company be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors in their discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the PRC Loan Agreement and the transactions contemplated thereunder, and to agree with such variations, amendments or waiver or matters relating thereto as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

By order of the Board
Shen You Holdings Limited
Chan Yiu Tung, Enoch
Executive Director

Hong Kong, 16 February 2021

* *For identification purposes only*

NOTICE OF EGM

Notes:

1. All resolutions at the EGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to rule 17.47(4) of the GEM Listing Rules. The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the GEM Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the EGM convened by this notice is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the number of shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 3 March 2021 to Monday, 8 March 2021, both dates inclusive, during which period no transfer of shares will be effected and registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 2 March 2021.

As at the date of this notice, the Board comprises three executive Directors, namely, Mr. Wong Kwok Wai, Albert, Mr. Chan Yiu Tung, Enoch and Mr. Leung King Yue, Alex and three independent non-executive Directors, namely, Mr. Sung Alfred Lee Ming, Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel.