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ENTERPRISE DEVELOPMENT HOLDINGS LIMITED

企展控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1808)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO PLACING OF NEW SHARES UNDER GENERAL MANDATE

Reference is made to the announcement of the Company dated 10 August 2022 in relation to the Placing (the “**Announcement**”). Unless otherwise defined, capitalized terms used in this supplemental announcement shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, due to, among other factors, (i) existing cash and cash equivalent retained in PRC subsidiaries are assigned for its business operation and development; (ii) stringent PRC foreign exchange control measures preventing the remittance and reallocation of funds from the Company’s PRC subsidiaries to the Hong Kong office; and (iii) the planned Beijing Orient Capital Injection, the Company’s Hong Kong office maintained a low cash level.

The Directors intended to apply the net proceeds from the Placing as to (i) HK\$4 million for capital injection in Beijing Orient LegendMaker which would be applied towards the R&D in solutions software and domestic-produced database software, and (ii) as to the remaining approximately HK\$7.1 million as general working capital for the Company’s Hong Kong office including staff cost, professional fees, rental payments and other general administrative and operating expenses.

The Company would like to supplement further information in relation to the reasons for the Placing and the use of proceeds as follows:–

REASONS FOR THE PLACING AND USE OF PROCEEDS

Overview of the Group’s cash and cash equivalent balance and reasons for Placing

As at 30 June 2022, the Group had cash and cash equivalent balance of approximately RMB73 million, of which (i) approximately RMB43 million was assigned for the procurement of database software in the Group’s sale of database software business (the “**Database Software Business**”); (ii) approximately HK\$15.64 million (equivalent to approximately RMB12.85 million based on the exchange rate of approximately HK\$1 to RMB0.82) deposited in the Company’s Hong Kong bank account was reserved for the Beijing Orient Capital Injection; and (iii) approximately RMB16.5 million deposited in the Company’s PRC subsidiaries bank account reserved for general working capital use at PRC subsidiaries level. Hence, as at 30 June 2022, the Company had less than RMB1 million funds available for use as general working capital for the Company’s Hong Kong office.

Based on the Company’s estimation, the monthly operating expenses of the Company’s Hong Kong office including salaries payment, rental payments, professional fees, office overheads and other day-to-day operation payments amounted to approximately RMB0.7 million, as such, the funds available for use as general working capital at the listed company level as at 30 June 2022 would only be sufficient to cover not more than two months of the operation of the Company’s Hong Kong office. In light of the aforesaid urgent need of funds, and taking into account of the reallocation of approximately HK\$4.0 million (approximately RMB3.4 million) originally reserved for the Beijing Orient Capital Injection for the general working capital use of the Hong Kong office (the “**Change of Use of Subscription Proceeds**”) as disclosed in the announcement of the Company dated 5 August 2022, the Directors are of the view that there remains an imminent need to conduct the Placing for replenish the shortfall in the Beijing Orient Capital Injection funds and the medium to long term working capital needs for the operation of the Company’s Hong Kong office.

The Group’s Database Software Business

When assessing the need for the Placing, the Directors considered that reallocating the RMB43 million assigned for the PRC subsidiaries’ Database Software Business was not feasible due to the business plans that were already in place.

Beijing Orient LegendMaker has been engaging in the IT industry since 1998 and is principally engaged in the provision of IT solutions services, including the sale of database software products, maintenance services and other database management services, and other application solutions services. Due to the trade war between the PRC and the United States back in 2020 and since then deteriorating trade relationships, the PRC Government has adopted a localization policy for the database software industry. In line with the PRC Government's Policy, the clients of Beijing Orient LegendMaker started searching for domestic-produced database software, which were at preliminary development stage back then, from various local database software developers with the view to replace imported database software.

In or around early 2022, Beijing Orient LegendMaker commenced implementation of the first phase of database software localization. As at the date of this announcement, Beijing Orient LegendMaker has secured contracts from its clients, and in turn has committed to procure database software in the aggregate amount of approximately RMB15 million. According to its business pipeline, Beijing Orient LegendMaker expects to fully utilize the RMB43 million to further procure local database software during the period between August 2022 to December 2022.

The Directors considered that the initial costs upfront of approximately RMB43 million for the procurement of database software, instead of reallocating the funds for working capital use was in the interests of the business of the Company and the Shareholders as a whole. Particularly, Beijing Orient LegendMaker adopts a full range services business model which includes analyzing the business or use needs of its clients in terms of database software, sourcing the appropriate database software from suppliers, adding customized features to the sourced database software to cater the needs of clients, and to provide after-sales services and maintenance, to which the full business cycle typically last for a period of approximately one year (the "**Business Term**"). Under the aforesaid business model, Beijing Orient LegendMaker is required to pay the procurement fee to database software suppliers within the first three months of the Business Term, whilst it generates revenue by receiving service fees from its clients in instalments, and the database software procurement fee will also be spread across and included in the said service fees throughout the Business Term. As a result of the difference in timing of cash outflow and inflow of the Database Software Business, based on the business plan of Beijing Orient LegendMaker, it is required to incur the RMB43 million as initial costs upfront for the implementation of the first phase of database software localization.

Beijing Orient Capital Injection

In addition to the Group's Database Software Business, the Directors considered that approximately HK\$15.64 million was reserved for the Beijing Orient Capital Injection for the following business plans and expected timeline:–

Intended use of injection funds		Approximate allocation of injection funds (HK\$'000)	Expected timeline for use of funds ^(note)	
1. Research and development in artificial intelligent solution software (the "R&D Project") developed for the purpose to upgrade the quality and efficiency of the software maintenance and other solution services provided by Beijing Orient Legend Maker via gathering maintenance records, big data and artificial intelligence analysis, to assist and enhance operation decision making	(i)	approximately 85% on salaries and allowances for employment of engineers for the R&D Project	7,300	September 2022 to July 2023
	(ii)	approximately 5% on procurement of computers, equipment and related hardware		
	(iii)	approximately 10% on payment of service fees for engagement of consultants and service providers in relation to R&D Project		
2. Expansion of the current solution services provided in conjunction with, and to complement the procurement of new domestic-produced database software in its Database Software Business, including after-sales software customization services and maintenance services	(i)	approximately 95% on staff costs for employment of engineers providing on-site technical support services to end customers of the Database Software Business	8,340	September 2022 to June 2023
	(ii)	approximately 5% on procurement of computer, equipment and related hardware		

Note: the expected timeline is on the assumption that the Company will have successfully injected all the required capital to Beijing LegendMaker by September 2022. Such timeline will be adjusted if there is further delay in the capital injection.

Hence, following the Change of Use of Subscription Proceeds, the Company is in need of funds to make up for the shortfall in the planned Beijing Orient Capital Injection for the purpose of implementing the aforesaid business plans.

Restrictions and limitations of remittance of funds from the PRC

As disclosed in the Announcement, stringent PRC foreign exchange control measures prevented the remittance and reallocation of funds from the Company's PRC subsidiaries to the Hong Kong office. To the best of the Directors' knowledge, information, and belief, having made all reasonable enquiries, there are limited scenarios that permit the transfer of funds from the PRC subsidiaries to the Company, such as the fund transfer is for the purposes of foreign investments or for business and trading activities; or dividend declaration by PRC entity to its foreign enterprise investor. The Directors consider that the former two scenarios are not applicable to the Group and the declaration of dividends by the Group's PRC subsidiaries to the Company for the use of working capital is commercially unsound as the Company is expected to incur a hefty time and monetary costs. In particular:–

- (1) dividend payable to foreign enterprise investors are subject to a 10% withholding tax; and
- (2) all applications for foreign exchange, including by way of dividend declaration, are subject to a lengthy approval process of the State Administration of Foreign Exchange of the PRC.

Hence, having considered the monetary and time costs, the Directors do not consider the reallocation of funds from the Group's PRC subsidiaries to the Company a commercially viable option in comparison with the Placing.

Use of Placing Proceeds

As disclosed in the Announcement, assuming all the Placing Shares are fully placed, the gross proceeds from the Placing will be approximately HK\$11.4 million and the net proceeds will be approximately HK\$11.1 million (after deduction of commission and other expenses of the Placing). The Directors intend to apply the net proceeds in the following manners:–

Intended use of injection funds		Approximate allocation of injection funds <i>(HK\$'000)</i>	Expected timeline for use of funds
1. Replenishing the Beijing Orient Capital Injection following the Change of Use of Subscription Proceeds	please refer to the paragraph headed “Beijing Orient Capital Injection” above	4,000	please refer to the paragraph headed “Beijing Orient Capital Injection” above
2. General working capital	(i) approximately 70% on staff costs	7,100	By October 2023
	(ii) approximately 20% for professional fees comprising of (but not limited to) auditor fees, legal advisors fees, financial printer fees, company secretarial services fees		
	(iii) approximately 5% for rental payments		
	(iv) approximately 5% for other general administrative and operating expenses		

Taking into consideration (i) majority of the RMB73 million cash and cash equivalent balance was allocated or reserved for the PRC subsidiaries' business plans including the Database Software Business and the Beijing Orient Capital Injection; (ii) the restrictions and limitations of reallocation of funds from the PRC to the Hong Kong office; and (iii) the genuine and imminent working capital needs for the operation of the Hong Kong office, the Directors are of the view that the terms of the Placing Agreement fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Save as the supplemental information in relation to the reasons for the Placing and use of proceeds as disclosed above, all other information contained in the Announcement remains unchanged.

Shareholders and potential investors of the Company should note that completion of the Placing is subject to the fulfilment of the conditions set out in the Placing Agreement. The Placing may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares and other securities of the Company.

By order of the Board
Enterprise Development Holdings Limited
Li Zhuoyang
Executive Director

Hong Kong, 25 August 2022

As at the date of this announcement, the Board comprises one executive Director, namely Ms. Li Zhuoyang, and three independent non-executive Directors, namely Mr. Cai Jinliang, Mr. Chin Hon Siang and Mr. Chen Kwok Wang.