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LEGENDARY GROUP LIMITED

創天傳承集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8195)

WINDING UP BY THE COURT REASONS FOR JUDGMENT BY COURT OF FIRST INSTANCE

Reference is made to the announcements of Legendary Group Limited (the “**Company**”) dated 11 March 2019, 12 March 2019, 8 May 2019, 20 May 2019, 4 July 2019, 22 July 2019, 29 July 2019, 26 November 2019, 23 January 2020, 10 February 2020, 19 October 2021 and 1 November 2021 and the interim results announcement of the Company for the six months ended 30 September 2020 dated 13 November 2020 (the “**Announcements**”) relating to the winding up petition made against the Company. Terms used herein shall have the same meanings as defined in the Announcements unless defined otherwise.

The Company received a judgment handed down by the High Court of Hong Kong (the “**Court**”) in HCCW 72/2019 on 18 October 2021. The Court has found in favour of the 1st and 2nd Petitioner, namely Ninotre Investment Limited and Xiao Qingmin respectively (collectively the “**Petitioners**”) and has made an order, among other matters, that the Company be wound up on 1 November 2021 on which date the order will be made in open court.

The Court’s further directions on 1 November 2021

On 1 November 2021, the Court did not make a winding-up order. For more details, please refer to the Company’s announcement published on 1 November 2021.

The parties' shareholding in the Company

On the date of presentation of the winding-up petition, 7 March 2019 (the "**Petition**"), the Petitioners held 3% of the Company's issued shares, Strong Light Investments Limited (the "**1st Respondent**") and Flying Mortgage Limited (the "**2nd Respondent**") (collectively the "**Respondents**") held 23.41% and 10.39% respectively. According to the Disclosure of Interests Notices dated 2 November 2021, the 1st Respondent holds 11.20% and the 2nd Respondent holds 0.25% of the Company's issued shares respectively.

The Petitioners' complaints

It is the Petitioners' case that the Respondents, being controlled by Mr. Ryan Wong Tai Cheong ("**Mr. Wong**") and his parents Mr. Wong Kwan Mo and Ms. Lau Lan Ying, have conducted the affairs of the Company in a dishonest, unfair and prejudicial manner. In particular, the Petitioners complained that because of Mr. Wong's direct control in the 1st Respondent and his beneficial interest in the 2nd Respondent, he has taken full control of the Company by appointing nominees to the Board. The Petitioners were concerned that the Board was not genuinely independent and it could not have acted in the best interests of the Company because Mr. Wong had *de facto* control of the result of general meetings of the Company and the Board.

The Petitioner's allegations in the Petition

The Petitioners pursued 5 allegations in the Petition against the Company:–

(a) Fraud Involving Red5 Studios Inc.

This is the first ground the Petitioners relied upon in the Petition.

On 28 April 2016, the Company entered into a sale and purchase agreement for 47.63% shares of Red 5 Studios Inc. ("**Red5 S&P**") which was a limited liability company incorporated in the state of Delaware in the United States of America with various vendors for US\$76.5 million. Red5 Studios Inc. was principally engaged in the video game industry and developed an online game named "*Firefall*". In the Company's announcements dated 28 April 2016 and 20 June 2016, it was stated that "*Firefall*" would bring in approximately US\$171 million of license fees and royalties over the 5 years following the commercial launch of the "*Firefall*" game in the Mainland which was anticipated to be in late 2016.

However, it was later discovered that prior to the Company entering into the Red5 S&P, Red5 Studios Inc. had already publicly announced on 12 March 2016 that its online game "*Firefall*" would be suspended and cease its business operations. Subsequently on 12 April 2016, the exclusive operator of "*Firefall*" in the Mainland had already indefinitely suspended the game in the region. As such, the Petitioners argue that the Board must have or should have known the Red5 S&P has no commercial viability and the Board had ulterior motives for entering into such transaction. The Petitioners further pinpointed the Board's ulterior motives to be a dilution of the

Company's pre-completion shares so as to allow Mr. Wong to acquire shares of the Company at the lowest cost as possible once the various vendors dispose their shares immediately after completion. The various vendors did in fact, dispose the shares and caused the Company's shares to drop from HK\$0.38 to HK\$0.032 per share in one day.

On 14 November 2017, the Board published the Company's 2017 interim report which announced a loss of HK\$596.7 million which resulted from the writing off of the entire investment in Red 5 Studios Inc.

The Court was of the view that the Board's conduct was "*incompetent or motivated by some ulterior purpose*" because had the Board conducted further due diligence on the development status of "*Firefall*", it would have been apparent that the Red5 S&P would be highly prejudicial to the shareholders of the Company.

(b) The Fraudulent Share Placement and the Fraudulent Share Option

This is the second and third grounds the Petitioners relied upon in the Petition.

The facts of the fraudulent share placement and share option are closely related and were together dealt with in another High Court Proceeding (HCMP 2222 of 2016) (the "**2016 Proceeding**") as discussed below.

On 21 July 2016, Mr. Ng Ka Ho ("**Mr. Ng**") and the Board caused the Company to enter into a share placing agreement with FP Sino-Rich Securities and Futures Ltd in respect of 2,869,886,385 new shares in the Company, which was approximately 11.96% of the Company's issued share capital in order to raise HK\$59 million for the Company. The Company published an announcement on 21 July 2016 about this share placing agreement.

On 22 July 2016, Favourite Number Limited ("**FNL**") notified the Board that it intended to make an offer for a voluntary conditional securities exchange, comprising one share of the publicly listed WLS Holdings ("**WLS**") plus HK\$0.28 in exchange for every 20 shares in the Company. On 5 August 2016, pursuant to the Hong Kong Takeovers Code, the Board asked the Securities and Futures Commission ("**SFC**") to set a deadline for FNL to make a firm offer to the Company once FNL has expressed their interest. On 15 August 2016, the SFC issued a "put up or shut up ruling" requiring that FNL must, by 5:00 p.m. on 18 August 2016, either (i) announce a firm intention to make an offer for the Company or (ii) announce its decision that it does not intend to make an offer for the Company, or (iii) inform the Company of its decision that it does not intend to make an offer for the Company. On 18 August 2016, FNL and WLS published an announcement stating that, subject to certain conditions, FNL would offer 57 new shares in WLS plus HK\$5.6 in cash in exchange for every 400 shares in the Company in a bid to acquire all the issued shares of the Company. On 19 August 2016, the Board publicly announced the suspension of trading in the Company's shares (the "**August Suspension**").

On 23 August 2016, Mr. Ng and the Board published an announcement stating that 2 billion allotment options (the “**Options**”) were granted to 10 eligible participants (the “**Grantees**”) on 22 July 2016, who were all closely connected to Mr. Ng and the Board.

On 24 August 2016, Mr. Ng and the Board published an announcement stating that FNL failed to comply with the Hong Kong Takeovers Code because FNL and WLS failed to extend their offer to all holders of share in the Company. The Company also publicly announced that the Company had a total of 25.6 billion issued shares as a result of an additional allotment of 1.6 billion new shares to 8 of the Grantees after they had exercised the Options. Later on the same day (24 August 2016), after the Company had resumed trading since the August Suspension, Mr. Ng and the Board published an announcement stating that the Options had been exercised on 21 August 2016 and 1.6 billion shares were converted and issued on 22 August 2016.

The Petitioners later discovered that the Grantees had collected the share certificates of the 1.6 billion shares during the August Suspension and deposited them with FP Sino-Rich (who were employer of 3 of the Grantees) and Emperor Securities Ltd. All of these shares were sold immediately after the Company resumed trading on 24 August 2016 and as a result, the Grantees made a profit of around HK\$30 million.

As the Grantees were all closely related to the management of the Company, Mr. Ng and some directors of the Company were found to have breached their fiduciary duties in 2016 Proceeding as the Court found them to have deceitfully concocted their story about having granted the Options on 22 July 2016 with the improper purpose of blocking the offer made by FNL. The Court in the 2016 Proceedings also found that the Options were not granted on 22 July 2016 and Mr. Ng and other defendants had decided to effect the grant of the Options to the Grantees sometime between early to mid-August 2016. Further, the documentation related to the grant of the Options to the Grantees that was relied upon by Mr. Ng at trial had been forged and fraudulently backdated to 22 July 2016. They were liable to pay the Plaintiffs (3 shareholders of the Company on 26 August 2016, namely Ge Qingfu, Li Quan, and Liu Longcheng) damages in the sum of HK\$18,669,420 plus interest and costs. On 11 December 2018, the GEM Listing Committee of the Exchange published a censure on Mr. Ng in relations to his breach of fiduciary duties as the chairman and executive director of the Company.

Subsequently, Mr. Ng and some directors of the Company successfully appealed to the Court of Appeal (CACV 11 of 2019) in which the Court made an order that damages in the sum of HK\$18,669,420 is set aside and substituted with an order for damages in the sum of HK\$7,349,040.

In light of the Court’s observations of the 2016 Proceedings that Mr. Ng and Mr. Ma Chi Ming (“**Mr. Ma**”) were untruthful and unreliable in granting the Options, the Court found that both the share placement and the Option were introduced by the Board in order to prevent FNL from taking over control of the Company.

(c) The Board’s frustration of attempts by the minority shareholders to convene a shareholders’ extraordinary general meeting

This is the fourth ground the Petitioners relied upon in the Petition.

On 15 November 2016, the minority shareholders held an extraordinary general meeting (the “EGM”) to propose resolutions to replace the Board but had difficulties attending because the entrance of the venue holding the said meeting was blocked by, according to press reports, men who intimidated shareholders. During the EGM, the proposed resolutions to remove and replace the Board were all voted down. The Petitioners contend that this was the result of Mr. Wong causing the voting rights attaching to the shares of the Respondents and the shares issued as a result of the Options being exercised to be voted against the resolutions.

(d) The reconstitution of the Board on 6 June 2019 following the presentation of the petition on 7 March 2019 was intended to frustrated the petition.

This is the fifth ground the Petitioners relied upon in the Petition.

The Petitioners’ case is that the Respondents appointed nominees to the Board to facilitate their control of the Company. On 6 June 2019, Mr. Ng and Mr. Ma resigned on 6 June 2019 and appointed new executive directors which the Petitioners alleged that they were the Respondents’ nominees as well. The Court ruled that the resignation of Mr. Ng and Mr. Ma were directed by the Respondents.

The Courts’ ruling

In light of the Petitioners’ allegations above, the Court held that during the period between early 2016 to early 2019, Mr. Wong exercised direct control of the Company through the Respondents as the Company has entered into several prejudicial transactions that brings no benefits to the Company in which the Board was also indifferent to its duties to act in the best interests of all of its shareholders. The Court was of the view that the evidence presented at trial demonstrates that (i) Mr. Wong have no hesitation in conducting the affairs of the Company to advance his own interests at the expense of the independent shareholders and (ii) Mr. Wong simply used the Company as a vehicle for his own financial interests as the Company was managed through his nominees. The Court was satisfied that Mr. Wong has placed nominees and/or associates through his control of the Respondents to facilitate his use of the Company in whichever way he needs it.

The Court also observed that during trial in July 2020, no action was taken by the independent shareholders to express their concerns of the Company being wound up. For example, independent shareholders could have written letters to the Company to voice out against the winding up petition upon its presentation. Having said that, the Court disagreed with the Respondents that a winding-up order would damage the interests of independent shareholders and concluded that the Board’s disregard for proper corporate governance cannot possibly be beneficial for such independent shareholders either.

In this connection, the Court held that the only fair and equitable remedy to the Petitioners was to wind up the Company given the way in which the Board has conducted the affairs and corporate governance of the Company.

Therefore, the Court held that since the Petitioners' interests could not possibly be addressed even with a scheme of arrangement and/or a reorganization of the corporate structure, the only realistic remedy in these circumstances would be to wind up the Company though it is solvent.

The Court's further directions on 1 November 2021

On 1 November 2021, the Court did not make a winding-up order. Given the lapse of time since the trial in July 2020, the Company is currently under a new management team with Mr. Yuen Yu Sum and Mr. Chan Lap Jin Kevin as its Executive Directors. The Court, on 1 November 2021, has also given directions for any interested parties to file evidence to oppose the Petition. For more details, please refer to the Company's announcement published on 1 November 2021.

The full judgment is published on the website of the Judiciary of Hong Kong (<http://www.judiciary.hk>). If the shareholders of the Company have any query about the judgment and the implications thereof, they should seek appropriate independent legal advice.

The Company has sought legal advice and intends to convene an extraordinary general meeting and invite shareholders of the Company to vote on whether they support or oppose the Petition to wind up the Company. The Company will further announce the circular and notice convening the extraordinary general meeting closer to the date.

The Company is seeking further legal advice and will take appropriate actions as may be advised.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Legendary Group Limited
Yuen Yu Sum
Chairman and executive Director

Hong Kong, 3 November 2021

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Yuen Yu Sum (Chairman) and Mr. Chan Lap Jin Kevin; one non-executive Director, namely, Mr. Law Wing Chung; and four independent non-executive Directors, namely, Mr. Chung Chin Kwan, Mr. Chan Kim Fai Eddie, Mr. Ng Chi Ho Dennis and Mr. Chung Kwok Pan.

This announcement, 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the website of the Company at <http://www.legendarygp.com>.