
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer 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 Cocoon Holdings Limited (the “Company”), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

Cocoon Holdings Limited 中國天弓控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 428)

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE; AND NOTICE OF SGM

Financial advisers to the Company



GREEN PARK
綠蔭集團
CORPORATE FINANCE CO., LIMITED

TRINITY
TRINITY CORPORATE FINANCE LIMITED

Independent financial adviser to the Independent Board Committee
and Independent Shareholders



SORRENTO
CAPITAL LIMITED
擎天資本有限公司

Underwriter of the Rights Issue



中資證券
China Fund Securities Limited

Capitalised terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Independent Board Committee is set out on page 33 of this circular. A letter from Sorrento Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 57 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Monday, 16 September 2019. Dealings in the Rights Shares in the nil-paid form will take place from Friday, 27 September 2019 to Tuesday, 8 October 2019 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Friday, 27 September 2019 to Tuesday, 8 October 2019 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events including *force majeure*. These certain events are set out in the paragraph headed “Termination of the Underwriting Agreement” on pages iv to vi of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

A notice convening the SGM to be held at 5/F, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong, at 4:30 p.m. on Thursday, 12 September 2019 is set out on pages SGM-1 to SGM-3 of this circular. A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M, Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire and in such case, the proxy form shall be deemed to be revoked.

21 August 2019

CONTENTS

| | <i>Pages</i> |
|--|--------------|
| Expected timetable | ii |
| Termination of the Underwriting Agreement | iv |
| Definitions | 1 |
| Letter from the Board | 8 |
| Letter from the Independent Board Committee | 33 |
| Letter from Sorrento Capital | 34 |
| Appendix I — Financial information of the Group | I-1 |
| Appendix II — Unaudited pro forma financial information | II-1 |
| Appendix III — General information | III-1 |
| Notice of SGM | SGM-1 |

EXPECTED TIMETABLE

The expected timetable for the Rights Issue set out below is for indicative purposes only and it has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled. The expected timetable is subject to change, and any changes will be announced in separate announcement(s) by the Company as and when appropriate.

| Event | 2019 |
|--|--|
| Latest time for lodging transfers of Shares to attend and vote at the SGM | 4:30 p.m. on Thursday, 5 September |
| Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the SGM (both dates inclusive) | From Friday, 6 September to Thursday, 12 September |
| Latest time for lodging proxy forms to qualify for attendance and voting at the SGM | 4:30 p.m. on Tuesday, 10 September |
| Record date for attendance and voting at the SGM | Thursday, 12 September |
| Expected time and date of the SGM | 4:30 p.m. on Thursday, 12 September |
| Announcement of results of the SGM | Thursday, 12 September |
| Last day of dealings in the Shares on cum-rights basis | Friday, 13 September |
| Ex-date (the first day of dealings in the Shares on ex-rights basis) | Monday, 16 September |
| Latest time for lodging transfer of Shares to qualify for the Rights Issue. | 4:30 p.m. on Tuesday, 17 September |
| Closure of register of members of the Company for determining entitlements under the Rights Issue (both dates inclusive) | From Wednesday, 18 September to Tuesday, 24 September |

EXPECTED TIMETABLE

| | |
|---|--------------------------------------|
| Record Date for determining entitlements to the Rights Issue. | Tuesday, 24 September |
| Register of members of the Company re-opens | Wednesday, 25 September |
| Despatch of the Prospectus Documents | Wednesday, 25 September |
| First day of dealings in nil-paid Rights Shares | Friday, 27 September |
| Latest time for splitting nil-paid Rights Shares. | 4:30 p.m. on Wednesday, 2 October |
| Last day of dealings in nil-paid Rights Shares | Tuesday, 8 October |
| Latest Time for Acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares. | 4:00 p.m. on Friday, 11 October |
| Latest Time for Termination of the Underwriting Agreement | 4:00 p.m. on Monday, 14 October |
| Announcement of allotment results | Friday, 18 October |
| Despatch of share certificates for fully-paid Rights Shares and refund cheques (if any). | Monday, 21 October |
| Commencement of dealings in fully-paid Rights Shares | 9:00 a.m. on Tuesday, 22 October |

All times and dates stated in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied by the Company. Any changes to the expected timetable will be published or notified to Shareholders as and when appropriate.

TERMINATION OF THE UNDERWRITING AGREEMENT

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

All times in this circular refer to Hong Kong time. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on Friday, 11 October 2019, being the Latest Time for Acceptance:

- (a) at any time before 12:00 noon and no longer in force after 12:00 noon, the Latest Time for Acceptance will be postponed to 5:00 p.m. on the same business day; or
- (b) at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

Under such circumstances, the dates mentioned in the expected timetable above (including, without limitation, the Latest Time for Termination) may be affected.

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

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

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (c) any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (d) any event of *force majeure* including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole; or
- (e) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (f) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten (10) consecutive business days, excluding any suspension in connection with the clearance of the Prospectus Documents or other announcements or circulars in connection with the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

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

the Underwriter shall be entitled by notice (the “**Termination Notice**”) in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement. If, prior to the Latest Time for Termination, the Underwriter serves the Termination Notice to the Company, all the Underwriter’s obligations under the Underwriting Agreement shall cease, and the Underwriting Agreement shall be deemed to have been terminated. If, prior to the Latest Time for Termination, any such notice as is referred to above is given by the Underwriter, the obligations of all parties to the Underwriting Agreement under the Underwriting Agreement (save and except certain clauses of the Underwriting Agreement which shall remain in full force and effect and save further that the Company shall pay the fees and expenses specified in the Underwriting Agreement) shall terminate forthwith and no party to the Underwriting Agreement shall have any claim against any other party of the Underwriting Agreement for costs, damages, compensation or otherwise save for any antecedent breaches. For the avoidance of doubt, the Underwriter shall not be entitled to give the Termination Notice or the Rescission Notice (as defined below) at any time after its underwriting obligations have terminated pursuant to the Underwriting Agreement.

The Underwriter shall be entitled by notice (the “**Rescission Notice**”) in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

| | |
|------------------------------|---|
| “Announcement” | the announcement of the Company dated 18 July 2019 in relation to, among other things, the Rights Issue |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “business day” | any day (other than a Saturday or Sunday or public holiday or a day on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Company” | Cocoon Holdings Limited (stock code: 428), a company incorporated in Cayman Islands with limited liability and continued in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange |
| “Companies (WUMP) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time) |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “controlling shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “EAF(s)” | the excess application form(s) for use by the Qualifying Shareholders who wish to apply for excess Rights Shares |

DEFINITIONS

| | |
|-------------------------------|---|
| “Excluded Shareholder(s)” | those Overseas Shareholder(s) to whom the Company considers it necessary or expedient not to offer the Rights Shares based on the enquiry made regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange |
| “Extension Letters” | two letters dated 2 August 2019 and 13 August 2019 respectively, which were entered into by the Company and the Underwriter to mutually extend the relevant dates under the underwriting agreement dated 18 July 2019 between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue |
| “GDP” | gross domestic product |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKSCC” | the Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Independent Board Committee” | the independent board committee, comprising all the independent non-executive Directors, namely Ms. Chan Man Yi, Ms. Leung Yin Ting and Mr. Jiang Qian, which was established to make recommendations to the Independent Shareholders in respect of the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder |

DEFINITIONS

| | |
|--------------------------------|---|
| “Independent Shareholder(s)” | the Shareholder(s) other than the controlling shareholder(s) of the Company and their associate(s) or, where there is no controlling shareholder of the Company, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates |
| “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 the Company and its connected persons |
| “Irrevocable Undertaking” | the irrevocable undertaking dated 2 July 2019 given by Mr. Chen in favour of the Company, pursuant to which Mr. Chen undertakes to subscribe for 50,553,860 Rights Shares to which Mr. Chen is entitled to under the Rights Issue in full as at the Record Date |
| “Last Trading Day” | 18 July 2019, being the last trading day of the Shares on the Stock Exchange prior to the release of the Announcement |
| “Latest Practicable Date” | 18 August 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular |
| “Latest Time for Acceptance” | 4:00 p.m. on Friday, 11 October 2019 or such later time or date as may be agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for, the Rights Shares |
| “Latest Time for Termination” | 4:00 p.m. on Monday, 14 October 2019 or such later, time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement |
| “Listing Committee” | has the meaning ascribed to it under the Listing Rules |

DEFINITIONS

| | |
|-----------------------------|--|
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Macau” | the Macau Special Administrative Region of the PRC |
| “Mr. Chen” | Mr. Chen Chien Yeh, a substantial shareholder of the Company |
| “Overseas Shareholder(s)” | Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong |
| “PAL(s)” | the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue |
| “PRC” or “China” | the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau and Taiwan |
| “Prospectus” | the prospectus to be issued by the Company in relation to the Rights Issue |
| “Prospectus Documents” | the Prospectus, PAL and EAF |
| “Prospectus Posting Date” | Wednesday, 25 September 2019, or such other day as may be agreed between the Company and the Underwriter, being the date of despatch of the Prospectus Documents |
| “Qualifying Shareholder(s)” | the shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date, other than the Excluded Shareholders |
| “Record Date” | Tuesday, 24 September 2019 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Rights Issue |

DEFINITIONS

| | |
|-------------------|--|
| “Registrar” | the Company’s branch share registrar and transfer office in Hong Kong, which is Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong |
| “Rights Issue” | the issue of the Rights Shares on the basis of two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date, pursuant to the terms and conditions to be set out in the Underwriting Agreement and the Prospectus Documents |
| “Rights Share(s)” | the new Share(s) to be allotted and issued in respect of the Rights Issue, being 239,817,900 Shares (assuming no issue of new Shares or repurchase of Shares by the Company from the Latest Practicable Date and up to and including the Record Date) |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| “SGM” | the special general meeting of the Company to be convened and held at which resolution will be proposed to consider, and, if thought fit, to approve, among other things, the Rights Issue, the Underwriting Agreement and the transactions contemplated respectively thereunder |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of issued Share(s) |

DEFINITIONS

| | |
|------------------------------|---|
| “Sorrento Capital” | Sorrento Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue |
| “Specified Event” | an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscription Price” | HK\$0.28 per Rights Share |
| “substantial shareholder(s)” | has the meaning as ascribed to this term under the Listing Rules |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Underwriter” | China Fund Securities Limited, a licensed corporation to carry on business in type 1 (dealing in securities) and type 9 (assets management) regulated activities under the SFO |
| “Underwriting Agreement” | the underwriting agreement dated 18 July 2019 (as amended and supplemented by the Extension Letters) entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue |
| “Underwritten Share(s)” | the number of Rights Shares to be underwritten by the Underwriter, being in maximum up to the total number of the Rights Shares |

DEFINITIONS

“Untaken Shares” all those Underwritten Shares not taken up by the Qualifying Shareholders (including but not limited to Mr. Chen) on or before the Latest Time for Acceptance

“%” percentage

LETTER FROM THE BOARD

Cocoon Holdings Limited 中國天弓控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 428)

Executive Directors:

Mr. Wu Ming Gai
Ms. Chan Carman Wing Yan

Non-executive Directors:

Mr. William Keith Jacobsen
Mr. Chen Albert
Mr. Wong Chung Yan Sammy

Independent non-executive Directors:

Ms. Chan Man Yi
Ms. Leung Yin Ting
Mr. Jiang Qian

Registered office:

Walkers Corporate (Bermuda) Limited
Park Place, 55 Par-la-Ville Road
3rd Floor, Hamilton HM 11
Bermuda

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

Unit 1601, 16th Floor
South Tower, Concordia Plaza
1 Science Museum Road
Tsim Sha Tsui, Kowloon
Hong Kong

21 August 2019

To the Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO (2) RIGHTS SHARES FOR EVERY
ONE (1) EXISTING SHARE HELD ON THE RECORD DATE;
AND
NOTICE OF SGM**

INTRODUCTION

Reference is made to the Announcement whereby the Board announced that the Company proposed to conduct the Rights Issue to raise approximately HK\$67.15 million, before expenses, by way of the Rights Issue to the Qualifying Shareholders at the Subscription Price of HK\$0.28 per Rights Share on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date. The Rights Issue is only available to the Qualifying Shareholders.

The Rights Issue is fully underwritten by the Underwriter. As the Rights Issue will increase the issued share capital of the Company by more than 50%, under Rule 7.27A(1) of the Listing Rules, the Rights Issue is subject to approval of the Independent Shareholders at the SGM by a resolution on which any controlling shareholders of the Company and their respective associates

LETTER FROM THE BOARD

or, where there are no controlling shareholders of the Company, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, there was no controlling shareholder of the Company. Therefore, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

As at the Latest Practicable Date, Mr. Chen, the father of Mr. Chen Albert who is a non-executive Director, held 25,276,930 Shares as a substantial shareholder of the Company, and then shall be regarded as an associate of the Director under the Listing Rules.

Based on the above and according to Rule 7.27A(1), Mr. Chen is required to abstain from voting at the SGM in favour of the Rights Issue. Save as the above, no other Shareholder will be required to abstain from voting in favour of the Rights Issue at the SGM.

The purpose of this circular is to provide you with (i) further details of the Rights Issue; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Rights Issue; (iii) a letter from Sorrento Capital to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue; (iv) financial information and other general information of the Group; and (v) the notice of SGM.

PROPOSED RIGHTS ISSUE

The Company proposes to raise approximately HK\$67.15 million, before expenses, by way of the Rights Issue of 239,817,900 Rights Shares to the Qualifying Shareholders at the Subscription Price of HK\$0.28 per Rights Share on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date. The Rights Shares will be fully underwritten by the Underwriter on the terms and conditions set out in the Underwriting Agreement.

Details of the Rights Issue are set out below:

| | | |
|---------------------------|---|--|
| Basis of the Rights Issue | : | Two (2) Rights Shares for every one (1) existing Share held on the Record Date |
| Subscription Price | : | HK\$0.28 per Rights Share |

LETTER FROM THE BOARD

| | | |
|--|---|---|
| Number of Shares in issue as at the Latest Practicable Date | : | 119,908,950 Shares |
| Number of Rights Shares | : | 239,817,900 Rights Shares (assuming no further issue or repurchase of Shares on or before the Record Date) |
| Aggregate nominal value of the Rights Shares | : | HK\$23,981,790.00 (assuming no further issue or repurchase of Shares on or before the Record Date) |
| Number of Shares as enlarged by the allotment and issue of the Rights Shares | : | 359,726,850 Shares (assuming no further issue or repurchase of Shares, other than the Rights Shares, on or before the completion of the Rights Issue) |
| Underwriter | : | China Fund Securities Limited |

As at the Latest Practicable Date, the Company did not have any outstanding derivatives, options, warrants and convertible securities or other similar rights which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any convertible securities, warrants and/or options on or before the Record Date.

Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the Record Date, the 239,817,900 Rights Shares proposed to be allotted and issued pursuant to the Rights Issue represent (i) 200.00% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 66.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue.

Subscription Price

The Subscription Price is HK\$0.28 per Rights Share, payable in full upon acceptance under the PAL(s), and where applicable, application for excess Rights Shares, or when a transferee of the nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares which represents:

- (a) a discount of approximately 13.8% to the closing price of HK\$0.325 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (b) a discount of approximately 12.5% to the average closing price of approximately HK\$0.320 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the Last Trading Day;
- (c) a discount of approximately 12.2% to the average closing price of approximately HK\$0.319 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the Last Trading Day;
- (d) a discount of approximately 5.1% to the theoretical ex-rights price of approximately HK\$0.295 per Share based on closing price of HK\$0.325 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (e) a discount of approximately 75.2% to the audited net asset value per Share of approximately HK\$1.129 as at 31 December 2018 (the “NAV per Share”) based on the audited consolidated equity attributable to owners of the Company in the Company’s annual report for the financial year ended 31 December 2018 (which is calculated based on 119,908,950 Shares in issue as at 31 December 2018); and
- (f) a discount of approximately 6.7% to the closing price of HK\$0.300 per Share as quoted on the Stock Exchange on the last trading day prior to the Latest Practicable Date.

The Subscription Price was determined after arm’s length negotiations between the Company and the Underwriter with reference to, among others, (i) the prevailing market price of the Shares prior to the Last Trading Day and the theoretical ex-rights price; and (ii) the capital needs of the Group. The Directors (including the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee in this circular) consider that each Qualifying Shareholder will be provisionally allotted the Rights Shares at the same Subscription Price in proportion to his/her/its shareholdings held on the Record Date and the terms of the Rights Issue, including the Subscription Price which has been set as a discount to the recent closing prices of the Shares with an objective of encouraging existing Shareholders to take up their provisional allotments so as to participate in the potential growth of the Company, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given that (i) the discount of the Subscription Price and the basis of two (2) Rights Shares for every one (1) Share in issue can (a) provide an incentive for the Qualifying Shareholders to subscribe for the Rights Shares and (b) induce the Underwriter to participate in the underwriting of the Underwritten Shares; and (ii) the Company has funding needs as disclosed in the paragraph headed “Reasons for the Rights Issue and Use of Proceeds” below, the Directors (including the

LETTER FROM THE BOARD

independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee in this circular) are of the view that the current structure of the Rights Issue is fair and reasonable.

Dilution effect and the structure of the Rights Issue

Despite the Rights Issue will potentially result in a theoretical dilution effect (ascribed to Rule 7.27B of the Listing Rules) of approximately 9.2%, being the discount of the theoretical diluted price (as defined in *note 1(a)* under Rule 7.27B of the Listing Rules) of HK\$0.295 to the benchmarked price (as defined in *note 1(b)* under Rule 7.27B of the Listing Rules) of HK\$0.325, the Directors consider that the interest of the Qualifying Shareholders will not be prejudiced given that:

- (a) the Independent Shareholders are given the opportunity to express their view on the terms of the Rights Issue through their votes at the SGM;
- (b) the Rights Issue provides the Qualifying Shareholders an opportunity to subscribe for their *pro-rata* Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a discount to the historical and prevailing market prices of the Shares;
- (c) whilst the dilution nature of Rights Issue is common in the market, if the Qualifying Shareholders did not take up their entitlements under the Rights Issue in full, the Qualifying Shareholders who choose to accept the Rights Issue in full are able to maintain their respective existing shareholding interests in the Company after the Rights Issue; and
- (d) the Qualifying Shareholders who do not take up their entitlements in the Rights Issue are able to sell the nil-paid Rights Shares in the market, while the Qualifying Shareholders who wish to increase their shareholding interests in the Company through the Rights Issue are able to make excess applications for additional Rights Shares and/or acquire additional nil-paid Rights Shares in the market.

The Directors are aware of the fact that the Subscription Price represents a discount of approximately 75.2% to the NAV per Share. However, given that the Shares have been consistently traded at substantial discounts to the NAV per Share since December 2018 and up to the Last Trading Day (ranging from approximately 38.1% to 74.3%), the Directors consider it would be more appropriate to make reference to the prevailing market prices of the Shares which reflect the fair market value of the Shares traded on the Stock Exchange, instead of making reference to the NAV per Share.

LETTER FROM THE BOARD

Based on the above, the Directors (including independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee in this circular) consider the Rights Issue and the Underwriting Agreement are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable.

Basis of provisional allotment

The basis of the provisional allotment shall be two (2) Rights Shares (in nil-paid form) for every one (1) Share in issue held by Qualifying Shareholders at the close of business on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

Status of the Rights Shares

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of the allotment of the Rights Shares in their fully-paid form.

The Irrevocable Undertaking

As at the date of the Announcement and as at the Latest Practicable Date, Mr. Chen, a substantial shareholder of the Company, beneficially owned 25,276,930 Shares, representing approximately 21.08% of the issued share capital of the Company.

Mr. Chen has given an irrevocable undertaking to the Company that he will subscribe for the Rights Shares to which he is entitled under the Rights Issue in full as at the Record Date.

Save for the above, the Company had not received any information from any substantial shareholders of the Company of their intention to take up the Rights Shares to be provisionally allotted or offered to them under the Rights Issue as at the Latest Practicable Date.

Fractional entitlements to the Rights Shares

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

LETTER FROM THE BOARD

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company and not be an Excluded Shareholder at the close of business on the Record Date. Overseas Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date whom the Company, based on legal opinions to be provided by legal advisers, considers necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place will not be regarded as Qualifying Shareholders.

In order to be registered as members of the Company at the close of business on the Record Date, beneficial owners must lodge any transfers documents of the Shares (together with the relevant share certificates) with the Registrar at Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong on or before 4:30 p.m. on Tuesday, 17 September 2019 (Hong Kong time).

The Company will send the Prospectus Documents to the Qualifying Shareholders on Wednesday, 25 September 2019.

Excluded Shareholders

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders on the Record Date, if any, may not be eligible to take part in the Rights Issue as explained below.

As at the Latest Practicable Date, and based on the register of members of the Company, the Company had certain Overseas Shareholders whose addresses appeared on the register of members of the Company were in 5 jurisdictions, namely, Australia, Canada, Macau, Malaysia and the United States of America.

In compliance with Rule 13.36 of the Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders (if any). If, based on legal opinions, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to such Overseas Shareholders and no provisional allotment of nil-paid Rights Shares will be made to them. Further information in this connection will be set out in the Prospectus to be despatched to the Shareholders on Wednesday, 25 September 2019.

LETTER FROM THE BOARD

The Company will send the Prospectus only (without PAL or EAF) to the Excluded Shareholders, if any, for their information only, on Wednesday, 25 September 2019.

The Company shall provisionally allot the Rights Shares which represent the entitlements of the Excluded Shareholders to a nominee of the Company in nil-paid form and the Company shall procure that such nominee shall endeavour to sell the rights as soon as practicable after dealings in nil-paid Rights Shares commence and in any event on or before the last day of dealings in nil-paid Rights Shares at a net premium (nil-paid). If and to the extent that such rights can be so sold, the nominee of the Company shall account to the Company for the net proceeds of sale (after deducting the expenses of sale, if any), which shall be distributed by the Company in Hong Kong dollars to the Excluded Shareholders *pro rata* provided that rounded down amounts of less than HK\$100 shall not be so distributed but shall be retained for the benefit of the Company. Any unsold entitlement of the Excluded Shareholders to the Rights Shares, and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of the nil-paid Rights Shares, will be made available for excess applications by the Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of the enquiries to be made by the Directors pursuant to Rule 13.36 of the Listing Rules. Accordingly, the Overseas Shareholders should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for (i) any unsold entitlements of the Excluded Shareholders; and (ii) any Rights Shares provisionally allotted but not accepted.

Application for excess Rights Shares can only be made by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate cheque or banker's cashier order for the sum payable for the excess Rights Shares being applied for with the Registrar at Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before 4:00 p.m. on Friday, 11 October 2019 (Hong Kong time).

LETTER FROM THE BOARD

The Board will allocate the excess Rights Shares to Qualifying Shareholders who have applied for excess application on a *pro-rata* basis on the excess Rights Shares applied by them, without involving allocation of any fractional Rights Share.

No reference will be made to Rights Shares subscribed through applications by PAL(s) or the existing number of Shares held by Qualifying Shareholders. If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders under PAL(s) is greater than the aggregate number of excess Rights Shares applied for through EAF(s), the Board will allocate in full to each Qualifying Shareholder the number of excess Rights Shares applied for under the EAF(s).

In applying the above principles, reference will only be made to the number of excess Rights Shares being applied for. No preference will be given to topping up odd lots to whole board lots.

Shares held by nominees

Shareholders with Shares held by a nominee (or which are held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually. Beneficial owners with their Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owners prior to the Record Date.

For the beneficial owners whose Shares are held by their nominee(s) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents for completion of the relevant registration with the Registrar by 4:30 p.m. on Tuesday, 17 September 2019.

Shareholders with Shares held by a nominee (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of their relevant Shares under the names of the beneficial owners prior to the Record Date for the purpose of the Rights Issue. Shareholders and investors should consult their professional advisers if they are in doubt as to their status.

LETTER FROM THE BOARD

Application for listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid form to be allotted and issued pursuant to the Rights Issue. Dealings in the Rights Shares in both nil-paid and fully-paid forms on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong and any other applicable fees and charges (if any) in Hong Kong.

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

Both nil-paid Rights Shares and fully-paid Rights Shares will be traded in board lots of 2,000. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Share certificates and refund cheques for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Monday, 21 October 2019. If the Rights Issue is terminated, refund cheques in respect of wholly or partially unsuccessful application for excess Rights Shares (if any) will be despatched on or before Monday, 21 October 2019 by ordinary post at the respective Shareholders' own risk.

One Share certificate will be issued for all Rights Shares allotted and issued to an applicant.

LETTER FROM THE BOARD

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (a) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Rights Issue by no later than the Prospectus Posting Date;
- (b) the Stock Exchange granting or agreeing to grant (subject to allotment) the listing of, and permission to deal in, all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Prospectus Posting Date and the Stock Exchange not having withdrawn or revoked such listings and permission on or before the Latest Time for Termination;
- (c) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies (WUMP) Ordinance by no later than the Prospectus Posting Date;
- (d) the posting of the Prospectus Documents to Qualifying Shareholders by the Prospectus Posting Date;
- (e) the compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement by the Latest Time for Termination; and
- (f) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination.

The Company shall use all reasonable endeavours to procure the fulfilment of all the above conditions by the respective dates specified above.

None of the parties to the Underwriting Agreement may waive any of the above conditions.

If the above conditions are not satisfied in whole or in part by the respective dates set out above (or such other time and/or dates as the Underwriter may agree with the Company in writing), the Underwriting Agreement shall be terminated and (save in respect of any provisions relating to, among other matters, notices and governing law and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT FOR THE RIGHTS ISSUE

Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite all the Rights Shares under the Rights Issue.

| | | |
|---|---|---|
| Date | : | 18 July 2019 (after trading hours), and amended and supplemented by the Extension Letters |
| Underwriter | : | China Fund Securities Limited |
| Total number of the Underwritten Shares | : | The total number of the Underwritten Shares shall be in maximum up to 239,817,900 Rights Shares (assuming that the Rights Shares under the Irrevocable Undertaking have not been taken up), being such number of the Rights Shares to be issued pursuant to the Rights Issue |
| Underwriting commission | : | The Underwriter will receive an amount equal to 1.00% of the Subscription Price multiplied by the number of the Underwritten Shares, being up to approximately HK\$0.67 million in maximum (i.e. 1.00% of the Subscription Price multiplied by the maximum number of Underwritten Shares) |

The Underwriter is a licensed corporation to carry on business in type 1 (dealing in securities) and type 9 (assets management) regulated activities under the SFO. To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owner(s) are Independent Third Parties. In addition, save for the Underwriting Agreement, the Underwriter and/or its connected parties have not entered nor have intention to enter into any other business relationships, arrangements, plans or understandings with the Company or its connected parties as at the Latest Practicable Date.

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiation between the Company and the Underwriter by reference to, among other things, (i) the existing financial position of the Group, (ii) the size of the Rights Issue, (iii) the current and expected market condition, and (iv) the comparison between the terms and conditions of the underwriting agreements (including the commission rate, the number of shares of which underwriters are able to undertake) proposed by other underwriters approached by the Company. The Directors (including the independent non-executive Directors whose views are set

LETTER FROM THE BOARD

out in the Letter from the Independent Board Committee in this circular) consider the Underwriting Agreement is on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable.

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon:

- (a) the passing at the SGM of necessary resolutions(s) by the Independent Shareholders to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder at which the voting shall be taken on a poll and in accordance with the Listing Rules;
- (b) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly certified by two directors of the Company (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and in compliance with the Listing Rules and the Companies (WUMP) Ordinance;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;
- (d) the Listing Committee granting or agreeing to grant (subject to allotment), and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in their nil-paid and fully paid forms) by no later than the first day of their dealings;
- (e) the Shares remaining listed on the Stock Exchange at all times prior to the date of the dispatch of share certificates for the Rights Issue and the listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than ten (10) business days at any time prior to the Latest Time for Acceptance otherwise than due to or in connection with or in relation to the Rights Issue;
- (f) the Underwriting Agreement is not terminated in accordance with the terms thereof;
- (g) the requirements under the applicable laws and regulations of Hong Kong and Bermuda are complied; and

LETTER FROM THE BOARD

- (h) all undertakings and obligations of the Company under the Underwriting Agreement are complied and performed.

The conditions set out above are incapable of being waived. If all of the above conditions are not fully satisfied by the Latest Time for Termination, i.e. 4:00 p.m. on Monday, 14 October 2019 (Hong Kong time) or such later date(s) as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall be terminated and (save in respect of any provisions relating to, among other matters, notices and governing law and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed.

Rescission and Termination of the Underwriting Agreement

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

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

LETTER FROM THE BOARD

- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue;
- (b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue;
- (c) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group;
- (d) any event of *force majeure* including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole;
- (e) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue;
- (f) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten (10) consecutive business days, excluding any suspension in connection with the clearance of the Prospectus Documents or other announcements or circulars in connection with the Rights Issue; or

LETTER FROM THE BOARD

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

the Underwriter shall be entitled by the Termination Notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement. If, prior to the Latest Time for Termination, the Underwriter serves the Termination Notice to the Company, all the Underwriter's obligations under the Underwriting Agreement shall cease, and the Underwriting Agreement shall be deemed to have been terminated. If, prior to the Latest Time for Termination, any such notice as is referred to above is given by the Underwriter, the obligations of all parties to the Underwriting Agreement under the Underwriting Agreement (save and except certain clauses of the Underwriting Agreement which shall remain in full force and effect and save further that the Company shall pay the fees and expenses specified in the Underwriting Agreement) shall terminate forthwith and no party to the Underwriting Agreement shall have any claim against any other party of the Underwriting Agreement for costs, damages, compensation or otherwise save for any antecedent breaches. For the avoidance of doubt, the Underwriter shall not be entitled to give the Termination Notice or the Rescission Notice (as defined below) at any time after its underwriting obligations have terminated pursuant to the Underwriting Agreement.

The Underwriter shall be entitled by the Rescission Notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

The following table set out the possible changes in the shareholding structure of the Company arising from the Rights Issue which are for illustrative purpose only.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company had 119,908,950 Shares in issue. Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date, (ii) immediately after completion of the Rights Issue, assuming no issue of new Shares or repurchase of Shares up to completion of the Rights Issue save for the Rights Shares and all the Rights Shares are subscribed by the Qualifying Shareholders according to their respective entitlement, and (iii) immediately after completion of the Rights Issue, assuming no issue of new Shares or repurchase of Shares up to completion of the Rights Issue save for the Rights Shares and no Qualifying Shareholders (including Mr. Chen) applies for their provisional allotments:

| | (i) As at the Latest Practicable Date | | (ii) Assuming all the Rights Shares are subscribed by the Qualifying Shareholders according to their respective entitlement | | (iii) Assuming no Qualifying Shareholders applies for their provisional allotments | |
|----------------------------|---------------------------------------|------------------|---|------------------|--|------------------|
| | <i>Number of Shares</i> | <i>Approx. %</i> | <i>Number of Shares</i> | <i>Approx. %</i> | <i>Number of Shares</i> | <i>Approx. %</i> |
| Mr. Chen | 25,276,930 | 21.08 | 75,830,790 | 21.08 | 25,276,930 | 7.03 |
| Underwriter | — | — | — | — | 239,817,900 | 66.67 |
| Public shareholders | 94,632,020 | 78.92 | 283,896,060 | 78.92 | 94,632,020 | 26.30 |
| Total | <u>119,908,950</u> | <u>100.00</u> | <u>359,726,850</u> | <u>100.00</u> | <u>359,726,850</u> | <u>100.00</u> |

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment company listed on the main board of the Stock Exchange under Chapter 21 of the Listing Rules. The principal activity of the Company is investment holding and the Group is principally engaged in investments in securities listed on recognised stock exchanges and unlisted investments with potential for earning growth and capital appreciation. The investment objective of the Company is to achieve an enhanced earnings stream and capital appreciation from its investments. It is the corporate strategy of the Group to strengthen its existing businesses and continue its focus on financing future investment opportunities domestically and internationally to achieve financial growth for the Group and to maximise the Shareholders' value.

The estimated net proceeds from the Rights Issue will be approximately HK\$65.44 million (equivalent to a net price of approximately HK\$0.273 per Rights Share). The Company intends to apply net proceeds of (i) approximately HK\$30.00 million for the repayment of the Shareholder's Loan (as defined below); (ii) approximately HK\$30.00 million for the investment in listed

LETTER FROM THE BOARD

securities and unlisted securities; and (iii) approximately HK\$5.44 million for general working capital of the Group. Further details of the intended use of the proceeds from the Rights Issue are set out below:

(a) Repayment of the shareholder's loan

The Board intends to apply approximately HK\$30.00 million for the repayment of the outstanding principal of a shareholder's loan incurred by the Company due to a substantial shareholder of the Company in the principal amount of HK\$30.00 million with interest rate at 8% per annum, which will mature on 6 October 2019 (the "**Shareholder's Loan**").

Since the Shareholder's Loan will become mature soon and any default of repayment thereof may adversely impact the financial position of the Company, the Board considers that applying partial proceeds from the Rights Issue for a timely repayment of the Shareholder's Loan can alleviate the liquidity pressure of the Company reduce its debt level and gearing ratio.

(b) Investment in listed securities and unlisted securities

The Company is listed under Chapter 21 of the Listing Rules with its principal business of investments in securities listed on recognised stock exchanges and unlisted investments with potential for earning growth and capital appreciation. In light of the above, to enhance its profitability performance, the Company shall, on the one hand, keep approaching potential investees and exploring good investment opportunities, and on the other hand, ensure a sufficient cash flow and internal recourses to realise its investment strategies when good investment opportunities arise.

As at the Latest Practicable Date, the Company has been approaching and in negotiation with a potential investee, which is one of the one-stop mobile transportation platform. Pursuant to the latest negotiation and subject to further negotiations, the Company is expected to invest approximately HK\$10.00 million to HK\$15.00 million in the above-mentioned investee company.

Meanwhile, the Company has been in negotiation with an overseas property developer. Pursuant to the latest negotiation and subject to further negotiations, the Company is expected to invest approximately HK\$10.00 million to HK\$15.00 million to subscribe for the shares of a company, through which the aforesaid overseas property developer will develop a property project located in a foreign country (the "**Property Project**"). The Board is of the view that the equity investment in the aforementioned company may enable the Company to achieve satisfactory returns from the Property Project, and such equity investment shall be in line with the investment objective of the Company and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Directors will also ensure that such equity investment will be in compliance with the investment policies and restriction of the Company (for details, please refer to the paragraph headed “13. Investment Objective, Policies and Restrictions” in Appendix III to this circular).

Other than the above, the Company has been in negotiation and has the intention to invest in listed and/or unlisted securities of companies in certain industries with short to medium growth potential together with capital appreciation, including but not limited to resources and real estate companies.

Unlike other companies with specific operating core businesses which are able to generate constant cash income, most of the resources of the Company are invested for capital appreciation with no stable cash dividend. As at the Latest Practicable Date, the Board was of the view that the Company currently does not have sufficient cash and other internal resources to allow the Company to seize and benefit from the aforementioned investment opportunities. In light of the above, the Board intends to reserve approximately HK\$30.00 million for the aforementioned potential investment opportunities so as to enhance the Company’s profitability performance.

(c) General working capital of the Group

The Board intends to apply approximately HK\$5.44 million for the general working capital of the Group, among which approximately HK\$1.47 million will be applied for settlement of the outstanding investment management fee for the financial year ended 31 December 2018 to the Company’s investment manager, which is already overdue. The remaining of approximately HK\$3.97 million will be retained for the expected working capital requirements of the Group including staff costs and Directors’ remuneration in the future.

The Directors have considered other financing alternatives including (i) additional debt financing, (ii) equity fund raising such as placement of new Shares and open offer, and (iii) realisation of existing investments. The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole, for the reasons as follows:

- (a) As for additional debt financing, as at the Latest Practicable Date, the Board has attempted to obtain loan financing from its principal bankers, and was acknowledged that due to the inherent nature of the Company as an investment company, it is not feasible for the Company to obtain loan facilities in favourable terms and conditions (in respect of, e.g. interest rate and requirement of charges). Based on the prime lending rate for Hong Kong dollars of approximately 5.125% per annum as announced by Hang Seng Bank as at the Latest Practicable Date, the total amount of interests to be incurred per year under the debt financing of approximately HK\$67.15 million, being the amount of the gross proceeds from the Rights Issue, is estimated to be approximately HK\$3.44

LETTER FROM THE BOARD

million, which is substantially higher than the estimated expenses of approximately HK\$1.71 million under the Rights Issue. In addition, the Board is of the view that the debt financial may result in a higher gearing ratio of the Group, and this will also increase the ongoing interest expenses of the Group and in turn affect the profitability of the Company.

- (b) As for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. Further, upon calculation of the maximum possible proceeds from the placement of new Shares, the Board considers that the amount to be raised in such way would not be sufficient for the proposed demands on funds as mentioned above.
- (c) As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing its net asset position without the ongoing burden of interest expenses, and also offers all the Qualifying Shareholders the opportunity to maintain their *pro rata* shareholding interests in the Company and avoid dilution for those Shareholders who take up their entitlement under the Rights Issue in full.
- (d) As for the realisation of existing investments, after considering (i) the current performance of the investment portfolio of the Company, of which the realisation may result a loss of the Group, (ii) the investment strategy towards certain equity investment by the Company, i.e. long-term holding for the potential growth and constant returns, (iii) maturity dates of bonds held by the Company (including two convertible bonds of an aggregate principal amount of approximately HK\$39.7 million with their maturity dates having been further extended to 13 April 2020 and 28 July 2020 respectively), of which the redemption and/or conversion will be made on a pre-mature basis, and (iv) the turbulences in the macroeconomic and geopolitical environment in the years of 2018 and 2019, the Board is of the view that it is not advisable at this moment for the Company to realise the existing investment of the Company for the proposed demands on funds as mentioned above.
- (e) The Board considers that the Rights Issue, which is on a fully underwritten basis, can make the Company raise sufficient funds to satisfy its demands on funds as aforementioned. In addition, the Rights Issue would give the Qualifying Shareholders the opportunity to maintain their respective prorata shareholding interest in the Company and provide an opportunity to all Qualifying Shareholders to participate in the

LETTER FROM THE BOARD

growth of the Company in proportion to their shareholdings. Lastly, although those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Excluded Shareholders may make their shareholdings diluted, the Rights Issue requires the Independent Shareholders' approval so that the Independent Shareholders are given the ultimate decision power to choose whether the Company shall proceed to the Rights Issue by voting for or against at the SGM to approve the Rights Issue.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST TWELVE MONTHS

In the past twelve months immediately prior to the Latest Practicable Date, the Group completed the following fund raising exercise:

| Date of completion | Description of fund raising activities | Intended use of proceeds | Actual use of proceeds as at the Latest Practicable Date |
|---------------------------|--|---|--|
| 12 October 2018 | Issue of 19,980,000 placing shares under general mandate. The net proceeds from the placing was approximately HK\$19,730,000 | (i) Approximately HK\$10,000,000 for investment in the listed and/or unlisted securities; and (ii) Approximately HK\$9,730,000 will be used for repayment of the Group's payables and as the Group's general working capital | (i) Approximately HK\$10,000,000 was used for investment in the unlisted securities; and (ii) Approximately HK\$9,280,000 was used for repayment of the Group's payables and operation expenses, and the remaining balance of approximately HK\$450,000 was maintained at the Group's bank account and will be utilised as intended |

Save for the aforesaid placing, the Company has not conducted any other fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Friday, 6 September 2019 to Thursday, 12 September 2019, both days inclusive, to determine the identity of the Shareholders entitled to attend and vote at the SGM. The Company's register of members will be closed from Wednesday, 18 September 2019 to Tuesday, 24 September 2019, both days inclusive, to determine the entitlements to the Rights Issue. No transfer of Shares will be registered during the above book closure periods.

LISTING RULES IMPLICATIONS

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 7.27A(1) of the Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders at which any controlling shareholders of the Company and their respective associates or, where there are no controlling shareholders of the Company, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, there is no controlling shareholder of the Company. Therefore, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

As at the Latest Practicable Date, Mr. Chen, the father of Mr. Chen Albert who is a non-executive Director, held 25,276,930 Shares as a substantial shareholder of the Company, and then shall be regarded as an associate of the Director under the Listing Rules.

Based on the above and according to Rule 7.27A(1) of the Listing Rules, Mr. Chen is required to abstain from voting at the SGM in favour of the Rights Issue. Save as the above, no other Shareholder will be required to abstain from voting in favour of the Rights Issue at the SGM.

The Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities within such 12-month period. The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, none of the Underwriter and its close associate(s) and/or ultimate beneficial owner(s) had any shareholding interest in the Company. In the event that the Underwriter and any of the sub-underwriters have shareholding interest in the Company, it/they is/are required to abstain from voting on the resolution approving the Rights Issue at the SGM.

WARNING OF THE RISK OF DEALINGS IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

The Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Monday, 16 September 2019 and that dealing in the Shares will take place while the conditions to which the Underwriting Agreement are subject remain unfulfilled.

Any Shareholder or other person dealing in the Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be on 4:00 p.m. on Monday, 14 October 2019), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating any dealings in the Shares and/or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

SGM

A notice of the SGM to be held at 4:30 p.m. on Thursday, 12 September 2019 at 5/F., Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular for the purpose of considering and, if thought fit, approving the Underwriting Agreement, the Rights Issue and the transactions contemplated respectively thereunder.

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

LETTER FROM THE BOARD

A proxy form for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon and return it to the Registrar, Computershare Hong Kong Investor Services Limited of 17M, Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment of it, if you so wish.

Subject to the Rights Issue being approved at the SGM, the Prospectus Documents, where appropriate, containing further information on the Rights Issue will be despatched to the Shareholders as soon as practicable.

RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Ms. Chan Man Yi, Ms. Leung Yin Ting and Mr. Jiang Qian, has been established to advise the Independent Shareholders as to whether the Rights Issue and the Underwriting Agreement are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable and to make recommendations to the Independent Shareholders on how to vote at the SGM. Sorrento Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on page 33 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from Sorrento Capital set out on pages 34 to 57 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee in this circular) believe that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

By order of the Board
Cocoon Holdings Limited
Wu Ming Gai
Chairman

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 in relation to the Rights Issue.

Cocoon Holdings Limited **中國天弓控股有限公司**

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 428)

21 August 2019

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 21 August 2019 (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 as the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue and the Underwriting Agreement are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

Sorrento Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Having taken into account the terms of the Rights Issue and the Underwriting Agreement, and the advice from Sorrento Capital, we are of the opinion that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

Ms. Chan Man Yi Ms. Leung Yin Ting Mr. Jiang Qian

Independent non-executive Directors

LETTER FROM SORRENTO CAPITAL

The following is the text of the letter of advice from Sorrento Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Rights Issue which has been prepared for the purpose of inclusion in this circular.



11/F,
The Wellington,
198 Wellington Street, Central,
Hong Kong

21 August 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed offer for subscription of 239,817,900 Rights Shares by way of the Rights Issue at the subscription price at HK\$0.28 each to be made by the Company to the Qualifying Shareholders on the basis of two (2) Rights Shares for every one (1) existing Share in issue and held on the Record Date, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 21 August 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As stated in the Letter from the Board, on 18 July 2019 (after trading hours), the Company entered into an underwriting agreement with China Fund Securities Limited (the “**Underwriter**”) pursuant to which the Company will offer 239,817,900 Rights Shares to the Qualifying Shareholders whose names shall appear on the register of members of the Company at the close of business on the Record Date on the basis of two (2) Rights Shares for every one (1) existing Share in issue and held on the Record Date and the Underwriter agreed to underwrite the maximum of 239,817,900 Underwritten Shares at the subscription price of HK\$0.28 each. On 2 August 2019 and 13 August 2019, the Company and the Underwriter further entered into two letters (the “**Extension Letters**”) to extend the relevant dates of the Rights Issue as stipulated in the aforesaid

LETTER FROM SORRENTO CAPITAL

underwriting agreement (such underwriting agreement as amended and supplemented by the Extension Letters are hereinafter referred to as the “**Underwriting Agreement**”). The gross proceeds from the Rights Issue will be approximately HK\$67.15 million and the expected net proceeds (i.e. after deducting all relevant expenses relating to the Rights Issue) will be approximately HK\$65.44 million of which (i) approximately 45.84% or approximately HK\$30.00 million will be applied for the repayment of the shareholder’s loan due to the substantial shareholder (has the meaning ascribed thereto under the Listing Rules) in the principal amount of HK\$30.00 million with interest rate at 8.0% per annum which will mature on 6 October 2019; (ii) approximately 45.84% or approximately HK\$30.00 million will be applied for investments of the Company on listed securities and unlisted securities; and (iii) approximately 8.32% or approximately HK\$5.44 million, being the remaining portion of the net proceeds, will be applied as general working capital of the Group.

In accordance with Rule 7.19A(1) of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to the approval of the minority Shareholders at the SGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where minority shareholders’ approval is required for a rights issue under Rule 7.19A of the Listing Rules, the rights issue must be made conditional on the approval by shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour. As at the Latest Practicable Date, there were no controlling shareholders (has the meaning ascribed thereto under the Listing Rules) and Mr. Chen Chien Yeh (“**Mr. Chen**”), the father of Mr. Chen Albert who is a non-executive Director, held 25,276,930 Shares as a substantial shareholder of the Company, and then shall be regarded as an associate of the Director under the Listing Rules. Accordingly, Mr. Chen will abstain from voting in favour of the resolution approving the Rights Issue at the SGM.

The Independent Board Committee comprising Ms. Chan Man Yi, Ms. Leung Yin Ting and Mr. Jiang Qian, all being the independent non-executive Directors, has been established by the Board to consider the terms of the Rights Issue and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned; and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM SORRENTO CAPITAL

We are independent from and not connected with the Group, its substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Rights Issue.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations expressed to us by the Directors and management of the Company. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the SGM, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONCERNED

In considering whether the terms of the Rights Issue are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Company is an investment company under Chapter 21 of the Listing Rules and its shares have been listed on the main board of the Stock Exchange since 14 December 1993. The principal activity of the Company is investment holding and the Group is principally engaged in investments in securities listed on recognised stock exchanges and unlisted investments, including equity securities, loan notes and convertible bonds issued by corporate entities.

LETTER FROM SORRENTO CAPITAL

The Company has conducted a capital reorganisation, including capital reduction, sub-division and reduction of share premium, which became effective on 19 April 2019 (Hong Kong time). As a result, the number of authorised shares became 10,000,000,000 Shares of which 119,908,950 Shares were in issue and 9,880,091,050 Shares remained unissued up to the Latest Practicable Date.

The audited consolidated financial information of the Group for the two years ended 31 December 2018, as extracted from the annual report of the Company for the year ended 31 December 2018 (the “**Annual Report**”), is summarised as follows:

| | For the year ended 31 December | |
|---|---------------------------------------|-----------------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Gross proceeds from disposals of trading securities | 123,228 | 66,938 |
| Revenue | 10,812 | 10,570 |
| Other revenue | 410 | 5,109 |
| Other gains and losses | (75,961) | (207,264) |
| Other operating expenses | (9,552) | (10,627) |
| Finance costs | (4,167) | (3,296) |
| Loss before tax | (78,458) | (205,508) |
| Loss for the year | <u>(78,458)</u> | <u>(205,508)</u> |
| | | As at |
| | | 31 December |
| | | 2018 |
| | | <i>HK\$'000</i> |
| Non-current assets | | 45,629 |
| Current assets | | <u>151,217</u> |
| Total assets | | 196,846 |
| Non-current liabilities | | 19,920 |
| Current liabilities | | <u>41,535</u> |
| Total liabilities | | 61,455 |
| Net assets | | <u><u>135,391</u></u> |

LETTER FROM SORRENTO CAPITAL

The revenue of the Group represents interest income from bank deposits, loan notes and convertible bonds. For the year ended 31 December 2018, the Group's revenue amounted to approximately HK\$10.81 million, representing an increase of approximately 2.27% as compared to that of approximately HK\$10.57 million for the previous year, which was mainly attributable to the increase in interest income from loan notes.

Other gains and losses of the Group mainly represent unrealised fair value gains and losses on financial assets at fair value through profit or loss ("FVTPL") and net realised loss on disposal of financial assets at FVTPL such as listed securities, unlisted convertible bonds and private equity fund. Net loss of approximately HK\$75.96 million for other gains and losses was recorded for the year ended 31 December 2018 which was substantially lower than the net loss of approximately HK\$207.26 million for the previous year. Such change was mainly attributable to less recognition of both unrealised fair value losses and net realised losses on listed securities.

The Company recorded other operating expenses of approximately HK\$9.55 million for the year ended 31 December 2018, representing a decrease of approximately 10.16% as compared to that of approximately HK\$10.63 million for the previous year. On the contrary, the finance costs of the Company was approximately HK\$4.17 million for the year ended 31 December 2018, representing an increase of approximately 26.36% as compared to that of approximately HK\$3.30 million for the previous year. As a result of the abovementioned, the Company recorded loss for the year of approximately HK\$78.46 million for the year ended 31 December 2018 as compared to a loss of approximately HK\$205.51 million for the previous year.

As at 31 December 2018, the current assets and current liabilities of the Company amounted to approximately HK\$151.22 million and HK\$41.54 million respectively. Accordingly, the Company had net current assets of approximately HK\$109.68 million and current ratio of approximately 3.64 times, calculated as current assets over the current liabilities. The current assets of the Company as at 31 December 2018 included mainly (i) financial assets at FVTPL of approximately HK\$85.07 million; (ii) financial assets at fair value through other comprehensive income ("FVTOCI") of approximately HK\$35.18 million; and (iii) other receivables, deposits and prepayments of approximately HK\$15.76 million. As at 31 December 2018, the Company had bank balances of approximately HK\$4.78 million. The current liabilities of the Company as at 31 December 2018 included, among others, shareholder's loan at the value of approximately HK\$31.71 million and promissory notes at value of approximately HK\$0.83 million respectively.

As at 31 December 2018, the non-current assets of the Company was approximately HK\$45.63 million mainly including (i) loan notes of approximately HK\$45.61 million; and (ii) office equipment of approximately HK\$19,000 whilst the non-current liabilities of the Company comprising only the promissory notes amounted to approximately HK\$19.92 million. As at 31 December 2018, the total assets and total liabilities amounted to approximately HK\$196.85 million

LETTER FROM SORRENTO CAPITAL

and HK\$61.46 million respectively. Thus, the Group had net assets of approximately HK\$135.39 million and a gearing ratio (being shareholder's loan and promissory notes over total equity) of approximately 38.75% as at 31 December 2018.

On 12 October 2018, the Company completed a placing of new shares under general mandate pursuant to which net proceeds of approximately HK\$19.73 million was raised and substantially applied for investment in the unlisted securities, repayment of the Group's payables and operating expenses. Save as disclosed above, the Company has not conducted any other equity financing activity in the past 12 months immediately preceding the Latest Practicable Date.

2. Reasons for the Rights Issue and proposed use of net proceeds

2.1 Reasons for the Rights Issue

The Company is principally engaged in investments in securities listed on recognised stock exchanges and unlisted investments with potential for earning growth and capital appreciation. As set out in the Letter from the Board, it is the corporate strategy of the Group to strengthen its existing businesses and continue its focus on financing future investment opportunities domestically and internationally to achieve financial growth for the Group and to maximise the Shareholders' value.

As set out in the Annual Report, the Company expected that 2019 will be full of challenges and looking ahead to 2019, the Company will stay in focus to invest in trading securities, private equity funds and private enterprises with potential prospect. The approach of the Company will be to keep timely and appropriate investment strategies in response to the volatile market, in order to enhance the Company's investment portfolio and achieve net asset appreciation.

Unlike some other companies which are able to regularly generate cash inflow from their business operations, investment companies under Chapter 21 of the Listing Rules may not always realise its investments to generate sufficient cashflow and support its business operation and further investments, particularly when capital is invested in long term investments. Having considered the unaudited bank balances of the Company of approximately HK\$0.45 million as at 30 June 2019 and the operating expenses required to run the businesses of the Company, the Company is of the view that additional capital is required to support its existing business operation as well as to make future investments for increasing its asset value and diversification of its portfolio. On the other hand, the Company recorded finance costs of approximately HK\$3.30 million and HK\$4.17 million respectively for the year ended 31 December 2017 and 2018, and the repayment of the debts of the Company by applying proceeds from equity financing would reduce its interest burden and lower its gearing. After assessing the possibility of other fundraising alternatives (as detailed below), the Company proposed to carry out the Rights Issue.

LETTER FROM SORRENTO CAPITAL

As part of our due diligence, we have reviewed the Annual Report and noted that the investments of the Company as at 31 December 2018 mainly included (i) convertible bonds at total value of approximately HK\$39.72 million; (ii) unlisted equity investments and trading securities of companies listed on the Stock Exchange at total value of approximately HK\$80.53 million; and (iii) loan notes at values of approximately HK\$10.42 million (current) and approximately HK\$45.61 million (non-current) respectively. As advised by the Company, they have agreed with the relevant issuers of the aforesaid convertible bonds and loan notes to extend the maturity dates on same terms.

We were advised by the Company that the investment strategy of the Company is to achieve long-term returns through capital appreciation and dividend. Therefore after considering the stable and recurrent interest income receivable by the Company from the loan notes and convertible bonds, the Company is of the view that realisation of its investments in loan notes and convertible bonds on a pre-mature basis is not in line with its investment objective and in the interest of the Company. We have reviewed the terms of the aforesaid convertible bonds and loan notes and noted that they bear fixed interest rate or coupon rate from 8.00% to 9.00% per annum. We have also independently calculated the implied cost of capital for the Rights Issue (being the percentage of professional fee and relevant expenses to the gross proceeds of the Rights Issue) and noted that it is approximately 2.55% and substantially lower than the aforesaid interest rate and coupon rate. Therefore, it is reasonable for the Company to source capital at a lower cost by the Rights Issue rather than forgoing the benefit from its investment in the convertible bonds and loan notes. As regard the other financial assets held by the Company as at the Latest Practicable Date (i.e. unlisted equity investments and trading securities), we noted that they were comprised of (i) ten securities issued by companies listed on the Stock Exchange the share prices of which have been generally on decreasing trend since 2019 and, as advised by the Company, they have not yet recorded investment gain on an overall basis in 2019; and (ii) three private equities of which only one relating to natural resources the Company could make an investment gain so far. We were advised by the Company that given the Hong Kong stock market, as indicated by the Hang Seng Index, has been weak since 2018 and the uncertain political environment in Hong Kong, it is not appropriate to realise substantial portion of its equity investments at this moment for capital in an amount comparable to the net proceeds from the Rights Issue.

Furthermore, we noted that among the total liabilities of the Company of approximately HK\$61.46 million as at 31 December 2018, (i) approximately HK\$31.71 million was relating to shareholder's loan in principal amount of HK\$30.00 million bearing interest rate of 8.0% per annum which will become mature on 6 October 2019; and (ii) approximately HK\$20.75 million was relating to promissory notes bearing interest rates ranging from 6.5% to 8.0% per annum. We have obtained and reviewed the principal terms of these promissory notes and noted that one of them in the principal amount of HK\$0.30 million will be due for repayment by late September

LETTER FROM SORRENTO CAPITAL

2019. Therefore we concur with the Company that the Rights Issue could (i) relief its pressure on raising external capital for repayment of the liabilities of the Company in near future and lower its gearing; and (ii) provide additional capital for future investment and development of the Company.

2.2 Use of net proceeds

Assuming no Shares will be issued or repurchased by the Company on or before the Record Date, the gross proceeds and estimated net proceeds (after deducting all relevant expenses relating to the Rights Issue) of the Rights Issue will be approximately HK\$67.15 million and HK\$65.44 million respectively. The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately 45.84% or approximately HK\$30.00 million for the repayment of its shareholder's loan due to the substantial shareholder; (ii) approximately 45.84% or approximately HK\$30.00 million for investment in listed or unlisted securities; and (iii) approximately 8.32% or approximately HK\$5.44 million for general working capital of the Group.

Repayment of shareholder's loan

The total liabilities of the Company was approximately HK\$61.46 million as at 31 December 2018 of which the approximately HK\$31.71 million was relating to the shareholder's loan (with principal amount of HK\$30.00 million) and will be due by 6 October 2019. We have enquired and were confirmed by the Company that the lender has the intention not to extend the loan upon the due date. Therefore, in the absence of sufficient new capital or realisation of the Company's investments prematurely which, as explained above, would not be in line with its investment strategy and in the interest of the Company, it would be difficult for the Company to fully settle such loan timely.

Investment in listed and unlisted securities

We noted that approximately 45.84% of the net proceeds from the Rights Issue will be utilised to invest in listed and unlisted securities. According to the Letter from the Board, the Company has been in negotiation for potential investments in (i) a one-stop mobile transportation platform; (ii) an overseas property development project (collectively the "**Potential Investees**"); and (iii) other securities of certain industries with short to medium growth potential such as resources and real estate. Currently, the Company is expected to invest approximately HK\$10.00 million to HK\$15.00 million in each of the Potential Investees if negotiation with relevant parties are successful. As such, we have reviewed the investment objective, policies and restrictions adopted by the Company (which is also set out in Appendix III to the Circular) and as advised by the Company, such potential investments, if materialised, (i) will be in the form of any securities in listed or unlisted companies relating to the Potential Investees (e.g. holding company or operating company instead of

LETTER FROM SORRENTO CAPITAL

property holding) and thus is in line with the investment objectives and policies of the Company; and (ii) in compliance with the investment restriction of the Company. We have also reviewed, and discussed with the management of the Company, the investment portfolio of the Company as at the Latest Practicable Date and noted that investments of the Company mainly include securities investments in companies in the electronic products, food and beverage, information technology, media, manufacturing of eyewear, packaged food, trading and financial sectors and their operations are mainly located in the PRC and Hong Kong. The Directors are of the opinion that applying the proceeds from the Rights Issue on investments in listed or unlisted securities in other sectors such as mobile transportation platform and ride-hailing business and property development can further diversify the investment portfolio of the Company, in respect of both industry and business location, and enable the Company to mitigate the effects of any downturn or cyclical change.

As advised by the Company, such potential investments are subject to further negotiation with the Potential Investees as the Company has yet to raise sufficient capital for investments, and therefore the Company will have to review further information on the Potential Investees and other investment opportunities when making final investment decisions. As part of our due diligence, we have obtained the information on the Potential Investees from the Company and independently conducted research on their background. We noted that the Potential Investees are (i) a property development project, being a high-rise building planned to be, among others, a service apartment located in Selangor, Malaysia commenced by a company listed on Bursa Malaysia Bhd (formerly known as Kuala Lumpur Stock Exchange) which is primarily engaged in the business of property development and property investment; and (ii) a mobile transportation platform and ride-hailing services provider in the PRC with global presence, respectively.

We have conducted research on the relevant industries of the Potential Investees. According to the property market report 2018 published by the Valuation and Property Services Department of Malaysia and Ministry of Finance Malaysia, the Malaysian house price index increased from approximately 153.2 in 2014 to approximately 193.3 in 2018, representing a compound annual growth rate of approximately 6.0% and Selangor recorded the highest property transaction volume and value in 2018 among other states in Malaysia mentioned in the report. We have also reviewed a market analysis report prepared by a leading international firm providing audit and assurance, consulting and financial advisory services, and noted that the car-hailing market transaction volume in the PRC is expected to experience growth in coming few years as supported by the continuous urban development, economy growth and infrastructure development in the PRC.

LETTER FROM SORRENTO CAPITAL

Given that (i) approximately 45.84% of the net proceeds from the Rights Issue will be applied for the development of the core business of the Group of investing in securities listed on recognised stock exchanges and unlisted investments; (ii) the Company will ensure the potential investments to be made in line with the investment objectives, policies and restrictions of the Company as detailed above; (iii) the potential investments can increase the investment size of the Company; and (iv) the potential investments can further diversify the investment portfolio of the Company, we concur with the view of the Company that it is reasonable to allocate approximately HK\$30.00 million of the net proceeds from the Rights Issue to facilitate further negotiations for and to capture any suitable future investment opportunities.

General working capital

According to the Letter from the Board, the Company intended to apply approximately HK\$5.44 million of the net proceeds from the Rights Issue for the general working capital of the Group. We have reviewed, and discussed with the management of the Company, the operating expenses of the Company for the first half of 2019 (including mainly director fees, staff costs, secretarial fee, rental payment and investment management fee), and we noted that on average, it has cost the Company approximately HK\$0.47 million per month. Having considered (i) the unaudited bank balance of the Company of approximately HK\$0.45 million as at 30 June 2019; and (ii) the actual amount of operating expenses incurred for the year ended 31 December 2018 and the unaudited amount of key operating expenses incurred for the six months ended 30 June 2019, we consider that it is reasonable to allocate such amount to the general working capital of the Group.

Based on the above and the fact that the Rights Issue will give all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company without diluting their corresponding shareholdings and to participate in the long-term growth of the Company at a price lower than the current market level, we concur with the view of the Company that it is fair and reasonable and in the interest of the Company to conduct the Rights Issue to support the growth of the Group and the intended use of proceeds are reasonable and commercially justifiable.

LETTER FROM SORRENTO CAPITAL

3. Alternative financing methods

As stated in the Letter from the Board, other financing alternatives were considered, including, among other things, (i) debt financing such as bank borrowing; and (ii) equity financing such as placing of new shares and open offer.

The Company considers that the Rights Issue effected on a pro-rata basis gives all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and the Subscription Price at a price lower than the current market level is to attract the Qualifying Shareholders to participate in development of the Company.

In respect of debt financing, we were also advised by the Company that they have attempted to obtain loan financing from three principal banks for financing the principal business of the Company but they all indicated that it is unlikely for the Company to obtain loans in view of the business nature, past financial performance and gearing of the Company. In addition, as discussed with the management of the Company, debt financing may not be feasible for the Group as (i) debt financing may further increase financial costs of the Company; (ii) increase in the gearing of the Company may expose the Group to higher financial risk, especially in interest rate hikes; and (iii) debt financing is normally for fixed term and the success and timing of renewal would materially affect the liquidity of the Company particularly when the Company has made long term investments.

In respect of equity financing, as opposed to the Rights Issue, placing of new Shares under general mandate can only raise funds in smaller size and does not allow the Shareholders to maintain their respective shareholding in the Company, whereas open offer does not provide the flexibility to the Shareholders who wish to subscribe the Rights Share to increase their shareholding interests in the Company by acquiring additional rights entitlements in the open market or to the Shareholders who opt not to subscribe the Rights Shares to reduce their shareholding interests in the Company by disposing their nil-paid Rights Shares during the prescribed period of time for economic benefits.

Having considered other fund raising alternatives for the Company as disclosed above, and taking into account the benefits and cost of each of the alternatives, the Directors (including the independent non-executive Directors) are of the view that the Rights Issue is the most appropriate fund raising option to the Company and is in the interest of the Company and the Shareholders as a whole.

LETTER FROM SORRENTO CAPITAL

4. Principal terms of the Rights Issue

4.1 Issue statistics

| | |
|---|---|
| Basis of the Rights Issue: | Two (2) Rights Shares for every one (1) existing Share held on the Record Date |
| Subscription price: | HK\$0.28 per Rights Share |
| Number of Shares in issue as at the Latest Practicable Date: | 119,908,950 Shares |
| Number of Rights Shares: | 239,817,900 Rights Shares |
| Number of Rights Shares underwritten by the Underwriter: | Maximum of 239,817,900 Rights Shares (assuming no Shares being issued or repurchased by the Company on or before the Record Date and that the Rights Shares under the Irrevocable Undertaking cannot not been taken up) |
| Number of Shares in issue upon completion of the Rights Issue: | 359,726,850 Shares |

As at the Latest Practicable Date, the Company had no derivatives, outstanding convertible securities, options and warrants in issue which confer any right to subscribe for, convert or exchange into the Shares.

The Rights Issue is fully underwritten by the Underwriter which shall ensure that the Company will maintain the minimum public float requirement in compliance with Rule 8.08 of the Listing Rules. The Rights Issue is conditional upon, inter alia, the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the latest time for termination.

On 2 July 2019, Mr. Chen, a substantial shareholder of the Company, gave an irrevocable undertaking to the Company that he will subscribe for the Rights Shares to which he is entitled under the Rights Issue in full as at the Record Date. As at the Latest Practicable Date, Mr. Chen beneficially owned 25,276,930 Shares and accordingly the number of Rights Shares to be subscribed by Mr. Chen is 50,553,860 Rights Shares assuming that his shareholding in the Company will remain unchanged up to the Record Date.

LETTER FROM SORRENTO CAPITAL

4.2 Subscription price

In order to access the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose only.

Historical price movement analysis

The Subscription Price of HK\$0.28 per Rights Share, which will be payable in full upon application, represents:

- (i) a discount of approximately 6.7% to the closing price of HK\$0.300 per Share as quoted on the Stock Exchange on the last trading day prior to the Latest Practicable Date;
- (ii) a discount of approximately 13.8% to the closing price of HK\$0.325 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 12.5% to the average closing price of approximately HK\$0.320 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day;
- (iv) a discount of approximately 12.2% to the average closing price of approximately HK\$0.319 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the Last Trading Day;
- (v) a discount of approximately 5.1% to the theoretical ex-rights price of HK\$0.295 per Share, calculated based on the closing price of HK\$0.325 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (vi) a discount of approximately 75.2% to the audited net asset value per Share (the “NAV per Share”) of approximately HK\$1.129 based on the audited consolidated net assets per Share as at 31 December 2018 as set out in the Annual Report and a discount of approximately 72.5% to the unaudited NAV per Share of approximately HK\$1.02 based on the unaudited consolidated net asset value per Share as at 31 July 2019 as announced by the Company on 15 August 2019.

The Subscription Price was determined after arm’s length negotiations between the Company and the Underwriter with reference to, among other, (i) the prevailing market price of the Shares prior to the Last Trading Day and the theoretical ex-rights price; and (ii) the capital needs of the Group.

LETTER FROM SORRENTO CAPITAL

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 19 July 2018, being 12 months immediately preceding the date of the Underwriting Agreement, to the Latest Practicable Date (the “**Price Review Period**”). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.



Source: the Stock Exchange

Although the Subscription Price appears to be at a substantial discount to both NAV per Share as at 31 December 2018 (audited) and 31 July 2019 (unaudited), we consider that the NAV per Share is not a meaningful benchmark to assess the Subscription Price as (i) the Company is an investment company under Chapter 21 of the Listing Rules and has been loss-making mainly due to its investments which formed substantial part of its total assets as at 31 December 2018; (ii) most of the Company’s investments such as FVTPL, loan notes and FVTOCI are unlisted securities and not immediately marketable for realisation; and (iii) the Shares have been generally traded at significant discount to the NAV per Share in the open market during the past year. Given the recent market price of the Shares have already reflected the expectation of the investors to the Company such as financial results and corporate actions of the Company and the recent market sentiment, we consider that recent market price of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

LETTER FROM SORRENTO CAPITAL

As illustrated in the above chart, the closing price of the Shares has been on a decreasing trend in general during the Price Review Period from HK\$0.72 per share on 19 July 2018 to HK\$0.325 per share on the Last Trading Day and further to HK\$0.300 per share as at the last trading day prior to the Latest Practicable Date.

On 30 August 2018, the Company announced its unaudited interim results for the six months ended 30 June 2018 and since September 2018, the closing price of the Shares were generally on an increasing trend. On 21 September 2018, the Company announced a placing of new Shares under general mandate at a premium to the then market price and such placement was completed on 12 October 2018. Nevertheless such growth trend was not sustainable and the Share transaction price continued its decreasing trend after reaching the highest of HK\$1.37 per share on 14 November 2018.

On 23 January 2019, the Company announced, among others, to change its domicile from Cayman Islands to Bermuda and to conduct a capital reorganisation including capital reduction, sub-division and reduction of share premium. From February 2019 to March 2019, the closing price of the Shares has been relatively stable fluctuating round HK\$0.6 per share. On 11 March 2019, the relevant special resolutions in relation to the aforesaid change of domicile and capital reorganisation were duly approved by the then Shareholders at an extraordinary general meeting. On 28 March 2019, the Company announced its audited annual results for the year ended 31 December 2018. On 4 April 2019, the Company announced that the aforesaid change of domicile had become effective on 2 April 2019 (Hong Kong time) and on 23 April 2019, the Company further announced the aforesaid capital reorganisation had become effective on 19 April 2019 (Hong Kong time). Since late April 2019, the closing price of the Shares started to decrease significantly and reached the lowest of HK\$0.29 per share from 5 August 2019 to 7 August 2019. As at the last trading day prior to the Latest Practicable Date, the closing price of the Shares was HK\$0.30 per share.

The highest closing price of the Shares and the lowest closing price of the Shares in the Price Review Period were HK\$0.90 per share on 14 November 2018 and HK\$0.29 per share from 5 August 2019 to 7 August 2019 respectively. The Subscription Price represents a discount of approximately 68.89% and 3.45% to the highest and the lowest closing price of the Shares of the Price Review Period respectively. The Shares were traded above the Subscription Price throughout the Price Review Period. Hence, we consider it is fair and reasonable for the Company to determine the Subscription Price with reference the prevailing market price of the Shares and a discount (which will be analysed below) to enhance the attractiveness of the Rights Issue.

LETTER FROM SORRENTO CAPITAL

Historical trading volume and liquidity analysis

We have also reviewed the historical trading volume of the Shares during the Price Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Price Review Period are shown in the table below.

| Months | Number of trading days | Average daily trading volume | % of average daily trading volume to the total number of shares <i>(Note 1)</i> | % of average daily trading volume to the total number of shares in the public hands <i>(Note 2)</i> |
|------------------------|------------------------|------------------------------|--|--|
| 2018 | | | | |
| July <i>(Note 3)</i> | 9 | 28,001 | 0.03% | 0.04% |
| August | 23 | 279,922 | 0.28% | 0.37% |
| September | 19 | 460,132 | 0.46% | 0.62% |
| October | 21 | 204,171 | 0.17% | 0.22% |
| November | 22 | 1,710,973 | 1.43% | 1.81% |
| December | 19 | 319,185 | 0.27% | 0.34% |
| 2019 | | | | |
| January | 22 | 178,532 | 0.15% | 0.19% |
| February | 17 | 245,177 | 0.20% | 0.26% |
| March | 21 | 187,624 | 0.16% | 0.20% |
| April | 19 | 403,383 | 0.34% | 0.43% |
| May | 21 | 207,143 | 0.17% | 0.22% |
| June | 19 | 205,684 | 0.17% | 0.22% |
| July | 22 | 141,627 | 0.12% | 0.15% |
| August <i>(Note 4)</i> | 12 | 60,177 | 0.05% | 0.06% |

Source: the Stock Exchange

Notes:

1. Calculated based on the total number of the Shares in issue at the end of month.

LETTER FROM SORRENTO CAPITAL

2. Calculated based on the total number of the Shares in public hands at the end of month according to the public information on the Stock Exchange.
3. Represents trading volume for the period from 19 July 2018 to 31 July 2018, both days inclusive.
4. Represents trading volume for the period from 1 August 2019 to the last trading day prior to the Latest Practicable Date, both days inclusive.

As demonstrated in the table above, during the Price Review Period, the average daily trading volume of the Shares by month were in the range of approximately 0.03% to 1.43% as to the total number of issued Shares and approximately 0.04% to 1.81% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low.

During the Price Review Period, the average daily trading volume to the total number of the issued Shares held by public Shareholders was approximately 0.38% of total number of Shares in issue as at the Latest Practicable Date which indicates the Shares were generally illiquid in the open market. Given the relatively thin trading liquidity of the Shares, it would be difficult for the Shareholders to acquire/dispose of the Shares in the open market without creating an upward/downward pressure on the price of the Shares.

Rights Issue comparable analysis

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 16 rights issue transactions (the “**Comparables**”) announced by other companies listed on the Stock Exchange for the period from six months immediately prior to the date of the Underwriting Agreement (the “**Comparable Review Period**”). Shareholders should note that the subject companies in the Comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. Although the circumstances surrounding such Comparables may be different from those relating to the Company, we consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to rights issue transactions which the Comparables, for illustrative purpose only, serve as a general reference for prevailing market practices in relation to rights issue transactions conducted by the companies listed in the Stock Exchange.

LETTER FROM SORRENTO CAPITAL

| Announcement date | Company name | Stock code | Basis of entitlement | Premium/(Discount) of the subscription price over the share price on the last trading day (%) | Premium/(Discount) of the subscription price over the theoretical ex-right share price on the last trading day (%) | Premium/(Discount) of the subscription price over the average share price for the five previous consecutive trading days up to and including the last trading day (%) | Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day (%) | Maximum dilution effect (%) | Underwriting/related commission, as the case may be (%) | Excess application |
|-------------------|---|------------|----------------------|---|--|---|--|-----------------------------|---|--------------------|
| 3 July 2019 | South China Financial Holdings Limited | 619 | 3 for 2 | (16.00)% | (7.08)% | (14.46)% | (14.81)% | 60.00% | 2.00% | No |
| 13 June 2019 | International Standard Resources Holdings Limited | 91 | 1 for 2 | (32.96)% | (24.67)% | (34.07)% | (38.46)% | 33.33% | 2.50% | Yes |
| 11 June 2019 | Food Idea Holdings Limited | 8179 | 1 for 2 | (34.74)% | (26.19)% | (35.08)% | (36.25)% | 33.33% | Not available | No |
| 3 May 2019 | Theme International Holdings Limited | 990 | 1 for 2 | (14.53)% | (9.91)% | (15.97)% | (15.97)% | 33.33% | Non-underwritten basis | Yes |
| 3 April 2019 | JTF International Holdings Limited | 8479 | 1 for 2 | (8.82)% | (6.06)% | (9.09)% | (13.29)% | 33.33% | Non-underwritten basis | No |
| 2 April 2019 | Prosperity International Holdings (H.K.) Limited | 803 | 2 for 5 | (65.30)% | (57.40)% | (64.60)% | (63.90)% | 28.57% | Non-underwritten basis | No |
| 18 March 2019 | Xinjiang Goldwind Science & Technology Co., Ltd | 2208 | 1.9 for 10 | (20.75)% | (18.04)% | (21.69)% | (19.83)% | 15.97% | Not available | Yes |
| 13 March 2019 | Sing Lee Software (Group) Limited | 8076 | 1 for 2 | (30.23)% | (22.38)% | (30.88)% | (33.04)% | 33.33% | Non-underwritten basis | No |
| 11 March 2019 | APAC Resources Limited | 1104 | 1 for 2 | (4.73)% | (10.35)% | (13.25)% | (16.98)% | 33.33% | 2.50% | Yes |
| 10 March 2019 | Beijing Capital Land Ltd. | 2868 | 5 for 10 | (30.00)% | (22.10)% | (30.00)% | 30.00% | 33.33% | Not available | No |
| 28 February 2019 | Birmingham Sports Holdings Limited | 2309 | 1 for 2 | (43.18)% | (35.06)% | (44.20)% | (45.12)% | 33.33% | 1.50% | Yes |
| 20 February 2019 | Greatwall Inc. | 8315 | 1 for 2 | (20.63)% | (14.53)% | (35.06)% | (38.65)% | 33.33% | Non-underwritten basis | Yes |

LETTER FROM SORRENTO CAPITAL

| Announcement date | Company name | Stock code | Basis of entitlement | Premium/(Discount) of the subscription price over the share price on the last trading day (%) | Premium/(Discount) of the subscription price over the average share price for the five previous consecutive trading days up to and including the last trading day (%) | Premium/(Discount) of the subscription price over the average share price for the ten previous consecutive trading days up to and including the last trading day (%) | Maximum dilution effect (%) | Underwriting/related commission, as the case may be (%) | Excess application |
|-------------------|---|------------|----------------------|---|---|--|-----------------------------|---|--------------------|
| | | | | | | | | | |
| 20 February 2019 | Southwest Securities International Securities Limited | 812 | 1 for 2 | (20.61)% | (14.94)% | (12.55)% | 33.33% | 2.50% | Yes |
| 19 February 2019 | Victory City International Holdings Limited | 539 | 1 for 2 | (14.78)% | (10.09)% | (11.71)% | 33.33% | 1.00% | Yes |
| 15 February 2019 | Universal Technologies Holdings Limited | 1026 | 2 for 1 | (33.33)% | (14.28)% | (32.85)% | 66.67% | Non-underwritten basis | Yes |
| 25 January 2019 | i-Cable Communications Limited | 1097 | 3 for 4 | (13.00)% | (8.30)% | (13.00)% | 42.86% | Non-underwritten basis | No |
| | | | Min | (65.30)% | (57.40)% | (63.90)% | 15.97% | | |
| | | | Max | (4.73)% | (6.06)% | 30.00% | 66.67% | | |
| | | | Median | (20.69)% | (14.74)% | (18.41)% | 33.33% | | |
| | | | Mean | (25.22)% | (18.84)% | (23.53)% | 36.29% | | |
| | The Company | | 2 for 1 | (13.85)% | (5.08)% | (12.36)% | 66.67% | 1.00% | Yes |

Source: the Stock Exchange

Note: The potential maximum dilution effect of each rights issue is calculated as number of rights shares issued or to be issued under the basis of entitlement divided by the total number of shares as enlarged by the rights issue according to their respective basis of entitlements and assuming all rights shares have been/will be allotted and issued times 100%.

LETTER FROM SORRENTO CAPITAL

We noted from the above table that all of the Comparables had set the subscription price of their rights issue at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the rights issue were made. Therefore we consider it is a normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing market price of the relevant shares so as to encourage the shareholders' participation. The discount represented by the subscription prices to the closing price of shares of the Comparables on respective last trading day ranges from approximately 4.73% to approximately 65.30% with mean and median of approximately 25.22% and 20.69% respectively. The discount of approximately 13.85% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the range of those of the Comparables and it is less than the mean and median discount of the Comparables.

The subscription prices of the Comparables represent a discount ranging from approximately 6.06% to 57.40% relative to their respective theoretical ex-rights prices as quoted on the last trading day. The discount of approximately 5.08% of the Subscription Price to the theoretical ex-rights prices of the Shares on the Last Trading Day is close to the maximum of the Comparables of approximately 6.06%. Nevertheless, the discounts represented by the Subscription Price as set out in the table above are generally within the range of the Comparables.

Based on the above analysis and the facts that (i) the Shares were traded above the Subscription Price throughout the Comparable Review Period; (ii) the liquidity in trading of the Shares was thin during the Comparable Review Period; (iii) it is common for the listed companies in Hong Kong to set the subscription price of rights issue at a discount to the market price of the listed shares in order to enhance the attractiveness of the rights issue transactions; (iv) the discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day fall within the range of the Comparables; (v) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (vi) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we consider that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Application for excess Rights Shares

Qualifying Shareholders may apply for any unsold allotments of the Excluded Shareholders and any Rights Share provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. The Board will allocate the excess Rights Shares to Qualifying Shareholders who have applied for excess application on a

LETTER FROM SORRENTO CAPITAL

pro-rata basis on the excess Rights Shares applied by them, without involving allocation of any fractional Rights Share. No preference will be given to topping up odd lots to whole board lots. Shareholders who have been offered odd lots of the Rights Shares should note that there are no guarantees that such odd lots of Rights Shares will be topped up to create whole board lots pursuant to applications for excess Rights Shares. No reference will be made to the Rights Shares comprised in applications by PAL or the existing number of Shares held by the Qualifying Shareholders. Any Rights Share not taken up by the Qualifying Shareholders and not taken by excess applications will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

As set out in table above, 9 out of 16 Comparables have the arrangement for excess application for the qualifying shareholders. With the arrangement of application for excess Rights Shares, the Qualifying Shareholders shall be given a pre-emption right to subscribe for excess Rights Shares if they wish to do so. Moreover, the allocation basis adopted by the Company is in line with the normal market practice of other rights issue with arrangement of application for excess rights shares and the shareholding of each Qualifying Shareholder, except those who do not take up their full entitlements or those who apply for excess Rights Shares, will be largely maintained after the completion of the Rights Issue. Based on the above, we concur with the Company that the arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation method for the excess Rights Shares are fair and reasonable so far as the Independent Shareholders are concerned.

5. Underwriting arrangement

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders for a maximum of 239,817,900 Rights Shares (assuming no Shares being issued or repurchased by the Company on or before the Record Date), subject to the terms and conditions of the Underwriting Agreement. The Underwriter shall procure that any subscriber procured by them shall be Independent Third Party and shall not become a substantial shareholder holding 10% or more shareholding in the Company immediately after completion of the Rights Issue.

The Company shall pay the Underwriter an underwriting commission of 1.00% of the aggregate Subscription Price in respect of the Rights Shares underwritten by the Underwriter as determined on the Record Date. The commission rate was determined after arm's length negotiation between the Company and the Underwriter by reference to the market rate, the size of the Rights Issue and the current and expected market condition.

LETTER FROM SORRENTO CAPITAL

As illustrated in table above, the underwriting commission of 1.00% to be charged by the Underwriter under the Underwriting Agreement falls within the range of the commission rates of the Comparables of 1.00% to 2.50% and lower than the average commission rate of the Comparables of approximately 2.00%. Based on the above, we are of the view that the underwriting commission is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We were given to understand that the Underwriter has agreed to ensure that at least 25% of the total issued share capital of the Company would be held by the public at all times such that the public float requirements under Rules 8.08 of the Listing Rules would be complied with by the Company after the Rights Issue. In the event that there is insufficient public float of the Company within the meaning of the Listing Rules immediately upon completion of the Rights Issue solely because of the Underwriter's performance of its obligations pursuant to the Underwriting Agreement, the Underwriter agrees to take such appropriate steps as may be reasonably required to maintain the minimum public float for the Shares in compliance with Rule 8.08 of the Listing Rules.

It should also be noted that the Rights Issue will not proceed if the Underwriter exercises its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are set out in the section headed "Termination of the Underwriting Agreement" in the Circular. We have reviewed the announcements of the Comparables and consider the termination provisions under the Underwriting Agreement are on normal commercial terms and in line with the market practice.

6. Dilution effect of the Rights Issue on shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. As at the Latest Practicable Date, the existing public Shareholders held approximately 78.92% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the Qualifying Shareholders), the shareholding of the existing public Shareholders will be diluted to approximately 26.30%. On the other hand, Qualifying Shareholders who wish to increase their shareholding interests in the Company through the Rights Issue may, subject to availability, apply for excess Rights Shares.

LETTER FROM SORRENTO CAPITAL

As set out in table above, the maximum dilution of the Comparables ranged from approximately 15.97% to approximately 66.67% with an average dilution of approximately 36.29%. For the Excluded Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 66.67%, which fall within the range of the Comparables.

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

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in the paragraph headed "7. Financial effects" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

7. Financial effects

It should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

7.1 Net tangible asset

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, had the Rights Issue been completed on 31 December 2018, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would have increased from approximately HK\$135.39 million to approximately HK\$200.83 million immediately after the completion of the Rights Issue.

LETTER FROM SORRENTO CAPITAL

7.2 *Bank balances*

Upon completion of the Rights Issue and before the repayment of shareholder's loan, the bank balances of the Company is expected to increase by an amount equivalent to the net proceeds from the Rights Issue, which is estimated to be approximately HK\$65.44 million.

7.3 *Gearing*

Since approximately HK\$30.00 million of the net proceeds from the Rights Issue will be used to repay the shareholder's loan of the Company whilst the remaining portion of the net proceeds will be applied for future investments and general working capital, the total assets of the Company are expected to increase and the total liabilities of the Company are expected to decrease as a result of the Rights Issue. Accordingly, the gearing ratio of the Company, as expressed as the ratio of debt to equity, would decrease after the Rights Issue.

Based on the above analysis, we are of the view that the Rights Issue would have a positive effect on the Group's net tangible assets, cash position and gearing.

RECOMMENDATION

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

Yours faithfully,

For and on behalf of

Sorrento Capital Limited

Aaron Wong

Managing Director

Wesker Poon

Managing Director

Note: Mr. Aaron Wong is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than six years of experience in corporate finance and investment banking. Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than eight years of experience in corporate finance and investment banking. Both Mr. Wong and Mr. Poon have participated in and completed various advisory transactions (including fundraising activities of listed companies in Hong Kong).

1. FINANCIAL INFORMATION

Details of the financial information of the Group for each of the three financial years ended 31 December 2016, 2017 and 2018 as disclosed in the annual report of the Company for the financial year ended 31 December 2016 (pages 66 to 144), the annual report of the Company for the financial year ended 31 December 2017 (pages 68 to 140), and the annual report of the Company for the financial year ended 31 December 2018 (pages 73 to 166). These annual reports are published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (www.huge-china.com.hk). The quick links of the annual reports of the Company for the three financial years ended 31 December 2018 are set out below:

Annual report of the Company for the financial year ended 31 December 2016:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0425/ltn20170425491.pdf>

Annual report of the Company for the financial year ended 31 December 2017:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/ltn20180425519.pdf>

Annual report of the Company for the financial year ended 31 December 2018:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425527.pdf>

2. INDEBTEDNESS

As at 30 June 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Group amounted to approximately HK\$53.4 million, details of which are set out below:

Promissory Notes

As at 30 June 2019, the Group had outstanding promissory notes in the aggregate principal amount of approximately HK\$50.2 million issued by the Company to several note holders. In addition, as at 30 June 2019, the accrued interests of the aforementioned promissory notes payable to the holders thereof were, in aggregate, approximately HK\$3.2 million.

Operating lease commitments

As at 30 June 2019, the Group had total future minimum lease payments under non-cancellable operating leases in respect of the leases its office premise as follow:

| | Total <i>HK\$</i> |
|-----------------|-----------------------------|
| Within one year | 40,000 |
| Over one year | — |
| | <hr/> <u>40,000</u> |

As at 30 June 2019, none of the debts incurred by the Group as set out above were guaranteed or secured. Save as disclosed above and apart from intra-group liabilities and normal trade and other payables, at the close of the business on 30 June 2019, the Group did not have any loan capital issued or agreed to be issued, debt securities issued and outstanding, authorised or otherwise created but unissued, bank overdrafts or loans or term loans, other borrowings or other similar indebtedness, liabilities under acceptances, acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or contingent liabilities.

The Directors confirm that, save as disclosed therein, there has not been any material change in the indebtedness, contingent liabilities and commitments of the Group since 30 June 2019 and up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstances, taking into account the financial resources available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements for at least the next twelve (12) months following the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment company and its shares are listed on the main board of the Stock Exchange since 14 December 1993, pursuant to Chapter 21 of the Listing Rules. The Group's principal activities, investment in securities listed on recognised stock exchanges and unlisted investments, will remain unchanged.

The growth momentum of Hong Kong economy has slowed since the beginning of the year of 2018. Hong Kong GDP growth reached approximately 3.0% for the year of 2018, being obviously lower than that of approximately 3.7% for the year of 2017. Meanwhile, China announced its GDP growth of approximately 6.6% for the year of 2018, which is slightly above the target of approximately 6.5% as set by Chinese government in the year of 2017.

During the year of 2018, the macroeconomic and geopolitical environment was full of turbulence due to outbreak of several unexpected events. The Board is of the view that such unexpected events, together with other reasons, may have adversely impacted the economic environment in Hong Kong, and as a result the Hang Seng Index dropped approximately 13.6% during the year of 2018.

For the year of 2019, Chinese government sets a more conservative target on China GDP growth ranging from approximately 6% to approximately 6.5% as compared to the previous years.

After considering (i) the economic situation in the year of 2018 and (ii) the slow growth tendency of economy in Hong Kong and China for the year of 2019, the Group expects that it is full of challenges in the year of 2019. Looking ahead to the year of 2019, the Group will stay in focus to invest in trading securities, private equity funds and private enterprises with potential prospect. The management of the Group will maintain appropriate investment strategies against the volatile market in the year of 2019. In the mean time, the Group will also pay close attention to the macro trends of the world economy and keep seeking opportunities to make investment in China, Hong Kong and overseas. The Company will continue to optimise its investment portfolio and implement its risk management policy in order to achieve satisfactory returns to the Shareholders.

The Group will continue to identify investment and business development opportunities conservatively and seriously, to better utilise its capital to expand the scope of business, to explore potential projects and to acquire high-quality assets so as to enhance its long-term return of the Shareholders.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 (the “**Unaudited Pro Forma Financial Information**”) which has been prepared by the directors in accordance with Rule 4.29 of the Listing Rules is for illustration only, and is set out in this appendix to illustrate the effects of the Rights Issue on the unaudited consolidated net tangible assets of the Group as at 31 December 2018 attributable to owners of the Company, as if the Rights Issue had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 or any future date following the Rights Issue.

The following unaudited statement of pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 is prepared based on the audited consolidated net tangible assets of the Group which is extracted from the annual report of the Company for the year ended 31 December 2018, and adjusted as described below.

| Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 <i>HK\$'000</i> <i>(Note 1)</i> | Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note 2)</i> | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Rights Issue <i>HK\$'000</i> | Audited consolidated net tangible assets of the Group attributable to owners of the Company per share as at 31 December 2018 <i>HK\$</i> <i>(Note 3)</i> | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue <i>HK\$</i> <i>(Note 4)</i> |
|--|--|---|--|--|
| 135,391 | 65,436 | 200,827 | 1.13 | 0.56 |

Based on 239,817,900 Rights
Shares at Subscription Price of
HK\$0.28 per Rights Share

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 is extracted from the annual report of the Company for the year ended 31 December 2018, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2018 of approximately HK\$135,391,000.
- (2) The estimated net proceeds from the Rights Issue are based on a total of 239,817,900 Rights Shares (assuming no new Shares are issued and no repurchase of shares on or before the Record Date) to be issued on the basis of two Rights Shares for each existing share at the Subscription Price of HK\$0.28 per Rights Share and after deduction of estimated related expenses of approximately HK\$1,713,000.
- (3) The audited consolidated net tangible assets per share attributable to owners of the Company as at 31 December 2018 was HK\$1.13, which is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2018 of approximately HK\$135,391,000 and 119,908,950 Shares in issue as at 31 December 2018.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue of approximately HK\$200,827,000 which is arrived at after aggregating the audited consolidated net tangible assets of the Group attributable to owners of the Company of approximately HK\$135,391,000 and the estimated net proceeds of approximately HK\$65,436,000 from the Rights Issue (note 2 above) divided by 359,726,850 Shares which comprise 119,908,950 Shares in issue before completion of the Rights Issue and 239,817,900 Rights Shares (assuming no new Shares are issued and no repurchase of shares on or before the Record Date) were issued immediately after completion of the Rights Issue, assuming the Rights Issue had been completed on 31 December 2018.
- (5) For the purpose of preparation of the Unaudited Pro Forma Financial Information, no adjustment has been made to reflect any trading results or other transactions of the Group entered subsequent to 31 December 2018.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the assurance report received from World Link CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

World Link CPA Limited

5th Floor
Far East Consortium Building
121 Des Voeux Road Central,
Hong Kong

21 August 2019

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Board of Directors of Cocoon Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Cocoon Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 December 2018 and related notes as set out on pages II-1 to II-2 of the circular issued by the Company dated 21 August 2019 (the “**Circular**”). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in Section A of Appendix II of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the proposed rights issue (the “**Rights Issue**”) on the Group's consolidated financial position as at 31 December 2018 as if the Rights Issue had taken place on 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's annual financial information for the year ended 31 December 2018, on which an annual report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountant's Responsibilities

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

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

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Rights Issue at 31 December 2018 would have been as presented.

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

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

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the director of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
World Link CPA Limited
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company, on or before the Record Date) are as follows:

(I) As at the Latest Practicable Date

Authorised: *HK\$*

| | | |
|-----------------------|-------------------------|-------------------------|
| <u>10,000,000,000</u> | Shares of HK\$0.10 each | <u>1,000,000,000.00</u> |
|-----------------------|-------------------------|-------------------------|

Issued and fully-paid:

| | | |
|--------------------|-------------------------|----------------------|
| <u>119,908,950</u> | Shares of HK\$0.10 each | <u>11,990,895.00</u> |
|--------------------|-------------------------|----------------------|

(II) Immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company on or before the Record Date):

Authorised: *HK\$*

| | | |
|-----------------------|-------------------------|-------------------------|
| <u>10,000,000,000</u> | Shares of HK\$0.10 each | <u>1,000,000,000.00</u> |
|-----------------------|-------------------------|-------------------------|

Issued and fully-paid:

| | | |
|--------------------|---|----------------------|
| <u>119,908,950</u> | Shares of HK\$0.10 each | <u>11,990,895.00</u> |
| <u>239,817,900</u> | Rights Shares to be issued pursuant to the Rights Issue | <u>23,981,790.00</u> |

| | | |
|--------------------|--|----------------------|
| <u>359,726,850</u> | Shares in issue immediately after completion of the Rights Issue | <u>35,972,685.00</u> |
|--------------------|--|----------------------|

All of the Rights Shares to be issued will rank *pari passu* in all respects with each other. Holder of the Rights Shares in their fully-paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

As at the Latest Practicable Date, the Company did not have any outstanding derivatives, options, warrants and convertible securities or other similar rights which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any convertible securities, warrants and/or options on or before the Record Date.

The Rights Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, no share or loan capital of the Company or any of its subsidiaries had been put under option, or agreed conditionally or unconditionally to be put under option.

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

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in shares and underlying shares

As at the Latest Practicable Date, save as Mr. Chen Albert whose father, Mr. Chen, holding 25,276,930 Shares, none of the other Directors had any interests or short positions 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 were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed under the Takeovers Code.

(b) Substantial shareholders' interest

As at the Latest Practicable Date, so far as any Directors were aware, the interest or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares, underlying Shares or debentures of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group were as follows:

| Name of Shareholder | Capacity in which Shares/underlying Shares are held | Total number of Shares held | Approximate percentage of aggregate interest to total number of Shares in issue % (Note) |
|---------------------|---|-----------------------------|--|
| Chen Chien Yeh | Beneficial owner | 25,276,930 (L) | 21.08% |
| Twu Kai Ting | Beneficial owner | 6,240,000 (L) | 5.20% |

(L) Long Position

Note: the percentage is calculated on the basis of 119,908,950 Shares in issue as at the Latest Practicable Date.

Saved as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group.

4. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS AND CONTRACTS

Save for the investment management agreement entered into between the Company and Tiger Securities Asset Management Company Limited, of which Mr. Wu Ming Gai who is one of the executive Directors is also the responsible officer and director of Tiger Securities Asset Management Company Limited, as at the Latest Practicable Date, there was no other contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

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 2018 (being the date to which the latest published audited consolidated 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.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which is not determinable by such member of Group within one (1) year without payment of any compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinions or advices which are contained in this circular:

| Name | Qualifications |
|--------------------------|---|
| World Link CPA Limited | Certified Public Accountants |
| Sorrento Capital Limited | a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO |

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have 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 any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

As at the Latest Practicable Date, each of above experts did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. MATERIAL CONTRACTS

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

- (a) An unsecured and unguaranteed loan at the rate of 8% per annum with principal amount of HK\$30,000,000 dated 4 June 2018, entered into between the Company and its substantial shareholder, namely Mr. Chen Chien Yeh, which will mature on 6 October 2019;
- (b) A renewal agreement dated 28 February 2018 and entered into between the Company and Tiger Securities Asset Management Company Limited, pursuant to which the investment management services provided by Tiger Securities Asset Management Company Limited to the Company was renewed for period from 28 February 2018 to 28 February 2019, and the fees of the investment management services above was 1% per annum on the net asset value as per the management account of the Company of the preceding month with an annual cap of HK\$2,980,000 (the “**Investment Management Service Agreement**”);
- (c) A renewal agreement dated 28 February 2019 and entered into between the Company and Tiger Securities Asset Management Company Limited, pursuant to which the Investment Management Service Agreement shall be extended to 31 August 2019, with the same terms and conditions (excluding the service period) thereof; and
- (d) The Underwriting Agreement (including the Extension Letters).

10. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$1.71 million, which are payable by the Company.

11. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

| | | |
|--|---|---|
| Registered office | : | Walkers Corporate (Bermuda) Limited <i>Park Place, 55 Par-la-Ville Road 3rd Floor, Hamilton HM 11 Bermuda</i> |
| Head office and principal place of business in Hong Kong | : | Unit 1601, 16th Floor, South Tower Concordia Plaza 1 Science Museum Road Tsim Sha Tsui, Kowloon Hong Kong |
| Underwriter | : | China Fund Securities Limited <i>Unit A, 7/F., Li Dong Building 9 Li Yuen Street East Central, Hong Kong</i> |
| Financial advisers to the Company | : | Green Park Corporate Finance Co., Limited <i>10/F 238 Des Voeux Road Central Hong Kong; and</i> Trinity Corporate Finance Limited <i>Suite 7B, Two Chinachem Plaza 68 Connaught Road Central Hong Kong</i> |
| Independent financial adviser to the Independent Board Committee and the Independent Shareholders | : | Sorrento Capital Limited <i>11/F The Wellington 198 Wellington Street, Central Hong Kong</i> |
| Legal adviser to the Company as to Hong Kong law in relation to the Rights Issue | : | Patrick Mak & Tse <i>Rooms 901-905 9/F Wing On Centre 111 Connaught Road Central Hong Kong</i> |

| | | |
|---|---|---|
| Reporting accountant | : | World Link CPA Limited <i>5/F Far East Consortium Building 121 Des Voeux Road Central Hong Kong</i> |
| Principal bankers in Hong Kong | : | OCBC Wing Hang Bank Limited Bank of China (Hong Kong) Limited Bank of Communications Co., Limited Hang Seng Bank Limited The Hongkong and Shanghai Banking Corporation Limited |
| Principal share registrar | : | Walkers Corporate (Bermuda) Limited <i>Park Place, 55 Par-la-Ville Road 3rd Floor, Hamilton HM 11 Bermuda</i> |
| Hong Kong branch share registrar and transfer office | : | Computershare Hong Kong Investor Services Limited <i>Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai Hong Kong</i> |
| Authorised representatives | : | Au Yeung Ming Yin Gordon <i>Room 4, 1/F., Oi Wai House Tsz Oi Court, Tsz Wan Shan Kowloon, Hong Kong</i> Wu Ming Gai <i>7th Floor No. 16 King Kwong Street Happy Valley, Hong Kong</i> |

| | | |
|---------------------------|---|---|
| Company secretary | : | Au Yeung Ming Yin Gordon <i>(a member of the Hong Kong Institute of Certified Public Accountants)</i> |
| Investment Manager | : | Tiger Securities Asset Management Company Limited <i>B3 29/F TML Tower 3 Hoi Shing Road Tsuen Wan, New Territories Hong Kong</i> |

12. DIRECTORS AND COMPANY SECRETARY

Executive Directors

Mr. Wu Ming Gai (“**Mr. Wu**”), aged 43, of 7/F., No. 16 King Kwong Street, Happy Valley, Hong Kong, joined the Company in July 2015. He was re-designated from a non-executive director to an executive director of the Company effective from 1 March 2016 and appointed as the chairman of the board of directors of the Company in February 2019. He is also a director of each subsidiary of our Company. Mr. Wu is one of the directors and responsible officers of Tiger Securities Asset Management Company Limited (“**Tiger Securities**”) (as the investment manager of the Company since 1 March 2016). Mr. Wu is currently licensed under the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (assets management) regulated activities accredited to Tiger Securities. He has obtained the Honor Diploma of Accounting from the Hong Kong Shue Yan University in July 1999. He has over 12 years of management experience in fund accounting and asset management. He was the chief operating officer of Tiger Securities from 2007 to 2012 responsible for the overall operation of fund management. Since 2013, he has been the director of the same company responsible for the general management of regulated activities.

Ms. Chan Carman Wing Yan (“**Ms. Chan**”), aged 40, of Room A, 16/F., Tower 2, Ballafreer, 37 Repulse Bay Road, Hong Kong, was appointed as an executive director of the Company, and the chairman and a member of investment committee of the Company on 25 February 2019. She is one of the responsible officers of Bradbury Asset Management (Hong Kong) Limited (“**BAM**”). Ms. Chan is currently a licensed person to carry out type 9 (asset management) regulated activities under the SFO. Ms. Chan holds a Master of Business Administration Degree from the University of Wales, Newport, United Kingdom. She has previous work experiences in Hong Kong, Canada and Europe. She is experienced in dealing in securities, fund management, corporate management, corporate finance and managing investment companies listed under Chapter 21 of the Listing Rules. Before joining BAM as a responsible officer in 2016, Miss Chan acted as a type 4 (advising

on securities) and type 9 (asset management) responsible officer, executive director and chief operating officer of Iridium Capital Limited, a SFC licensed corporation since 2015. From 2011 to 2015, Ms. Chan worked for CU Investment Management Limited, which was the investment manager of National Investments Fund Limited (stock code: 1227), a company listed on the Stock Exchange. Ms. Chan was an independent non-executive director of Zhi Cheng Holdings Limited (stock code: 8130), a company listed on GEM of the Stock Exchange, during the period from July 2015 to November 2017.

Non-executive Directors

Mr. William Keith Jacobsen (“**Mr. Jacobsen**”), aged 52, of Flat B, LG/F., Block 5, 8 Mount Austin Road, Hong Kong, is a non-executive Director and member of investment committee of the Company since 17 November 2014. Mr. Jacobsen is the chief executive officer of a licensed corporation to advise on corporate finance matters. He obtained a Bachelor of Laws degree from the University of Hong Kong and a Master of Business Administration from the University of British Columbia. Mr. Jacobsen has more than 25 years of experience in corporate finance and business development. He was an executive director of Auto Italia Holdings Limited (formerly known as Wo Kee Hong (Holdings) Limited (stock code: 720) for the period from 1 January 2012 to 17 October 2015. He was a non-executive director of Ping An Securities Group (Holdings) Limited (formerly known as Madex International (Holdings) Limited) (stock code: 231) for the period from 12 August 2015 to 30 September 2016. He was also an independent non-executive director of King Stone Energy Group Limited (stock code: 663), Qingdao Holdings International Limited (formerly known as Hycomm Wireless Limited) (stock code: 499), Hongda Financial Holding Limited (formerly known as Perception Digital Holdings Limited) (stock code: 1822), China Financial Leasing Group Limited (stock code: 2312) and Sustainable Forest Holdings Limited (stock code: 723) for the period from 26 September 2008 to 30th September 2011, from 20 June 2008 to 27 September 2014, from 7 January 2013 to 29 August 2014, from 1 February 2013 to 30 April 2015 and from 4 January 2013 to 29 December 2017 respectively. Mr. Jacobsen is an independent non-executive director and the member of audit committee, remuneration committee and nomination committee of abc Multiactive Limited (stock code: 8131). He is an independent non-executive director and chairman of remuneration committee, a member of audit committee and nomination committee of KK Culture Holdings Limited (stock code: 550).

Mr. Chen Albert (“**Mr. Chen**”), aged 31, of Room 1801, Block 1, May Tower I, 7 May Road, Central Mid-Level, Hong Kong, was appointed as a non-executive director of the Company on 1 August 2018 and member of remuneration committee of the Company on 3 June 2019. He holds a Bachelor of Arts degree in Economics and Computer Science of University of Michigan in the United States of America. Mr. Chen is currently the head of blockchain department of a technology company in crypto-currency industry. He is also founder and chief consultant of a consultancy

company, which provides advisory services on start-ups on physical product design, engineering and production. Mr. Chen has over 7 years' experience in his entrepreneurship. Mr. Chen is a son of Mr. Chen Chien Yeh, a substantial shareholder of the Company.

Mr. Wong Chung Yan Sammy ("**Mr. Wong**"), aged 54, of Flat F., 17/F., Block 2, Grandview Garden, Hammer Hill Road, Diamond Hill, Kowloon, Hong Kong, was appointed as an independent non-executive director of the Company on 23 March 2018, and re-designated as a non-executive director on 14 December 2018. He is currently a member of each of the audit committee, and nomination committee of the Company. Mr. Wong holds a Bachelor's degree in Social Science from the Chinese University of Hong Kong. He has over 28 years of financial planning & modeling, investment analysis & execution and project & liquidity management experience in banking and commercial industry. Mr. Wong had held senior management positions in various subsidiaries of certain companies listed in Hong Kong. He is now also a director of a private securities company in Hong Kong. Mr. Wong is currently a director of a subsidiary of the Company.

Independent Non-executive Directors

Ms. Chan Man Yi ("**Ms. Chan**"), aged 55, of Flat C, 9/F., La Place De Victoria, 632 King's Road, Hong Kong, was appointed as an independent non-executive director of the Company on 21 August 2018. She is currently the chairman and a member of each of the audit committee and the nomination committee of the Company and a member of the remuneration committee of the Company. Ms. Chan was graduated from the Hong Kong Polytechnic University with a Master's degree in professional accounting and has over 25 years of experience in pension and provident fund industry. Ms. Chan is a member of Hong Kong Institute of Certified Public Accountants. Ms. Chan was the company secretary of Glory Mark Hi-Tech (Holdings) Limited (stock code: 8159) from 4 December 2012 to 10 January 2019 and she is currently an independent non-executive director of Orient Securities International Holdings Limited (stock code: 8001), both companies are listed on the GEM of the Stock Exchange.

Ms. Leung Yin Ting ("**Ms. Leung**"), aged 38, of Flat 213, 2/F., Block M, Kornhill, Quarry Bay, Hong Kong, was appointed as an independent non-executive director of the Company on 14 December 2018. She is currently a member of each of the audit committee and remuneration committee of the Company. Ms. Leung is a barrister in Hong Kong and was called to the Bar of Hong Kong in 2013. She is currently an associate member of Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and has achieved the specialist qualification in insolvency of HKICPA in 2016. Ms. Leung obtained a Bachelor degree of Laws from University of Warwick, the United Kingdom in 2004, and Postgraduate Certificate in Laws from the University of Hong Kong in 2006. Before pursuing her career in Law, she has more than four years' audit experience in the leading accounting firms in Hong Kong.

Mr. Jiang Qian (“**Mr. Jiang**”), aged 41, of Flat B, 3/F., Block 1, 1 Coronation Terrance, Mid-levels, Hong Kong, was appointed as an independent non-executive director of the Company on 14 December 2018. He is currently the chairman and a member of remuneration committee of the Company and a member of the nomination committee of the Company. From September 2007 to November 2009, Mr. Jiang worked at an attorney at Davis Polk & Wardwell LLP, where he was involved in the public offering and bond issuance. From January 2010 to November 2011, he worked as a counsel at King & Wood Law Firm (金杜律師事務所), where his practice focuses on capital market and public offerings. From January 2012 to January 2015, he served as a managing director at Bank of New York Mellon, where he was responsible for the management of its legal affairs. From February 2015 to December 2015, Mr. Jiang served as a managing director at China Commodity Merchant Trading Group Limited, a subsidiary of Elion Resources Group (億利資源集團), a company mainly engaged in ecological restoration and clean energy, where he was responsible for its investment and financing in Hong Kong. From December 2015 to June 2018, he served as co-head of the legal department at China Great Wall AMC (International) Holdings Company Limited (中國長城資產(國際)控股有限公司) (formerly known as Great Wall Pan Asia International Investment Company Limited (長城環亞國際投資有限公司)), a company mainly engaged in property investment and financial business, where he was responsible for the management of its legal affairs in Hong Kong. Since November 2018, he has been serving as a partner at Addleshaw Goddard (Hong Kong) LLP, where his practice focuses on debt capital markets and special situation transactions such as restructuring. Mr. Jiang obtained his bachelor’s degree in economic law from East China University of Political Science and Law (華東政法大學) in the PRC in July 1999, and his master of laws degree from Northwestern University in the United States in June 2007. Mr. Jiang obtained the legal professional qualification certificate in the PRC in February 2000 and was admitted and licensed to practise as an attorney and counselor in the state of New York of the United States in July 2008. Mr. Jiang is currently an independent non-executive director of China Gingko Education Group Company Limited (stock code: 1851).

Company Secretary

Mr. Au Yeung Ming Yin Gordon (“**Mr. Au Yeung**”), of Room 4, 1/F., Oi Wai House, Tsz Oi Court, Tsz Wan Shan, Kowloon, Hong Kong, has been appointed as the company secretary of the Company since 1 February 2019. He is a member of HKICPA. He obtained a degree in Bachelor of Business (Business Administration) from the RMIT University in Australia and a post-graduate diploma in Professional Accounting from the Hong Kong Baptist University. He has extensive experiences in auditing, financing, company secretarial and accounting. Prior to joining the Company, Mr. Au Yeung served as director, company secretary and chief financial officer of various companies listed on the GEM and the main board of the Stock Exchange.

13. INVESTMENT OBJECTIVE, POLICIES AND RESTRICTIONS**Investment Objective and Policies**

The investment objective of the Company is to achieve an enhanced earnings stream and capital appreciation from its investments.

The Company has adopted the following investment policies:

- (a) the Company may, at its sole discretion, invest in any securities, listed or unlisted, including warrants, money market instruments, bank deposits, currency investments, commodities, options, convertible securities, futures contracts and precious metals or any other forms of investments in securities which would enable the Company to achieve good income or capital appreciation.
- (b) the Company may, for hedging purposes only, buy, write or sell warrants, covered warrants, options or traded options on its underlying investments. The Company may also buy or sell futures contracts on stock indices or shares (if any) as a means to hedge against adverse price movements of its investments.
- (c) in order to hedge against interest rate risks, the Company may enter into forward interest rate agreements, interest rates and US treasury bond futures contracts and interest rate swaps. The Company may also, for hedging purpose only, purchase and write (sell) put or call options or options on futures on interest rates. The Company will only engage in transactions in options and futures which are traded on a recognized securities or futures exchange.
- (d) cash pending investment, reinvestment or distribution will be placed in bank deposits in any currency, obligations of the governments of the United States of America or Hong Kong, their respective agencies or instrumentalities, or securities and other instruments denominated in any currency issued by various governments or international development agencies.

The investment objective as set out above cannot be altered without Shareholders' approval pursuant to the memorandum and articles of association, and by-laws of the Company. All the above investment policies can be altered without Shareholders' approval.

Investment Restrictions

The Company may not:

- (a) either on its own or in conjunction with any connected person, take legal, or effective, management control of any company or other entity in which it invests or controls more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in such company or other entity; and
- (b) invest in any company or other entity if as a result, more than 20% of the Company's net asset value as at the date of such investment would be invested in any one such company or other entity.

If a percentage restriction on investment or use of assets set forth above is adhered to at the time a transaction is effected, later changes will not be considered a violation of the restriction. None of the above limitations will prohibit the Company from investing in wholly-owned subsidiaries of the Company for the purpose of making investments but if the Company establishes any such subsidiaries the limitations will apply on a consolidated basis.

The investment restrictions numbered (a) and (b) above are required by Rule 21.04(3)(a) and (b) of the Listing Rules, which must not be changed at all while the Company remains listed on the Stock Exchange.

As at the Latest Practicable Date, the Company had no intention to invest in options, warrants, commodities, future contracts and precious metals.

14. INVESTMENT PORTFOLIO

Set out below are the details of all the investments of the Group (which are less than ten investments) as at 31 December 2018, which include all listed investments and all other investments with a value of more than 5% of the Group's gross assets as at 31 December 2018. Save for the investments disclosed herein, there are no other listed investments or other investments with a value of more than 5% of the Company's gross assets as at 31 December 2018:

- (a) As at 31 December 2018, details of the Group's major listed equity securities are as follows:

| Notes | Name of Investee Company | Proportion of investee's capital owned | Cost up to 31 December 2018 <i>HK\$'000</i> | Market value as at 31 December 2018 <i>HK\$'000</i> | Dividend income received during the financial year <i>HK\$'000</i> | Net assets attributable to the investment as at 31 December 2018 <i>HK\$'000</i> | Accumulated fair value losses on investment recognised in the consolidated financial statements during the financial year <i>HK\$'000</i> |
|-------|--|--|--|--|---|---|--|
| 1 | On Real International Holdings Limited | 6.04% | 27,645 | 13,918 | Nil | 4,723 | (13,727) |
| 2 | Classified Group (Holdings) Limited | 1.62% | 55,131 | 8,404 | Nil | 1,746 | (46,727) |
| 3 | Time2U International Holdings Limited | 8.12% | 1,658 | 1,178 | Nil | 51 | (480) |
| 4 | China 33 Media Group Limited | 0.90% | 1,605 | 1,036 | Nil | 5 | (569) |
| 5 | Kinetix System Holding Limited | 0.41% | 41,190 | 5,767 | Nil | 168 | (35,423) |

Notes:

1. On Real International Holdings Limited is principally engaged in the trading and manufacturing of two-way radio, baby monitors and other communication devices.
2. Classified Group (Holdings) Limited is engaged in the business of food and beverage with primary focus on offering western cuisine.
3. Time2U International Holdings Limited is principally engaged in the manufacture and sales of own-branded watches, OEM watches and third party watches.
4. China 33 Media Group Limited is mainly engaged in film investment, money business and advertising services.
5. Kinetix System Holding Limited is mainly engaged in provision of information technology infrastructure solution services.

(b) As at 31 December 2018, details of major unlisted convertible bonds are as follows:

| Notes | Name of Investee Company | Cost up to 31 December 2018 <i>HK\$'000</i> | Interest income recognised during the financial year <i>HK\$'000</i> | Accumulated fair | Fair value as at 31 December 2018 <i>HK\$'000</i> |
|-------|--|---|---|---|---|
| | | | | value losses on investment during the financial year <i>HK\$'000</i> | |
| 1 | Profit Gain Finance Limited | 20,000 | 1,800 | 3,634 | 19,625 |
| 2 | HF Financial Group (Hong Kong) Limited | 19,700 | 1,575 | (1,856) | 20,090 |

Notes:

1. Profit Gain Finance Limited is principally engaged in money lending business.
2. HF Financial Group (Hong Kong) Limited is principally engaged in security brokerage, asset management and provision of appraisal business.

(c) As at 31 December 2018, details of the Group's loan notes are as follows:

| Notes | Name of Investee Company | Subscription | Interest | Impairment | Carrying | Interest |
|-------|--|--|--|--|--|--|
| | | amount up to 31 December 2018 <i>HK\$'000</i> | receivables during the financial year <i>HK\$'000</i> | loss recognised during the financial year <i>HK\$'000</i> | amount as at 31 December 2018 <i>HK\$'000</i> | income recognised during the year <i>HK\$'000</i> |
| 1 | Zhongda International Holdings Limited | 3,000 | 357 | 514 | 2,843 | 255 |
| 1 | Zhongda International Holdings Limited | 3,000 | 189 | 514 | 2,675 | 255 |
| 1 | Zhongda International Holdings Limited | 5,500 | 342 | 943 | 4,899 | 342 |
| 2 | 深圳達隆通用包裝機械有限公司 | 24,000 | 316 | 1,604 | 22,712 | 316 |
| 3 | 深圳達隆包裝機械設備有限公司 | 24,000 | 315 | 1,417 | 22,898 | 315 |

Notes:

1. Zhongda International Holdings Limited is principally engaged in trading of consumer electronic products.
2. 深圳達隆通用包裝機械有限公司 is principally engaged in developing and designing mechanical equipment.
3. 深圳達隆包裝機械設備有限公司 is principally engaged in providing integrated R&D, design, sales and after-sales service in packaging equipment.

As at 31 December 2018, the five tranches of loan notes above have provision for impairment of HK\$4,992,000, which was based on the valuation conducted by the independent professional valuers appointed by the Company.

(d) As at 31 December 2018, details of major investment in private equity are as follows:

| Notes | Name of Investee Company | Proportion of investee's capital owned | Cost up to 31 December 2018 <i>HK\$'000</i> | Dividend income received during the financial year <i>HK\$'000</i> | Net assets | | Fair value as at 31 December 2018 <i>HK\$'000</i> |
|-------|--------------------------|--|--|---|--|--|--|
| | | | | | attributable to the investment as at 31 December 2018 <i>HK\$'000</i> | Accumulated gain/loss on investment during the financial year <i>HK\$'000</i> | |
| 1 | HF Pre-IPO Fund | 39.25% | 19,001 | Nil | 13,541 | (5,459) | 13,542 |
| 2 | HF Finance Limited | 18.18% | 8,000 | Nil | (18) | (1,824) | 6,176 |
| 3 | Perfect Path Limited | 20.00% | 18,500 | Nil | 30,479 | 10,500 | 29,000 |

Notes:

1. HF Pre-IPO Fund is a private equity fund incorporated in the Cayman Islands.
2. HF Finance Limited is principally engaged in money lending business.
3. Perfect Path, which are engaged in and gold mining business.

15. DISTRIBUTION POLICY

The Company's investment objective is to achieve capital appreciation and, accordingly, the Company's investment portfolio is not expected to generate significant income. It is therefore not expected that the Company will have significant (if any) dividend income after expenses available for distribution by way of dividend and therefore the Company does not expect to declare dividend. Any declaration of distributions will be made at the discretion of the Directors and may be either from profit, reserves of the Company (including Share premium account) or any amount lawfully available for distribution.

16. FOREIGN EXCHANGE POLICY

The Company's investments may be denominated in currencies other than HK\$. As such, it may receive income, or make payments in foreign currency and is therefore subject to exchange rate fluctuations. The Group at present does not have any contracts to hedge against its foreign exchange risks. Should the Group consider its exposure and fluctuation in foreign currency justify hedging, the Group may use forward or hedging contracts to reduce the risks.

17. TAXATION

The principal taxes on income and capital gains of the Company and its subsidiaries are subject to the fiscal laws and practice of Hong Kong. Prospective investors should consult their own professional advisers on the tax implications of investing, holding or disposing of the Shares or of exercising any rights attached to them under the laws of the jurisdiction in which they are liable to taxation.

18. BORROWING POWERS

The Board may exercise all the powers of the Company to raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party, save and except that the aggregate amount of all moneys borrowed by the Company (including the amount of any loan capital and debentures) which remains outstanding from time to time may not exceed an amount representing 50% of the net asset value at the time when a borrowing is made. The above borrowing restriction may be altered by an ordinary resolution of the Company.

19. INFORMATION OF THE INVESTMENT MANAGER

As at the Latest Practicable Date, the investment manager of the Company was Tiger Securities Asset Management Company Limited, of B3 29/F., TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, a company incorporated in Hong Kong with limited liability and a licensed corporation registered under the SFO to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

The name, address and description of each of the directors of Tiger Securities are as follows:

- (a) Mr. Wu Ming Gai (“**Mr. Wu**”), of 7th Floor, No. 16 King Kwong Street, Happy Valley, Hong Kong aged 43, is one of the directors and responsible officers of Tiger Securities Asset Management Company Limited. Mr. Wu is also an executive Director of the Company. For further details of Mr. Wu, please refer to the paragraph headed “Directors and Company Secretary” in this appendix.

- (b) Mr. Choy Pak Lun (“**Mr. Choy**”), of Room A3, 436 Tai Kei Leng, Yuen Long, New Territories, Hong Kong, aged 33, is one of the directors and responsible officers of Tiger Securities Asset Management Company Limited. Mr. Choy is currently licensed under the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (assets management) regulated activities accredited to Tiger Securities Asset Management Company Limited. He holds the Bachelor of Arts with Honors Accounting and Financial Management Studies from University of Gloucestershire. He has over 9 years of comprehensive experience in the financial industry. He worked for Kwong Fat Hong Securities Limited and Well & Well JP Capital Group Limited as accounting staff from September 2009 to April 2011 and April 2011 to February 2013 respectively. He joined Tiger Securities Asset Management Company Limited as senior account executive on February 2013, from April 2016, he re-designated as responsible officer of Tiger Securities Asset Management Company Limited.

None of the Directors, the directors of the investment manager, any investment adviser or any distribution company, or any associate of any of those persons, is or will become entitled to receive any part of any brokerage charged to the Company, or any re-allowance of other types on purchases charged to the Company.

On 28 February 2019, the Company and Tiger Securities Asset Management Company Limited have renewed the investment management agreement, pursuant to which Tiger Securities Asset Management Company Limited has agreed to provide investment management services to the Company for the period from 28 February 2019 to 31 August 2019.

The management fees payable by the Company to Tiger Securities Asset Management Company Limited under the renewed investment management agreement above shall be 1% per annum on the net asset value as per the management account of the Company of the preceding month with an annual cap of HK\$2,980,000.

Tiger Securities Asset Management Company Limited will provide investment management services to the Company under the renewed investment management agreement including: (i) identify and analyse investment opportunities relating to assets for the Company; (ii) be responsible for arranging all aspects of the implementation of a decision to invest assets in an authorised investment; (iii) monitor and keep under review, or procure suitable persons to monitor and keep under review all the investments relating to assets made on behalf of the Company; (iv) calculate the net asset value and with any valuation methods adopted by the Board as at each valuation date, provide such calculation by request to the Board and the shareholders of the Company and arrange for publication of the same in accordance with the requirements of the Listing Rules on or before the fifteenth (15th) day after each valuation date; (v) place the liquid assets of the Company not invested in the authorised investment in time deposits, money market

instruments or other instruments Tiger Securities Asset Management Company Limited believes would yield a reasonable return at a relatively lower level of risk while offering high liquidity; (vi) if required by the Board, negotiate for borrowing arrangements and, if so authorised by the Board, implement such arrangements; and (vii) keep the Board fully informed as to the discharge of its powers and responsibilities thereunder.

20. RISK FACTORS OF INVESTING IN THE COMPANY

Shareholders and potential investors should be aware that an investment in the Company involves certain degree of risk. These risks include the following:

- (a) the Company's success is dependent on a number of factors which include the general economic and political conditions in the global capital market and properties market;
- (b) it is expected that a significant part of the Company's investment portfolio can comprise unlisted investments which may not be readily realisable;
- (c) the Group's portfolio comprises significant investments in listed equities in the Hong Kong market and global market. A significant down turn of the Hong Kong stock market or any stock market, or any significant rise in interest rate can considerably impair the value of the Group's equities investments. Strength of other asset class such as commodity and precious metals may also make equities investment less attractive to investors, and hence value in equities;
- (d) the Group has significant investment in bonds issued by Hong Kong and the PRC issuers denominated in HK\$ and RMB. Any significant rise in interest rates in Hong Kong and/or the global capital market may considerably impair the value of the Group's bond investments. The Group intends to hold the bonds until the issuers are obligated to repay or redeem them, therefore, any tightening of credit in the Hong Kong or global capital markets may cause default of obligations by the issuers; and
- (e) the Group may purchase real estate properties or interests in real estate properties investment in Hong Kong or other markets in the future. Interest rates at present are at a rather low level, but future rise in interest rates as well as an anticipated rise in unemployment may cause properties value to decline.

21. MISCELLANEOUS

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) The head office and principal place of business of the Company are Unit 1601, 16th Floor, South Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (c) The Company's Registrar is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan chai, Hong Kong.
- (d) The registered office of the Company is Walkers Corporate (Bermuda) Limited Park Place, 55 Par-la-Ville Road, 3rd Floor, Hamilton HM 11, Bermuda.
- (e) The company secretary of the Company is Mr. Au Yeung Ming Yin Gordon, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (f) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in case of any inconsistency.

22. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on any weekday (except for Saturday, Sunday and public holidays) at the principal place of business in Hong Kong of the Company at Unit 1601, 16th Floor, South Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for the last three financial years ended 31 December 2018;
- (c) the unaudited pro forma financial information of the Group, the text of which is set out on pages II-1 to II-6 of this circular;

- (d) the letter from the Independent Board Committee, the text of which is set out on page 33 of this circular;
- (e) the letter from the Board, the text of which is set out on pages 8 to 32 of this circular;
- (f) the letter from Sorranto Capital, the text of which is set out on pages 34 to 57 of this circular;
- (g) the written consents of the experts as referred to in the paragraph headed “Qualifications and Consents of Experts” in this appendix;
- (h) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (i) this circular.

NOTICE OF SGM

Cocoon Holdings Limited 中國天弓控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 428)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of the shareholders of Cocoon Holdings Limited (the “**Company**”) will be held at 5/F., Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong, on Thursday, 12 September 2019 at 4:30 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) the Underwriting Agreement (as defined below) becoming unconditional and not being terminated in accordance with its terms:

- (a) the issue by way of rights (the “**Rights Issue**”) of 239,817,900 new shares of HK\$0.10 each (each a “**Share**”) in the share capital of the Company (each a “**Rights Share**”) to the Shareholders (the “**Qualifying Shareholders**”) whose names appear on the register of members of the Company on the date by reference to which entitlements to the Rights Issue are to be determined (the “**Record Date**”) (excluding those shareholders (the “**Excluded Shareholders**”) of the Company with registered addresses as shown in the register of members of the Company at the close of business on the Record Date in places outside Hong Kong in respect of whom the board (the “**Board**”) of directors (the “**Directors**”) of the Company consider it necessary or expedient not to offer the Rights Shares after making the relevant enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory body or stock exchange in those places), in the proportion of two (2) Rights Shares for every one (1) Share then held on the Record Date at the subscription price of HK\$0.28 per Rights Share and otherwise on the terms and conditions set out in the circular of the Company dated 21 August 2019 be and is hereby approved;

NOTICE OF SGM

- (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 18 July 2019 (as amended and supplemented by two extension letters dated 2 August 2019 and 13 August 2019 respectively) and entered into between the Company and China Fund Securities Limited (a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) the Board or a committee thereof be and is hereby authorised to allot and issue the Rights Shares (in both nil-paid form and fully-paid form) pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than *pro rata* to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to Excluded Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company; and
- (d) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things in connection with the Rights Issue or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.

By order of the Board
Cocoon Holdings Limited
Wu Ming Gai
Chairman

Hong Kong, 21 August 2019

Registered office:

Walkers Corporate (Bermuda) Limited
Park Place, 55 Par-la-Ville Road
3rd Floor, Hamilton HM 11
Bermuda

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

Unit 1601, 16th Floor, South Tower,
Concordia Plaza, 1 Science Museum Road
Tsim Sha Tsui, Kowloon
Hong Kong

NOTICE OF SGM

Notes:

1. Any member of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, the instrument appointing a proxy and (if required by the board of the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited of 17M, Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting in cases where the SGM was originally held within 12 months from such date.
5. Where there are joint holders of any shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
7. The Company's register of members will be closed during the period from Friday, 6 September 2019 to Thursday, 12 September 2019, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 5 September 2019.
8. The voting at the SGM (or any adjournment thereof) shall be taken by way of poll.