
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares, you should at once hand the Prospectus Documents to the purchaser(s) or transferee(s) or to the bank, or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). The Prospectus Documents should not, however, be distributed, forwarded or transmitted to, into or from any jurisdiction where to do so might constitute a violation of the relevant local securities laws or regulations. Subject to the granting of 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 their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC and you should consult your stockbroker, a licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

A copy of each of the Prospectus Documents, together with the other document(s) specified in the paragraph headed "16. Documents delivered to the Registrar of Companies" in Appendix III to this Prospectus, have been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong, The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of any of the Prospectus Documents or any other document(s) referred to above. The securities described in this Prospectus have not been registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or the laws of any state in the United States, and may not be offered or sold within the United States, absent registration or an exemption from the registration requirements of the U.S. Securities Act and applicable state laws. There is no intention to register any portion of the Rights Shares or any securities described in this Prospectus in the United States or to conduct a public offering of securities in the United States.

Distribution of this Prospectus into jurisdictions other than Hong Kong may be restricted by law. Persons into whose possession this Prospectus comes should inform themselves of and observe any such restrictions. This Prospectus is not for release, publication or distribution, directly or indirectly, in or into the United States. The provision of this prospectus to Shareholders in the United States and any other jurisdiction where distribution is restricted is for information purposes only and shall not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, the Rights Shares or to take up any entitlements to the Rights Shares in the United States or any other jurisdiction in which such an offer or solicitation is unlawful. You should read the whole of the Prospectus Documents including the discussions of certain risks and other factors as set out in the section headed "Letter from the Board – Warning of the Risks of Dealings in the Shares" in this Prospectus.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and HKSCC take no responsibility for the contents of this Prospectus, 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 Prospectus.



China Fortune Holdings Limited 中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Ltd.)

(Stock Code: 110)

RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS

Capitalised terms used on this cover shall have the same meanings as those defined in this Prospectus.

The Rights Issue is on a non-underwritten basis. Pursuant to the Company's constitutional documents, the Companies Act, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) and the Listing Rules, there is no requirement for a minimum level of subscription in the Rights Issue. The Rights Issue is subject to fulfillment and/or waiver (where applicable) of the conditions of the Rights Issue as set out in the section headed "Letter from the Board – Rights Issue – Conditions of the Rights Issue" in this Prospectus at or prior to the latest time for the Rights Issue to become unconditional (which is currently expected to be 4:00 p.m. on Wednesday, 3 February 2021).

If the conditions of the Rights Issue are not fulfilled and/or waived (where applicable) on or prior to the latest time for the Rights Issue to become unconditional, the Rights Issue will not proceed.

Dealings in the Shares have been on an ex-rights basis from Tuesday, 12 January 2021. Dealings in the Rights Shares in their nil-paid form will take place from Thursday, 21 January 2021 to Thursday, 28 January 2021 (both dates inclusive).

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form up to the latest time when the conditions of the Rights Issue are fulfilled or (where applicable) waived (which is expected to be 4:00 p.m. on Wednesday, 3 February 2021) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares and/or the nil-paid Rights Shares, and if they are in any doubt about their position, they are recommended to consult their professional advisers.

The latest time for acceptance of and payment for the Rights Shares and application for excess Rights Shares is 4:00 p.m. on Tuesday, 2 February 2021.

The procedures for acceptance and transfer of the Rights Shares are set out in the section headed "Letter from the Board – Rights Issue – Procedures for acceptance, splitting of provisional allotment and payment and/or transfer of the Rights Shares" in this Prospectus.

19 January 2021

* For identification purpose only

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DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Announcement”	the announcement of the Company dated 10 November 2020 in relation to, among other things, (a) the Capital Reorganisation; (b) the change in board lot size; (c) the Rights Issue; and (d) the connected transaction regarding the repayment of Shareholder indebtedness
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“Capital Reduction”	the reduction of the nominal value of the issued Consolidated Shares from HK\$1.00 to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.99 on each of the issued Consolidated Shares, which took effect on Monday, 11 January 2021
“Capital Reorganisation”	the capital reorganisation of the share capital of the Company involving (i) the Share Consolidation, (ii) the Capital Reduction, (iii) the Share Subdivision and (iv) the transfer of all the credits arising from the Capital Reduction to the Contributed Surplus Account
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chan Deed of Covenants and Undertakings”	the deed of covenants and undertakings between the Company and Ms. Chan in relation to the Rights Issue

DEFINITIONS

“Circular”	the circular of the Company dated 15 December 2020 in relation to, among other things, (a) the Capital Reorganisation; (b) the change in board lot size; (c) the Rights Issue; and (d) the connected transaction regarding the repayment of Shareholder indebtedness
“Company”	China Fortune Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Concert Group”	Mr. Lau, Mr. KY Lau, Ms. Chan, Mr. CY Lau and Mr. HB Lau and parties acting in concert (as defined in the Takeovers Code) with any of them
“Consolidated Share(s)”	ordinary share(s) of par value HK\$1.00 each in the issued share capital of the Company immediately upon the Share Consolidation, which took effect on Monday, 11 January 2021
“Contributed Surplus Account”	the account designed as the contributed surplus account of the Company within the meaning of the Companies Act
“controlling shareholder(s)”	has the same meaning ascribed thereto under the Listing Rules
“CY Deed of Covenants and Undertakings”	the deed of covenants and undertakings between the Company and Mr. CY Lau in relation to the Rights Issue
“Deeds of Covenants and Undertakings”	the Chan Deed of Covenants and Undertakings, the CY Deed of Covenants and Undertakings, the HB Deed of Covenants and Undertakings, the KY Deed of Covenants and Undertakings and the Lau Deed of Covenants and Undertakings or any of them
“Directors”	directors of the Company
“EAF(s)”	the form(s) of application for excess Rights Shares

DEFINITIONS

“Excluded Shareholder(s)”	the Overseas Shareholder(s) whom the Board, after making enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange, considers it necessary or expedient not to offer the Rights Shares to them, if any
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Loan Agreement”	the loan agreement dated 31 December 2018 entered into between the Company and Mr. Lau for an interest-free loan of RMB12,000,000.00 due on 31 December 2021 from Mr. Lau to the Company
“Group”	the Company and its subsidiaries
“HB Deed of Covenants and Undertakings”	the deed of covenants and undertakings between the Company and Mr. HB Lau in relation to the Rights Issue
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Dr. Law Chun Kwan, Mr. Fok Wai Ming, Eddie and Dr. Lo Wai Shun, established for the purpose of advising the Independent Shareholders on the Rights Issue and the Set-off Arrangement
“Independent Financial Adviser”	Messis Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of giving recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Set-off Arrangement

DEFINITIONS

“Independent Shareholders”	Shareholder(s), other than (i) the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associate, and (ii) members of the Concert Group and their respective associates and Shareholders who are involved in, or interested in, the Rights issue and/or the Set-off Arrangement
“Initial Set-off”	the arrangement to set-off HK\$23,759,703.37, being the amount required to be paid by Mr. Lau for the subscription of 44,829,629 Rights Shares provisionally allotted to him pursuant to the Rights Issue, against the Loan Amount of HK\$23,759,703.37
“KY Deed of Covenants and Undertakings”	the deed of covenants and undertakings between the Company and Mr. KY Lau in relation to the Rights Issue
“Latest Practicable Date”	13 January 2021, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information contained herein
“Last Trading Day”	10 November 2020, being the last trading day of the Old Shares on the Stock Exchange immediately prior to the publication of the Announcement
“Latest Time for Acceptance”	4:00 p.m. on Tuesday, 2 February 2021 (or such other time and date as may be determined by the Company), being the latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares
“Lau Deed of Covenants and Undertakings”	the deed of covenants and undertakings between the Company and Mr. Lau in relation to the Rights Issue and the Set-off Arrangement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Amount”	the total loan amount owed by the Company to Mr. Lau of approximately HK\$39.6 million, comprising advances of HK\$12,171,625.90 and loans of HK\$27,412,001.59 under the First Loan Agreement and the Second Loan Agreement, as at 31 August 2020

DEFINITIONS

“Mr. CY Lau”	Mr. Lau Chin Ying, the third brother of Mr. Lau and also the shareholder of 13,798 Shares, representing approximately 0.02% of the issued share capital of the Company as at the date of this Prospectus
“Mr. HB Lau”	Mr. Lau Hung Bing, the second brother of Mr. Lau and also the shareholder of 516,200 Shares, representing approximately 0.6% of the issued share capital of the Company as at the date of this Prospectus
“Mr. KY Lau”	Mr. Lau Kin Ying, the youngest brother of Mr. Lau and also the shareholder of 1,851,600 Shares, representing approximately 2.0% of the issued share capital of the Company as at the date of this Prospectus
“Mr. Lau”	Mr. Lau Siu Ying, an executive Director and the chairman of the Company and also the controlling Shareholder holding 44,829,629 Shares, representing approximately 48.8% of the issued share capital of the Company as at the date of this Prospectus
“Ms. Chan”	Ms. Chan Kit Tsit, the spouse of Mr. KY Lau, sister-in-law of Mr. Lau and also the shareholder of 150,000 Shares, representing approximately 0.2% of the issued share capital of the Company as at the date of this Prospectus
“Old Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company as existed prior to the Capital Reorganisation taking effect
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue

DEFINITIONS

“Posting Date”	Tuesday, 19 January 2021 (or such other date as may be determined by the Company), being the date of despatch of the Prospectus Documents to the Qualifying Shareholders, and the Prospectus (for information only) to the Excluded Shareholders (if any)
“PRC”	the People’s Republic of China which for the purpose of this Prospectus shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	this prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s), if any, for information only) on the Posting Date in connection with the Rights Issue
“Prospectus Documents”	this Prospectus, the PAL(s) and the EAF(s)
“Qualifying Shareholder(s)”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date, other than the Excluded Shareholders if any
“Record Date”	the record date to determine the provisional entitlements to the Rights Issue
“Rights Issue”	the issue by way of rights on the basis of one (1) Rights Share for every one (1) Share held on the Record Date at the Subscription Price on the terms as set out in this Prospectus
“Rights Share(s)”	91,777,944 new Shares to be allotted and issued under the Rights Issue
“RMB”	Renminbi, the lawful currency of the PRC
“Second Loan Agreement”	the loan agreement dated 10 July 2020 entered into between the Company and Mr. Lau for an interest-free loan of US\$2,000,000.00 due on 31 December 2021 from Mr. Lau to the Company

DEFINITIONS

“Second Set-off”	the arrangement to set-off HK\$15,823,924.12 (out of the total amount of HK\$22,282,530.83) required to be paid by Mr. Lau for the subscription of, by way of excess application, up to 42,042,511 excess Rights Shares pursuant to the Rights Issue, against the remaining Loan Amount of HK\$15,823,924.12 after the Initial Set-off
“Set-off Arrangement”	the arrangement to set-off the amount required to be paid by Mr. Lau under the Rights Issue against the Loan Amount, comprising the Initial Set-off and the Second Set-off pursuant to the Lau Deed of Covenants and Undertakings
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company held on 7 January 2021 at which, among other things, the Capital Reorganisation, the Rights Issue and the Set-off Arrangement were duly approved by the Shareholders or the Independent Shareholders (as the case may be) by way of poll
“Share(s)”	ordinary share(s) of par value HK\$0.01 each in the issued and unissued share capital of the Company
“Share Consolidation”	the consolidation of every ten (10) authorised and issued Old Shares of HK\$0.10 each into one (1) Consolidated Share of HK\$1.00 in the share capital of the Company, which took effect on Monday, 11 January 2021
“Share Registrar”	Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, the Company’s branch share registrar and transfer office in Hong Kong
“Share Subdivision”	the subdivision of share(s) in the share capital of the Company whereby every authorised but unissued Old Shares of HK\$0.10 were sub-divided into ten (10) Shares of HK\$0.01, which took effect on Monday, 11 January 2021
“Shareholder(s)”	holder(s) of the Old Share(s) and/or the Share(s) (as the case may be)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.53 per Rights Share under the Rights Issue
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States Dollars, the lawful currency of the United States of America
“%”	per cent.

For the purpose of this Prospectus, unless the context otherwise requires or expressly specified, conversions of United States dollars into Hong Kong dollars and Renminbi into Hong Kong dollars are based on the approximate exchange rate of US\$1.00 to HK\$7.80 and RMB1.00 to HK\$1.12 respectively. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in Hong Kong dollars, United States dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

EXPECTED TIMETABLE

The expected timetable for change in board lot size and the Rights Issue and the associated trading arrangement is set out below. The expected timetable is indicative only and may be subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

All time and date references contained in this Prospectus shall refer to Hong Kong local time and dates.

First day of dealings in nil-paid Rights Shares 9:00 a.m. on
Thursday, 21 January 2021

Designated broker starts to stand in the market to
provide matching services for odd lots of Shares 9:00 a.m. on
Monday, 25 January 2021

Original counter for trading in board lots of
4,000 Shares (in the form of new share certificates)
re-opens 9:00 a.m. on
Monday, 25 January 2021

Parallel trading in the Shares (in the form of
both existing share certificates in board lots
of 2,000 Shares and new share certificates
in board lots of 4,000 Shares) commences 9:00 a.m. on
Monday, 25 January 2021

Latest time for splitting of PALs 4:30 p.m. on
Monday, 25 January 2021

Last day of dealings in nil-paid Rights Shares 4:00 p.m. on
Thursday, 28 January 2021

**Latest time for acceptance of, and payment for,
the Rights Shares 4:00 p.m. on
Tuesday, 2 February 2021**

Latest time for the Rights Issue to become unconditional 4:00 p.m. on
Wednesday, 3 February 2021

Announcement of results of the Rights Issue Tuesday, 9 February 2021

Despatch of refund cheques in relation to wholly
or partially unsuccessful applications
for excess Rights Shares Wednesday, 10 February 2021

Despatch of share certificates for fully-paid Rights Shares Wednesday, 10 February 2021

EXPECTED TIMETABLE

Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Thursday, 11 February 2021
Temporary counter for trading in board lots of 4,000 Shares (in the form of existing share certificates) closes	4:10 p.m. on Tuesday, 16 February 2021
Parallel trading in the Shares (in the form of new and existing share certificates) ends	4:10 p.m. on Tuesday, 16 February 2021
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the Shares	4:10 p.m. on Tuesday, 16 February 2021
Last day of free exchange of existing share certificates for new certificates for the Shares	Thursday, 18 February 2021

EFFECT OF BAD WEATHER ON LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place if:

1. a tropical cyclone warning signal no. 8 or above;
2. “extreme conditions” caused by super typhoons as announced by the Government of the Hong Kong Special Administrative Region; or
3. a “black” rainstorm warning
 - (i) is/are in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
 - (ii) is/are in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following 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.

If the Latest Time for Acceptance does not take place on the currently scheduled date, the dates mentioned in this section may be affected. Announcement will be made by the Company in such event as soon as possible.

LETTER FROM THE BOARD



China Fortune Holdings Limited 中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Ltd.)

(Stock Code: 110)

Executive Directors:

Mr. Lau Siu Ying (*Chairman and
Chief Executive Officer*)
Mr. Wang Yu

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Director:

Mr. Hou Zhenyang

Principal place of business in Hong Kong:

Room 1505-06, Tower A, Regent Centre
63 Wo Yi Hop Road
Kwai Chung
Hong Kong

Independent Non-executive Directors:

Dr. Law Chun Kwan
Mr. Fok Wai Ming, Eddie
Dr. Lo Wai Shun

19 January 2021

To the Shareholders

Dear Sirs,

RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS

INTRODUCTION

Reference is made to the Announcement and the Circular in relation to, among other things, the Capital Reorganisation, change in board lot size, the Rights Issue and the connected transaction regarding the repayment of Shareholder indebtedness.

At the SGM held on Thursday, 7 January 2021, the relevant resolutions approving the Capital Reorganisation, the Rights Issue and the Set-off Arrangement were duly passed by the Shareholders or the Independent Shareholders (as the case may be) by way of poll. The Capital Reorganisation became effective on Monday, 11 January 2021.

* for identification purpose only

LETTER FROM THE BOARD

The purpose of this Prospectus is to provide you with further details of the Rights Issue, including information on dealings in and transfers of Rights Shares and the procedures for the acceptance of provisional allotments of Rights Shares and certain financial and other information of the Group.

RIGHTS ISSUE

The Company proposes to implement the Rights Issue on the basis of one (1) Rights Share for every one (1) Share held at the close of business on the Record Date at the Subscription Price of HK\$0.53 per Rights Issue Share by the issue of 91,777,944 Rights Shares.

Set out below are the principal terms of the Rights Issue:

Issue statistics

Basis of the Rights Issue	: One (1) Rights Share for every One (1) Share held on the Record Date
Subscription Price	: HK\$0.53 per Rights Share
Number of Shares in issue as at the Record Date and the Latest Practicable Date	: 91,777,944 Shares
Total number of Rights Shares	: 91,777,944 Rights Shares
Number of Rights Shares being undertaken by the Concert Group	: 91,777,944 Rights Shares
Gross proceeds to be raised from the Rights Issue	: Up to approximately HK\$48.6 million before the Set-off Arrangement

Assuming there is no change in the number of issued Shares on or before the Record Date, the maximum number of 91,777,944 Rights Shares to be issued represents:

- (a) 100.0% of the number of issued Shares (based on the Company's issued share capital as at the Latest Practicable Date); and
- (b) 50.0% of enlarged issued share capital of the Company immediately following completion of the Rights Issue.

LETTER FROM THE BOARD

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

Subscription Price

The Subscription Price is HK\$0.53 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, upon application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 14.52% to the closing price of HK\$0.62 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 5.36% to the theoretical closing price of HK\$0.56 per Share, based on the closing price of HK\$0.056 per Old Share as quoted on the Stock Exchange on the Last Trading Day and after taking into account of the effect of the Capital Reorganisation;
- (c) a discount of approximately 5.36% to the theoretical average closing price of approximately HK\$0.56 per Share, based on the average closing price of approximately HK\$0.056 per Old Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day and after taking into account of the effect of the Capital Reorganisation;
- (d) a discount of approximately 6.03% to the theoretical average closing price of approximately HK\$0.564 per Share, based on the average closing price of approximately HK\$0.0564 per Old Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day and after taking into account of the effect of the Capital Reorganisation;
- (e) a discount of approximately 2.75% to the theoretical ex-right price of approximately HK\$0.545 per Share based on the closing price of HK\$0.056 per Old Share as quoted on the Stock Exchange on the Last Trading Day and after taking into account of the effect of the Capital Reorganisation; and
- (f) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 2.75%, represented by the theoretical diluted price of approximately HK\$0.545 per Share to the benchmarked price of approximately HK\$0.56 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading

LETTER FROM THE BOARD

Day of HK\$0.056 per Old Share and the average closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the Last Trading Day) and after taking into account the effect of the Capital Reorganisation.

The Subscription Price was determined with reference to the theoretical average closing price of HK\$0.56 per Share (after taking into account the effect of the Capital Reorganisation) as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the date of the Deeds of Covenants and Undertakings, the financial conditions of the Company, current market conditions and the reasons and benefits of the Rights Issue as discussed in the paragraph headed “Reasons for the Rights Issue, the Set-off Arrangement and the use of proceeds” under the section headed “Rights Issue” in this Prospectus.

The Board (including the independent non-executive Directors who have expressed their views after taking into account the advice of the Independent Financial Adviser) considers that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Rights Issue

The Rights Issue will be conditional upon:

- (a) the passing of necessary resolutions by the Shareholders at the SGM approving the Capital Reorganisation and the transaction contemplated thereunder by no later than the Posting Date;
- (b) the passing of necessary resolutions by the Independent Shareholders at the SGM approving, among other things, (i) the Rights Issue including the allotment and issue of the Rights Shares (in their nil-paid and fully-paid forms); and (ii) the Set-off Arrangement and the transactions respectively contemplated thereunder by no later than the Posting Date;
- (c) the Capital Reorganisation having become effective;
- (d) 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 signed by two Directors (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) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) not later than the Posting Date;

LETTER FROM THE BOARD

- (e) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter 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 the Posting Date;
- (f) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Shares as well as the Rights Shares in nil-paid and fully-paid forms by no later than the Business Day prior to the first day of their dealings; and
- (g) there being no breach of the obligations of the Concert Group under the Deeds of Covenants and Undertakings prior to the Latest Time for Acceptance.

All conditions set out above cannot be waived by any party. If any of the above conditions is not satisfied at or prior to the respective time stipulated therein, the Rights Issue will not proceed. Conditions (a) to (c) were fulfilled as at the Latest Practicable Date.

Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event that there is an under subscription of the Rights Issue as a result of Untaken Rights (as defined in the section headed “Application for excess Rights Shares” of this Prospectus below) and such are not taken up by the Qualifying Shareholders (excluding the Concert Group), the Concert Group has, pursuant to the Deeds of Covenants and Undertakings, irrevocably undertaken to the Company to apply for, by way of excess application, an aggregate of 44,416,717 additional Rights Shares. For further details, please refer to the section headed “Deeds of Covenants and Undertakings” in this Prospectus. As Mr. Lau is beneficially interested in 48.8% of the issued share capital of the Company, the fulfilling of his obligations pursuant to the Lau Deed of Covenants and Undertakings may cause him to be required to make a general offer in accordance with the Takeovers Code. An application had been made by Mr. Lau to the Executive for granting of a waiver of any obligation to make a general offer as a result of Mr. Lau fulfilling his obligations pursuant to the Lau Deed of Covenants and Undertakings and the waiver was granted pursuant to Note 6(b) to Rule 26.1 of the Takeovers Code.

The legal adviser of the Company has confirmed that there are no applicable statutory requirements under the Companies Act regarding minimum subscription levels in respect of the Rights Issue.

Apart from Mr. Lau, any other Shareholder who applies to take up all or part of his entitlement under the PAL or apply for excess Rights Shares under the EAF may also unwittingly incur an obligation to make a general offer under the Takeovers Code, unless a waiver from the Executive has been obtained.

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Accordingly, the Rights Issue will be made on the term that the Company will provide for Shareholders (except Mr. Lau) to apply on the basis that if the Rights Shares are not fully taken up, the applications of any Shareholder (other than Mr. Lau) for his entitlement under the PAL or for excess Rights Shares under the EAF will be scaled down to a level which will not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must:

- (i) be registered as a member of the Company at the close of business on the Record Date; and
- (ii) be a Qualifying Shareholder.

The Company has despatched the Prospectus Documents to the Qualifying Shareholders on the Posting Date.

Qualifying Shareholders who take up their pro rata entitlements in full will not suffer any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Issue Shares arising from the aggregation of fractional entitlements). If a Qualifying Shareholder does not take up any of his, or her, or its entitlement in full under the Rights Issue, his, or her, or its proportionate shareholding in the Company will be diluted.

Basis of provisional allotments

The basis of the provisional allotment shall be one (1) Rights Share (in nil-paid form) for every one (1) Share held by the Qualifying Shareholders as at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment shall be made by completing a PAL and lodging the same with remittance for the Rights Shares accepted with the Share Registrar by 4:00 p.m. on Tuesday, 2 February 2021.

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

LETTER FROM THE BOARD

Based on the register of members of the Company as at the Latest Practicable Date, there were a total of three (3) Overseas Shareholders located in the British Virgin Islands and the PRC with the following shareholding structure:

Jurisdiction	Number of Overseas Shareholder(s)	Aggregate number of Shares held by Overseas Shareholder(s) in the jurisdiction	Approximate percentage of shareholdings
British Virgin Islands	2	15,160,001	16.5%
PRC	1	1,000,000	1.1%

Pursuant to Rule 13.36(2) of the Listing Rules, the Company has made enquiry in respect of the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory body or stock exchange in those places for the Company to extend the Rights Issue to the Overseas Shareholders. On the basis of the results of such enquiries obtained as at the Latest Practicable Date, the Directors note that there is no legal restriction under the laws of or the requirements of the relevant regulatory bodies or stock exchanges in the British Virgin Islands or the PRC with respect to the offer of the Rights Shares to the Overseas Shareholders with registered addresses in those jurisdictions as at the Latest Practicable Date. Please pay attention to the following statements in respect of the British Virgin Islands and the PRC respectively:

The British Virgin Islands

No Shares may be offered to any person in the British Virgin Islands for purchase or subscription except under circumstances that will result in compliance with the rules concerning offering of such securities in the British Virgin Islands and with the laws of the British Virgin Islands. Accordingly, the Prospectus Documents do not constitute and shall not be construed as an offer to the public in the British Virgin Islands to purchase or subscribe for Rights Shares. Rights Shares shall not be received for the account or benefit of any person who is a resident of, or who is domiciled in, the British Virgin Islands, other than a British Virgin Islands Business Company (as defined under the British Virgin Islands Business Companies Act (as amended)) incorporated in the British Virgin Islands that is not resident in the British Virgin Islands, nor to a custodian, nominee or trustee of any such person.

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PRC

Based on the advice of the legal advisers of the PRC, the Prospectus Documents would not be required to be registered under the relevant laws and regulations of the PRC and may be despatched to the Shareholders in the PRC without any filing or approval requirements or any other restrictions. It is the sole responsibility of any Shareholders in the PRC to ensure the compliance of laws and regulations of the PRC for any action they take in response to the Prospectus Documents. Any application for Rights Shares by Shareholders in the PRC are therefore made against their representation to the Company that they have already complied with the laws and regulations of the PRC and that they will indemnify the Company for any loss or damages if they fail to do so. The Company bears no responsibility in checking the laws and regulations compliance by any Shareholders who apply for Rights Shares, but reserves the right to reject any application made by the Shareholders in the PRC if they have not complied with the laws and regulations of the PRC.

Accordingly, the Rights Issue will be extended to such Overseas Shareholders in the British Virgin Islands and the PRC and there are no Excluded Shareholders for the Rights Issue as at the Latest Practicable Date. Save for the aforesaid Overseas Shareholders, all Shareholders on the Company's register of members as the Latest Practicable Date have Hong Kong registered addresses.

It is the responsibility of the Shareholders (including the Overseas Shareholders) to observe the domestic legal and regulatory requirements applicable to them for taking up and onward sale of the Rights Shares in nil-paid form and the Rights Shares in fully-paid form.

No part of the Prospectus Documents should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without the written consent of the Company.

Status of the Rights Shares

The Rights Shares, when issued and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of 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 issue of the Rights Shares.

Fractional entitlements to the Rights Shares

The Company will not provisionally allot and will not accept application for any fractions of the Rights Shares. All fractions of the Rights Shares will be aggregated and sold by the Company in the open market if a premium (net of expenses) can be obtained, and the Company will keep the net proceeds for its own benefit. Any unsold fractions of the Rights Shares will be aggregated and made available for excess application by the Qualifying Shareholders.

LETTER FROM THE BOARD

Share certificates and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be sent on or about Wednesday, 10 February 2021 by ordinary post to the allottees, at their own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for the excess Rights Shares (if any) are expected to be sent on or about Wednesday, 10 February 2021 by ordinary post to the applicants, at their own risk, to their registered addresses.

Procedures for acceptance, splitting of provisional allotment and payment and/or transfer of the Rights Shares

Qualifying Shareholders will find enclosed with this prospectus a PAL which entitles the Qualifying Shareholder(s) to whom it is addressed to subscribe for the number of Rights Shares shown therein. If the Qualifying Shareholders wish to accept all the Rights Shares provisionally allotted to them as specified in the PALs, they must lodge the PALs in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:00 p.m. on Tuesday, 2 February 2021. All remittances must be made in Hong Kong dollars by cheques which must be drawn on an account with, or by cashier's orders which must be issued by, a licensed bank in Hong Kong and made payable to "TRICOR TRUST (HONG KONG) LIMITED – A/C NO. 019" ("**Provisional Allotment Account**") and crossed "**ACCOUNT PAYEE ONLY**".

It should be noted that unless the duly completed PAL, together with the appropriate remittance, has been lodged with the Share Registrar by no later than 4:00 p.m. on Tuesday, 2 February 2021, whether by the original allottee or any person in whose favour the provisional allotment has been validly transferred, that provisional allotment and all rights and entitlement thereunder will be deemed to have been declined and will be cancelled and such Rights Shares will be available for application under the EAFs by the Qualifying Shareholders. The Company may, at its sole discretion, treat a PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged even if the PAL is not completed in accordance with the relevant instructions.

If the Qualifying Shareholders wish to accept only part of the provisional allotment or transfer part of their rights to subscribe for the Rights Shares provisionally allotted to them under the PAL or transfer part/all of their rights to more than one person, the original PAL must be surrendered for cancellation by no later than 4:30 p.m. on Monday, 25 January 2021 to the Share Registrar, who will cancel the original PAL and issue new PALs in the denominations required. The new PALs will be available for collection from the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, after 9:00 a.m. on the second Business Day after the surrender of the original PAL. It should be noted that Hong Kong ad valorem stamp duty is payable in connection with the transfer of your rights to subscribe for the relevant Rights Shares to the transferee(s) and the acceptance by the transferee(s) of such rights.

LETTER FROM THE BOARD

The Company reserves the right to refuse to register any transfer in favour of any person in respect of which the Company believes such transfer may violate applicable legal or regulatory requirements.

The PAL contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of the provisional allotment of the Rights Shares by the Qualifying Shareholders. All cheques or cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of the PAL with a cheque or a cashier's order will constitute a warranty by such person that the cheque or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any PAL in respect of which the cheque or cashier's order is dishonoured on first presentation, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

No receipt will be given in respect of any application monies received.

If any of the conditions of the Rights Issue as set out in the paragraph headed "Conditions of the Rights Issue" above is not fulfilled by the Latest Time for Acceptance, the remittance received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in the nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders or such other persons to their registered addresses by the Share Registrar on or before Wednesday, 10 February 2021.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for, by way of excess application: (i) any unsold entitlements to the Rights Shares of the Excluded Shareholder(s) (if any); (ii) any unsold Rights Shares created by aggregating fractions of the Rights Shares; and (iii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renounees or transferees of nil-paid Rights Shares. (i) to (iii) are collectively referred to as "**Untaken Rights**".

Applications for excess Rights Shares may be made by completing an EAF and lodging the same with a separate remittance for the full amount payable for the excess Rights Shares being applied for. The Directors will allocate any excess Rights Shares on a fair and equitable basis based on the following principles:

- (i) any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them as far as practicable on a pro-rata basis by reference to the number of the excess Rights Shares applied for under each application;

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- (ii) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders; and
- (iii) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings.

Shareholders with their Shares held by a nominee company (or which are deposited in CCASS) should note that the Board will regard such nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, 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.

Pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by any controlling shareholders or their associates (together, the “**Relevant Shareholders**”), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders’ applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares. For the purpose of the Rights Issue, the Company will consider the excess application(s) of the Concert Group in accordance with Rule 7.21(3)(b).

If the aggregate number of Rights Shares underlying the Untaken Rights is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

The Concert Group confirmed that it intends to apply for any excess Rights Shares if there is an undersubscription of the Rights Issue. Pursuant to Rule 7.21(3)(b), assuming (i) there is no change in the number of issued Shares on or before the Record Date; and (ii) the Concert Group had taken up in full the Rights Shares allotted to it under its respective assured entitlement to the Rights Shares, the maximum number of excess Rights Shares that the Concert Group may apply for would be 44,416,717 Rights Shares.

If a Qualifying Shareholder wishes to apply for any Rights Issue Shares in addition to his, or her, or its provisional allotment, he, or she, or it must complete and sign the enclosed EAF in accordance with the instructions printed thereon and lodge the same with a separate remittance for the amount payable on application in respect of the excess Rights Issue Shares being applied for with the Share Registrar at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong by no later than 4:00 p.m. on Tuesday, 2 February 2021. All remittances must be made in Hong Kong dollars by cheques which must be drawn on a bank account with, or by cashier’s orders which must be issued by, a licensed bank in Hong Kong and made payable to “TRICOR TRUST (HONG KONG) LIMITED – A/C NO. 020” and crossed “**ACCOUNT PAYEE ONLY**”. The Share Registrar will notify the relevant Qualifying Shareholders of any allotment of excess Rights Issue Shares made to them.

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The allocation of excess Rights Issue Shares (if any) to the Qualifying Shareholders will be announced by the Company on or about Tuesday, 9 February 2021. If no excess Rights Issue Shares are allotted to the Qualifying Shareholders, it is expected that the amount tendered on application will be refunded without interest to such Qualifying Shareholders by means of a cheque despatched by ordinary post to their registered addresses at their own risk on or before Wednesday, 10 February 2021. If the number of excess Rights Issue Shares allotted to the Qualifying Shareholders is less than that applied for, the surplus application monies are also expected to be refunded without interest to them by means of a cheque despatched by ordinary post to their registered addresses at their own risk on or before Wednesday, 10 February 2021.

All cheques and cashier's orders accompanying completed EAFs will be presented for payment upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of the EAF together with a cheque or cashier's order in payment for excess Rights Issue Shares applied for will constitute a warranty by the applicant that the cheque or the cashier's order will be honoured on first presentation. If any cheque or cashier's order accompanying a completed EAF is dishonoured on first presentation, without prejudice to the other rights of the Company, such EAF is liable to be rejected.

Completion and return of the EAF by anyone outside Hong Kong will constitute a warranty and representation to the Company that all the local registration, legal and regulatory requirements of such relevant jurisdictions other than Hong Kong in connection with the EAF and any application under it, have been, or will be, duly complied with. For the avoidance of doubt neither HKSCC nor HKSCC Nominees Limited is subject to any of the representations and warranties.

The EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including refund cheques for wholly or partially unsuccessful applications for excess Rights Issue Shares, will be despatched by ordinary post at the risk of the persons entitled thereto to their respective registered addresses as shown in the register of members of the Company on the Record Date.

Application for listing

The Company has applied to the Stock Exchange for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms.

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Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their 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 their nil-paid and fully-paid forms on the Stock Exchange or such other dates 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.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be in new board lot size of 4,000 Rights Shares, which are registered in the branch register of members of the Company in Hong Kong, and will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Deeds of Covenants and Undertakings

On 10 November 2020, the Company entered into the Lau Deed of Covenants and Undertakings with Mr. Lau, the KY Deed of Covenants and Undertakings with Mr. KY Lau, the Chan Deed of Covenants and Undertakings with Ms. Chan, the CY Deed of Covenants and Undertakings with Mr. CY Lau and the HB Deed of Covenants and Undertakings with Mr. HB Lau, pursuant to which Mr. Lau, Mr. KY Lau, Ms. Chan, Mr. CY Lau and Mr. HB Lau have irrevocably undertaken to the Company, among other things:

- (i) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (i) the Shares ultimately beneficially held by them as at the date of the Deeds of Covenants and Undertakings or (ii) the nil-paid rights pertaining to the 44,829,629, 1,851,600, 150,000, 13,798 and 516,200 Rights Shares provisionally allotted to them respectively;
- (ii) the 44,829,629, 1,851,600, 150,000, 13,798 and 516,200 Shares respectively registered in their name and/or under the name(s) of their nominee(s) as at the date of the Deeds of Covenants and Undertakings shall remain registered in their name and/or under the name(s) of their nominee(s) on the Record Date and until the close of the Rights Issue;

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- (iii) to subscribe for 44,829,629, 1,851,600, 150,000, 13,798 and 516,200 Rights Shares which will be provisionally allotted to them nil-paid in respect of the 44,829,629, 1,851,600, 150,000, 13,798 and 516,200 Shares legally and beneficially owned by them, pursuant to the terms of the Prospectus Documents; and
- (iv) to apply, by way of excess application, for an additional 42,042,511, 1,736,484, 140,675, 12,940 and 484,107 Rights Shares respectively.

Pursuant to the Deeds of Covenants and Undertakings, the Company has also undertaken to the Concert Group that the Rights Issue shall be conditional upon fulfilment of the conditions set out in the paragraph headed “Conditions of the Rights Issue” under the section headed “Rights Issue” in this Prospectus.

The Company also understands from the Concert Group that they will make the relevant applications, and will not withdraw from their applications, in regards to the Rights Shares which will be provisionally allotted to them and the additional Rights Shares, by way of excess application, on the first day the application opens, which is on Tuesday, 19 January 2021.

The allocation of the number of excess Rights Shares which the members of the Concert Group has individually undertaken to apply for was determined by reference to the proportion of their respective existing shareholding percentage in the Concert Group.

LETTER FROM THE BOARD

Effects on the shareholding structure of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Capital Reorganisation and (iii) immediately after completion of the Rights Issue (assuming no further Shares will be issued, repurchased or surrendered since the Record Date):

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue			
			Assuming all Shareholders have taken up the Rights Shares		Assuming only the Concert Group had taken up their Rights Shares entitlement and the Concert Group had taken up the maximum number of excess Rights Shares (i.e. 44,416,717 Shares)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Mr. Lau (Notes 1 and 2)	44,829,629	48.8	89,659,258	48.8	131,701,769	71.8
Public						
Mr. KY Lau (Note 3)	1,851,600	2.0	3,703,200	2.0	5,439,684	3.0
Mr. HB Lau (Note 3)	516,200	0.6	1,032,400	0.6	1,516,507	0.8
Ms. Chan (Note 3)	150,000	0.2	300,000	0.2	440,675	0.2
Mr. CY Lau (Notes 3 and 4)	13,798	0.0	27,596	0.0	40,536	0.0
Other Shareholders	<u>44,416,717</u>	<u>48.4</u>	<u>88,833,434</u>	<u>48.4</u>	<u>44,416,717</u>	<u>24.2</u>
Total	<u>91,777,944</u>	<u>100.0</u>	<u>183,555,888</u>	<u>100.0</u>	<u>183,555,888</u>	<u>100.0</u>
Concert Group	<u>47,361,227</u>	<u>51.6</u>	<u>94,722,454</u>	<u>51.6</u>	<u>139,139,171</u>	<u>75.8</u>

Notes:

- The 18,830,001 Shares out of 44,829,629 Shares are held by Future 2000 Limited, which is a company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is legally and beneficially owned by Mr. Lau, an executive Director. The remaining 25,999,628 Shares out of the 44,829,629 Shares are held by Mr. Lau in personal interests.
- Mr. Lau is the chairman of the Company and an executive Director.
- As at the Latest Practicable Date, Mr. KY Lau, Mr. HB Lau, Ms. Chan and Mr. CY Lau do not hold any positions with the Company or other members of the Group. None of them whose acquisition of the Shares has been financed directly or indirectly by the core connected person of the Company nor is accustomed to take instruction from the core connected person in relation to the acquisition, disposal, voting or other disposition of the Shares registered in their names or otherwise held by them.
- The 13,798 Shares are held by Fortune 97 Associates Limited, which is a company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is legally and beneficially owned by Mr. CY Lau, the brother of Mr. Lau.
- Save as disclosed above, none of the Directors have any shareholding in the Company.

LETTER FROM THE BOARD

In order to capture the growth opportunities, the Group intends to apply the net proceeds from the Rights Issue as follows:

(A) If all shareholders participate in the Proposed Rights Issue

	Rights Shares to be provisionally allotted	Value of Rights Shares to be provisionally allotted <i>HK\$</i>	Rights Shares applied through excess applications	Value of Rights Shares from excess applications <i>HK\$</i>	Total amount <i>HK\$</i>
Mr. Lau	44,829,629	23,759,703.37	–	–	23,759,703.37
Mr. KY Lau	1,851,600	981,348.00	–	–	981,348.00
Mr. HB Lau	516,200	273,586.00	–	–	273,586.00
Ms. Chan	150,000	79,500.00	–	–	79,500.00
Mr. CY Lau	13,798	7,312.94	–	–	7,312.94
Other Shareholders	<u>44,416,717</u>	<u>23,540,860.01</u>	<u>–</u>	<u>–</u>	<u>23,540,860.01</u>
 Total	 <u>91,777,944</u>	 <u>48,642,310.32</u>	 <u>–</u>	 <u>–</u>	 <u>48,642,310.32</u>
 Amount to be set-off according to the Initial Set-off:					 (23,759,703.37)
Gross proceeds:					24,882,606.95
Expenses in relation to the Proposed Rights Issue:					(1,614,000.00)
Net proceeds:					<u>23,268,606.95</u>
 <u>Use of proceeds</u>					
Trading and distribution business:					15,823,924.12
General working capital:					<u>7,444,682.83</u>
 Total					 <u>23,268,606.95</u>

LETTER FROM THE BOARD

(B) If no public shareholders participate in the Proposed Rights Issue

	Rights Shares to be provisionally allotted	Value of Rights Shares to be provisionally allotted HK\$	Rights Shares applied through excess applications	Value of Rights Shares from excess applications HK\$	Total amount HK\$
Mr. Lau	44,829,629	23,759,703.37	42,042,511	22,282,530.83	46,042,234.20
Mr. KY Lau	1,851,600	981,348.00	1,736,484	920,336.52	1,901,684.52
Mr. HB Lau	516,200	273,586.00	484,107	256,576.71	530,162.71
Ms. Chan	150,000	79,500.00	140,675	74,557.75	154,057.75
Mr. CY Lau	13,798	7,312.94	12,940	6,858.20	14,171.14
Other Shareholders	—	—	—	—	—
Total	<u>47,361,227</u>	<u>25,101,450.31</u>	<u>44,416,717</u>	<u>23,540,860.01</u>	<u>48,642,310.32</u>
Amount to be set-off according to the Initial Set-off:					(23,759,703.37)
Amount to be set-off according to the Second Set-off:					(15,823,924.12)
Gross proceeds:					9,058,682.83
Expenses in relation to the Proposed Rights Issue:					(1,614,000.00)
Net proceeds:					<u>7,444,682.83</u>
<u>Use of proceeds</u> General working capital:					<u>7,444,682.83</u>
Total					<u>7,444,682.83</u>

Excluded Shareholders (if any) should note that they may or may not be entitled to the Rights Issue. Accordingly, Excluded Shareholders (if any) should exercise caution when dealing in the securities of the Company.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising their rights in, disposing of or dealing in the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding the Excluded Shareholders (if any), their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of any person resulting from the purchase, holding or disposal of, or dealing in, the Rights Share in both their nil-paid and fully-paid forms.

LETTER FROM THE BOARD

WARNING OF THE RISKS OF DEALING IN THE SHARES AND/OR RIGHTS SHARES IN NIL-PAID FORM

The Rights Issue is subject to the fulfilment of conditions including, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms. Please refer to the paragraph headed “Conditions of the Rights Issue” above. Shareholders and potential investors of the Company should note that if the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or transferees of nil-paid Rights Shares will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Shareholders should note that the Shares have been dealt in on an ex-rights basis from Tuesday, 12 January 2021. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 21 January 2021 to Thursday, 28 January 2021. Any persons contemplating dealings in the Shares prior to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Thursday, 21 January 2021 to Thursday, 28 January 2021 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Share or nil-paid Rights Shares are recommended to consult their own professional advisers.

Shareholders and potential investors of the Company 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.

SET-OFF ARRANGEMENT

As at 31 August 2020, Mr. Lau has made total advances to the Group of HK\$12,171,625.90, which is non-interest bearing and repayable on demand. On 31 December 2018, Mr. Lau and the Group entered into the First Loan Agreement where the Group obtained a loan from Mr. Lau of RMB12,000,000.00 on the date of the First Loan Agreement, which is interest free and repayable on 31 December 2021. On 10 July 2020, Mr. Lau and the Group entered into the Second Loan Agreement where the Group obtained a loan from Mr. Lau of US\$2,000,000.00 on the date of the Second Loan Agreement, which is interest-free and repayable on 31 December 2021. As at 31 August 2020, the Group owes advances of HK\$12,171,625.90 to Mr. Lau, which is classified as a current liability and loans owed to Mr. Lau totaling HK\$27,412,001.59 under the First Loan Agreement and the Second Loan Agreement, which is classified as a non-current liability.

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Pursuant to the Lau Deed of Covenants and Undertakings, Mr. Lau conditionally agrees to (i) the Initial Set-off whereby HK\$23,759,703.37 required to be paid by Mr. Lau for the subscription of 44,829,629 Rights Shares provisionally allotted to him pursuant to the Rights Issue would be set-off against the Loan Amount of HK\$23,759,703.37; and (ii) the Second Set-off whereby the amount of HK\$15,823,924.12 (out of the total amount of HK\$22,282,530.83) required to be paid by Mr. Lau for the subscription of up to 42,042,511 excess Rights Shares by using the EAF would be set-off against the remaining Loan Amount of HK\$15,823,924.12 after the Initial Set-off. After the Second Set-off, Mr. Lau will be required to pay the remaining balance of HK\$6,458,606.71 in cash for the application for excess Rights Shares, before settlement of expenses in relation to the Rights Issue.

Reasons for the Rights Issue, the Set-off Arrangement and the use of proceeds

Assuming that there is no change in the number of issued Shares on or before the Record Date and that the Set-off Arrangement is implemented, the net proceeds from the Rights Issue after the Set-off Arrangement and deducting the related expenses, are estimated to be approximately HK\$7.4 million. Assuming that there is no change in the number of issued Shares on or before the Record Date and that the Second Set-off is not implemented, the net proceeds from the Rights Issue after deducting the related expenses, are estimated to be approximately HK\$23.3 million.

The Company is an investment holding company and its subsidiaries are principally engaged in trading and distribution of mobile phones and related accessories, development of marketing and after-sales service network and mining and processing of celestite, zinc and lead minerals in the PRC. The Company intends to continue to focus on its trading and distribution business which the Directors believe will continue to grow steadily.

The Company intends to allocate approximately HK\$7.4 million for the Group's working capital regardless of whether Shareholders, other than the Concert Group, participate in the Rights Issue or not. The Group currently requires, on average, approximately HK\$1.0 million per month for its working capital needs, which are mainly spent on staff salaries, directors' remuneration, legal and professional fees, rental and other office expenses. Taking this into account, the intended allocation of HK\$7.4 million will be able to meet the Group's working capital needs for the next seven and a half months.

Assuming all Shareholders, other than the Concert Group, participate in the Rights Issue, the Group intends to allocate approximately HK\$15.8 million for its mobile phone trading and distribution business. As the business of mobile phone trading and distribution largely depends on market trend and demand of the general public at a moment in time, the Directors currently cannot predict the amount required for such business nor enter into any sales agreement for the future. However, based on figures from the past two financial years, the Group on average had cost of sales of approximately HK\$13.4 million per month, indicating that the proposed allocation of HK\$15.8 million will be sufficient to meet the purchase cost for the mobile phone trading and

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distribution business for less than 2 months. The Group has cash and cash equivalents of approximately HK\$19.7 million as at 30 June 2020, a portion of which the Directors believe need to be reserved for working capital purposes, thus the actual free cash on hand for its trading business would be less. Based on past experiences in mobile phone trading and distribution by the Group, a larger discount can only be obtained from suppliers if purchases are made in a large bulk. In order to obtain a better gross profit margin in the Group's business, it is preferable to have on hand a larger cash and cash equivalent balance in case the Group is required to make purchases of phones which may be in demand by the general public, such as Apple iPhone, and obtain a larger discount from its suppliers. The Directors are of the view that, given the nature of mobile phone trading and distribution business and the relatively thin profit margin that comes with it, in order for the Group to continue to expand and generate a larger gross profit margin amount, it requires a larger capital base (i.e. more free cash on hand) in order for it to make purchases of mobile phones for sale.

The core business of the Group is the trading and distribution of mobile phones and related accessories, which was conducted mainly (i) via two operating subsidiaries in the PRC, namely 浙江澳英信息科技有限公司 (Zhejiang Aoying Information Technology Co., Ltd*) and Fortune (Shanghai) International Trading Co., Ltd., for the two years ended 31 December 2019; and (ii) other than the two abovementioned subsidiaries, via an additional operating subsidiary in Hong Kong, namely Fortune Telecom Supply Chain Limited, since 2020 which the Group expanded the geographical coverage of its business in Hong Kong accordingly. As at 30 June 2020, the number of staff employed under these subsidiaries in the PRC and Hong Kong was 41 and 9, respectively. For each of the two years ended 31 December 2019, (i) the Group's distribution network for the sale of mobile phones and related accessories comprised 31 and 11 wholesale customers which are mainly distributors in the PRC, with a focus in Zhejiang province and Shanghai; and (ii) the Group obtained the supplies from 15 and 7 wholesale suppliers which are mainly distributors in the PRC, respectively. During the two years ended 31 December 2019, the major brands of mobile phones sold by the Group include Apple and Huawei mobile phones. Such as the nature of the industry, the Group does not usually enter into any long term agreements with its customers and businesses are done on a standalone basis. The Group's existing customers and suppliers were acquainted through business networking events, referrals or are vendors which has had an existing business relationship with the Group for a number of years. The management will continue to seek for new business vendors through the above means and explore other options in sourcing new businesses for the Group.

In terms of the value and role played by the Group in the whole mobile phone distribution industry, the Group has maintained its position of being able to purchase mobile phones in bulk from suppliers, where some require the Group to pay upon delivery whilst selling them to multiple distributors in a lesser amount and also granting them credit terms. Furthermore, the Group has been acting as a facilitator for the mobile phone industry throughout. The Group is able to help manufacturers and suppliers of mobile phone brands in selling their mobile phones to target distributors and customers, whilst providing a platform for retailers to source their required mobile phones. The Group is therefore able to create value in the mobile phone supply chain by

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being the middle-man between the manufacturer and/or upstream suppliers and distributors, as the manufacturers and/or upstream suppliers will not directly sell to the retailers due to (i) the lesser volume of purchase each time and/or (ii) the credit terms required by the distributors. On the other hand, the distributors themselves would not directly source mobile phones as they may not have the necessary time and resource to locate and build business relationships with the manufacturers and/or upstream suppliers. The Group also has the required knowledge and skill of its sales team and the business networks within the mobile phone industry, which at one time had over 8,000 different distributors, located in over 300 cities in the PRC, that had business relationships with the Group, enabling manufacturers/suppliers to rely on the Group to locate distributors from the whole of the PRC whilst not having to incur the time, effort and cost of establishing their own sales team and building the necessary business relationships or networks.

According to the internal financial records of the Company, set out below is a summary of the Group's five largest customers and suppliers during the year ended 31 December 2019 and their respective background information:

Customers

Rank	Customer	Business profile	Approx. years of business relationship as at the Latest Practicable Date	Revenue generated	
				HK\$'000	%
1	Customer A	Technology development, technology consulting, technology transfer in the field of electronic technology	1	20,537	18.9
2	Customer B	Computer software and hardware design, technology development, purchase and sale of communication products and equipment	1	19,083	17.6
3	Customer C	Sales of various products, including digital products and communication equipment	1	15,494	14.3
4	Customer D	Wholesale and retail of electronic products and communication equipment	1	11,129	10.3
5	Customer E	Technical development and sales of electronic products	1	8,909	8.2
			Sub-total	75,152	69.3
	Other customers			33,303	30.7
			Total	108,455	100

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Suppliers

Rank	Supplier	Business profile	Approx. years of business relationship as at the Latest Practicable Date	Purchases made	
				HK\$'000	%
1	Supplier A	Sales of various products, including mechanical and electrical products, communication equipment and accessories, electronic components and products	1	40,385	37.6
2	Supplier B	Computer information technology development and technical consultation, wholesale and retail of electronic components and products	1	26,633	24.8
3	Supplier C	Sales of various products, including communication equipment	1	26,283	24.5
4	Supplier D	Wholesale of electronic products, communication equipment and computer software and hardware	1	4,914	4.6
5	Supplier E	Sales of various products, including electronic products and communication equipment	1	4,507	4.2
			Sub-total	102,722	95.6
	Other suppliers			<u>4,722</u>	<u>4.4</u>
			Total	<u>108,455</u>	<u>100</u>

The Group's revenue for the mobile phone trading business decreased from approximately HK\$216.1 million for the year ended 31 December 2018 to approximately HK\$108.5 million for the year ended 31 December 2019 and recorded revenue of approximately HK\$21.4 million for the six months ended 30 June 2020. The decrease in revenue from 2018 to 2019 was mainly due to the economic uncertainty caused by the Sino-US trade war, leading to a decrease in demand for mobile phones and related accessories. Although a trade deal was entered into between the U.S. and China in January 2020, COVID-19 pandemic led to a worldwide stoppage in economic activity, even causing a mandatory temporary shutdown of certain cities and areas in the PRC, which contributed to a decrease in the Group's revenue for the six months ended 30 June 2020. However, the Directors are of the view that, as the PRC is one of the world's first countries to have stopped the pandemic from spreading and its economy is recovering and have even recorded modest gains, the business of the Group, in particular its mobile phones distribution and trading

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business, will be able to recover in the year 2021 as a result of the recovery of the overall economy in the PRC. In addition, multiple vaccines have been announced in November 2020 to have an extremely high efficacy rating, which the Directors believe will further fuel the recovery of economies not just in the PRC but also the rest of the world.

In the past five years, the Group recorded gross profit margin ranging from approximately 0.9% to 3.9%, with the 0.9% recorded in the year ended 31 December 2019. As stated above, the Group intends to utilise the proceeds from the Rights Issue to expand its capital base, which would allow the Group to expand its trading business activities and enable the Group to make larger bulk purchases each time and obtain a larger discount from its suppliers. This potential larger discount will improve the Group's gross profit margin. The Directors estimate that the Group will need to achieve approximately HK\$300.0 million of revenue with a gross profit margin of approximately 4.0% in order to fully cover its corporate expenses which the Directors believe will be achievable if the Hong Kong and PRC economics can recover as hoped. The Directors believe that, as the global economy recovers from this temporary downturn, coupled with the Rights Issue which would allow access by the Company to a larger cash pool, the Group will be able to make larger purchases to obtain a higher rate of discount and at the same time increase its business volume which will in aggregate improve both its revenue and gross profit margin.

Notwithstanding the outbreak of COVID-19 that caused an adverse impact on the wholesale and retail of mobile phone markets as noted from the deteriorated financial performance of the Group for the year ended 31 December 2019 and the six months ended 30 June 2020, the Company intends to develop its trading and distribution of mobile phone business upon the Proposed Rights Issue and Set-off Arrangement, having considered that (i) the PRC has successfully kept the COVID-19 pandemic in check and its economy has resumed growth; and (ii) the Group's strategy to sustain its business operations in the PRC while continuing the diversification and expansion of business operations in Hong Kong and as at the Latest Practicable Date, revenue generated from such geographical segment for the year ending 31 December 2020 amounted to approximately HK\$9.2 million, the Directors are confident about the Company's ability to take advantage of the business opportunities that ensue in the near future.

The Group is currently in discussion with a customer, an online and offline multinational distribution platform for a large variety of products, who intends to make purchases ranging from approximately RMB6 million to approximately RMB8 million worth of Apple and Huawei mobile phones, laptops, tablets and related accessories per month, which the Group will source through licensed distributors of Apple and Huawei products. Although the proceeds to be applied to the trading and distribution business is approximately HK\$15.8 million, the Directors are of the view that once the HK\$15.8 million has been utilised for the purchase of mobile phones and are subsequently sold to the Group's customers, the proceeds will be able to be re-applied to future purchases and sales of mobile phones. The purpose of obtaining the proceeds to be applied to the purchase of mobile phones is so that the Group will be able to make a larger bulk purchase each time to obtain a higher discount rate from its suppliers so as to earn a better gross profit margin, which in turn will improve the profitability of the Group.

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As part of the Group's strategy to continue to expand its business and improve its profitability, the Group has entered into preliminary discussion with one of the largest telecommunications services providers in Hong Kong and the PRC for the sales of server equipment. The Directors are of the view that as the fifth generation wireless communications technology ("5G") is already put into commercial operation in the PRC and will continue to do so in the near future, it will bring a new round of demand for large-scale network build-out by telecommunication services providers and equipment upgrades by network users. The telecommunications services provider has already requested the Group to propose to them the purchasing plans for 2021. From preliminary discussions, the Group will be required to offer a credit term of 25 days to this customer. As such, the Directors are of the view that the Rights Issue exercise will not only allow the Group to expand its current mobile phone business, but also expand its business scope and begin a business relationship with one of the largest telecommunications services providers in Hong Kong and the PRC, which can only bode well for the Group's future growth and development.

The Directors, based on their past experiences in sourcing business deals with potential customers, understand that some customers require the Group to have at least the relevant inventory on hand, or at least the required amount of cash available, before entering into any negotiations with the Group for any possible purchases. As such, the Directors are of the view that the Group requires additional funding to make the relevant purchases of mobile phones and related accessories so that it can make concrete negotiations with customers and that more customers will purchase from the Group. The Group is also in negotiation with multiple suppliers of mobile phones and related accessories and understand from them that upon agreement of the relevant terms, the purchase amount is required to be paid up front to these suppliers. As such, the Directors believe that the Group requires a certain level of cash readily available on hand for purchases to be made.

The Directors, based on the above, are therefore of the view that if the Group was able to have available the proceeds from the Rights Issue, it will (a) enable the Group to have additional funding for its mobile phone trading business, which will increase the Group's turnover and therefore gross profit; (b) allow the Group to make larger bulk purchases from its suppliers each time in order to obtain a higher discount, which will in turn improve the Group's gross profit margin; (c) capture the economic recovery to be expected in 2021 once the Hong Kong and the PRC economics fully reopen and consumers are willing to spend more as consumer sentiments improve; (d) enable the Group to expand into the 5G telecommunications segment and capture the explosive growth in the next few years; (e) enlarge the Group's customer base so that the Group will be able to begin negotiations and business relationships with customers that were unwilling to negotiate with the Group before due to the Group being unable to provide proof that it has the relevant inventory or the necessary cash level to make the relevant purchases; and (f) enable the Group access to additional funding so that the Group can make payments to suppliers upon conclusion of negotiations and agreements with these suppliers in order to secure the relevant mobile phones and related accessories.

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The Directors confirm that, apart from the supplier as disclosed in the Company's announcement dated 20 July 2018 in respect of a connected transaction and continuing connected transaction, there is no relationship, agreement, arrangement, understanding and/or undertaking (formal or informal, existing or prior, expressed or implied) among (i) its customers; (ii) its suppliers; each of their ultimate beneficial owner(s) and the Company and its connected person(s). Furthermore, as disclosed in the Company's announcement dated 29 September 2020, the subsidiary which had business relationship with the relevant supplier has been disposed. The Group is no longer in business with the supplier and its ultimate beneficial owner, Mr. Dai, or any of his associates.

Although the amount owed by the Group to Mr. Lau under the First Loan Agreement and the Second Loan Agreement only becomes due on 31 December 2021, the Directors are of the view that the Rights Issue provides the Group with the opportunity to set off the loans without requiring the Group to make the necessary cash outflow to settle the loans. Furthermore, given the uncertainty caused by COVID-19 pandemic, the Directors believe that it is imperative for the Group to maintain the necessary cashflow for the Group to carry on its business and for working capital purposes. The Group can take advantage of the Rights Issue to not only obtain the proceeds but also improve its indebtedness level, which mostly comprises of its debts to Mr. Lau.

The Directors (including the independent non-executive Directors who have expressed their views after taking into account the advice of the Independent Financial Adviser) have considered other financing alternatives including (i) additional debt financing; and (ii) equity fund raising such as placement of the Shares and open offer. The Directors are of the view that while additional debt financing will increase the Group's gearing ratio, it will also increase the ongoing interest expenses of the Group which may in turn affect the profitability of the Company. As for equity fund raising, such as placement of Shares, it is a common market practice to conduct such activity on a best-effort basis and accordingly the amount to be raised would be uncertain and subject to the then market conditions. In addition, 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. In addition, to raise fund from placing, substantial amount of securities must be issued and usually the subscriber(s) will ask for a deep discount to the trading price of the Shares in view of the substantial amount of securities involved. As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate in, but it does not allow the trading of rights entitlements in the open market. The Directors (including the independent non-executive Directors who have expressed their views after taking into account the advice of the Independent Financial Adviser) 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 financial position without the ongoing burden of interest expenses, and also offer all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid shareholding dilution for those Shareholders who take up their entitlement under the Rights Issue in full. In considering methods of settlement of the amount owed to Mr. Lau by the Company, the Company also considered loan capitalisation by issuing Shares to Mr. Lau as a form of repayment to Mr. Lau. However, such loan capitalisation would cause an immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. Furthermore, a loan capitalisation would not raise any proceeds for

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the Group for its business and working capital use while the Rights Issue would enable the Company to raise additional capital. Taking into account the costs and benefits of each of the alternatives as compared with the Rights Issue, the Directors consider raising funds by way of the Rights Issue is more attractive and feasible in the current market condition, and thus, in the interests of the Company and the Shareholders as a whole.

Under the Rights Issue, the Qualifying Shareholders who elect not to participate 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 in the Company through the Rights Issue are able to acquire additional nil-paid Rights Shares in the market and/or through application for excess Rights Shares.

In light of the above, the Board (including the independent non-executive Directors who have expressed their views after taking into account the advice of the Independent Financial Adviser) considers that (i) the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position with the least theoretical dilution effect; (ii) the Rights Issue would not result in additional interest burden or bring adverse effect to the financial performance of the Group; (iii) the Set-off Arrangement will allow the Company to in effect repay the loan due to Mr. Lau without actual cash outflow; (iv) the Set-off Arrangement will allow the Group's balance sheet to improve from a net liabilities position to a net asset position; and (v) the Rights Issue, even if no other shareholders participate in the Rights Issue apart from the Concert Group, it would secure partial funding for the Group. Therefore the Board is of the view that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

As at the Latest Practicable Date, the Company does not have any intention, agreement, arrangement, understanding and/or negotiation (i.e. concluded or otherwise) on any potential equity/debt fundraising activities in the next twelve months after the Rights Issue and the Set-off Arrangement.

As at the Latest Practicable Date, save for the Rights Issue, the Company currently has no plan or intention to carry out any future corporate actions in the next twelve months which may have an effect of undermining or negating the intended purpose of the Capital Reorganisation.

Fund Raising Exercise involving Issue of Securities in the past 12 months

The Company had not conducted any fund raising activities involving issue of securities in the twelve (12) months before the date of the Announcement.

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ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
CHINA FORTUNE HOLDINGS LIMITED
Mr. Lau Siu Ying
Chairman and Chief Executive Officer

I. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the six months ended 30 June 2020 and each of the financial years ended 31 December 2017, 2018 and 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.chinafortune.com>):

- Interim report of the Company for the six months ended 30 June 2020 (pages 18 to 36)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0922/2020092201182.pdf>
- Annual report of the Company for the financial year ended 31 December 2019 (pages 84 to 210)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0719/2020071900015.pdf>
- Annual report of the Company for the financial year ended 31 December 2018 (pages 83 to 218)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/lt201904251036.pdf>
- Annual report of the Company for the financial year ended 31 December 2017 (pages 66 to 162)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/lt20180425971.pdf>

II. INDEBTEDNESS

As at the close of business on 30 November 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Prospectus, the indebtedness of the Group was as follows:

(a) Borrowings

The Group had outstanding borrowings from Mr. Lau of approximately HK\$29,780,000, further details of which are set as below:

- (i) Mr. Lau advanced HK\$14,280,000 (equivalent to RMB12,000,000) to the Group which is due on 31 December 2021. The borrowing is carried at amortised cost using an imputed interest rate of 4.75% per annum.
- (ii) Mr. Lau also made a loan of approximately of HK\$15,500,000 (equivalent to US\$2,000,000) which is unsecured, interest-free and repayable on 31 December 2021.

(b) Lease liabilities

The Group had lease liabilities payables of approximately HK\$527,061 which classified as follows:

	<i>HK\$</i>
	<i>Approximately</i>
Within one year	526,184
Within a period of more than one year but not more than two years	<u>877</u>
	<u><u>527,061</u></u>

Save as aforesaid and apart from intra-group liabilities and normal payables in the ordinary course of business, the Group did not have, at the close of business on 30 November 2020, any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or contingent liabilities.

III. WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, taking into account the present available resources and the estimated net proceeds from the Rights Issue taking into account the Set-off Arrangement, the Group would have sufficient working capital for at least twelve months from the date of this Prospectus in the absence of unforeseen circumstances.

IV. MATERIAL CHANGE

The Directors confirm that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) and up to and including the Latest Practicable Date.

V. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Upon Completion and the Capital Reorganisation having become effective, the Group will continue to be principally engaged in trading and distribution of mobile phones and related accessories, development of marketing and after-sales service network and mining and processing of celestite, zinc and lead minerals in the PRC. The Company intends to continue to focus on its trading and distribution business which the Directors believe will continue to grow steadily.

Mobile Phone Business

For the PRC market, its economy was slowed down since 2019. Yet, the continuous development of mobile phone market business model intensifying competition in the retail industry and the uncertainties arising from the emerging US-China trade war presented challenges the development of the Group's operations and performance.

Customers focus is expected to gradually shift from the functionality of mobile phone to the shopping experience. Customers will normally require services such as function presentations, digital phone books synchronization and pre-installing software, etc, in purchasing a mobile phone. In the 4G era, the convergence of mobile telecommunications and the Internet also led to rapid development of value-added business which requires the retail channels to advance from a pure sales platform to an integrated service platform. In this regard, the large mobile telecommunication chain stores have advantages.

As 4G is still applicable to a variety of uses, the Company intends to continue its development in 4G infrastructure and maintain its business in the trading and distribution of 4G mobile phones and related accessories whilst capturing any opportunities in the 5G space, by seeking for potential cooperation opportunities with suppliers of 5G telecommunication services providers, which is expected to achieve significant growth in the near future.

Mining Business

The Group has once commenced mining site exploitation system in our Strontium mining site since 2010. After the expiration of a 5-year mining operating permit on 25 September 2012, 黃石鋁發礦業有限公司 (“**Sifa Mining**”) obtained a renewed mining operating permit for 2 years (the “**2-year Permit 2012-2014**”) from the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)(“**MLR**”), under which Sifa Mining was allowed to carry out exploration activities only, but not exploitation activities. The 2-year Permit 2012-2014 was expired on 25 September 2014.

On 27 April 2015, a mining operating permit was granted by MLR for a term of 2 years from 25 September 2014 to 25 September 2016 under which a restriction was added that no exploitation activities were allowed but only exploration activities. Such restriction imposed on the renewed mining permit was basically the same as the previous mining permit which was approved by MLR in 2012 whilst the application for mining exploitation permit is a continuing process.

In the course of applying for further extension after expiry on 25 September 2016, the Department of Land and Resources of Hubei Province of the PRC (the “**DLR**”) issued an announcement (the “**DLR Announcement**”) published on 29 December 2017 in respect of the deadline of application for renewal of the expired mining operating permit.

In the DLR Announcement, the DLR informed the owners of the expired mining operating permits to furnish the application procedures for the renewal before 28 February 2018. If the owners fail to do so, they are responsible to deregister the mining operating permits before 31 March 2018 by themselves or the DLR will deregister the permits instead. The Group was unable to furnish the application before the deadline and therefore, instructed the Group's lawyers to clarify with the DLR the Group's situation as to whether the Group would be allowed to submit a new application for the mining operating permit in future.

Despite great efforts to ascertain with the DLR by the Group's PRC lawyers, the Group had been unable to receive a clear and favourable reply in this regard. As a result, a full impairment of the mining right of HK\$174.6 million and related plant and equipment of HK\$9.0 million had been made whilst all the related deferred tax liabilities of HK\$41.1 million had been derecognised in the profit or loss for the year ended 31 December 2017.

Despite the fact that the above mining right will no longer have any bearing on the financials of the Group for the year ended 31 December 2018, the Directors strived to pursue the ultimate stance of the DLR in respect of the above mining right in the interests of the Shareholders.

During the year ended 31 December 2018, the Group, through its PRC lawyer, has tried to approach the DLR by telephone calls and resubmission of the letter sent in February 2018 for the clarification of the Group's situation. However, the DLR did not reply to the Group's enquiries.

According to an online search made by the Group's PRC lawyer to the Ministry of Natural Resources of the PRC (中華人民共和國自然資源部) on 20 February 2020, the status of the mining operating permit has been displayed as "expired".

As at the Latest Practicable Date, there has been no further progress regarding the status of the mining operating permit and the Directors are in the process of reviewing the Group's mining business and further announcements on any updates will be made to Shareholders.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue had been completed on 30 June 2020.

The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared for illustrative purpose only and, because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company had the Rights Issue been completed as at the date to which it is made up or at any future date.

The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, as extracted from the published interim report of the Company for the six months period ended 30 June 2020, and is adjusted for the effect of the Rights Issue described below.

	Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 <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 as at 30 June 2020 immediately after the completion of the Rights Issue <i>HK\$'000</i>	Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 per Share <i>HK\$</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 per Share immediately after the completion of the Rights Issue <i>HK\$</i> <i>(Note 4)</i>
Rights Issue of Rights Shares of 91,777,944 to be issued at Subscription Price of HK\$0.53 per Rights Share:					
– assuming that all shareholders have participated in the Rights Issue	<u>13,358</u>	<u>23,269</u>	<u>36,627</u>	<u>0.15</u>	<u>0.20</u>
– assuming that no public shareholders have participated in the Rights Issue	<u>13,358</u>	<u>7,445</u>	<u>20,803</u>	<u>0.15</u>	<u>0.11</u>

Notes to unaudited pro forma financial information

1. The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company of HK\$13,358,000 as at 30 June 2020 are extracted from the published interim report of the Company for the six months ended 30 June 2020.
2. Assuming that all shareholders have participated in the Rights Issue, the estimated net proceeds from the Rights Issue of Rights Shares of approximately HK\$23,269,000 are based on 91,777,944 Rights Shares to be issued (in the proportion of one (1) right share for every one (1) adjusted share) at the subscription price of HK\$0.53 per Rights Share, after (i) amount to be set-off according to the Initial Set-off of approximately HK\$23,759,000 and (ii) deduction of the estimated related expenses of approximately HK\$1,614,000 assuming that the Rights Issue had been completed on 30 June 2020.

Assuming that no public shareholders have participated in the Rights Issue, the estimated net proceeds from the Rights Issue of Rights Shares of approximately HK\$7,445,000 are based on 91,777,944 Rights Shares to be issued (in the proportion of one (1) right share for every one (1) adjusted share) at the subscription price of HK\$0.53 per Rights Share, after (i) amounts to be set-off according to the Initial Set-off of approximately HK\$23,759,000 and the Second Set-off of approximately HK\$15,824,000 and (ii) deduction of the estimated related expenses of approximately HK\$1,614,000 assuming that the Rights Issue had been completed on 30 June 2020.

3. The calculation of the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 per Share is determined based on the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company of HK\$13,358,000 divided by the number of shares in issue of 91,777,944 as at 30 June 2020.

4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 per Share immediately after the completion of the Rights Issue without excess applications is arrived at based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 immediately after the completion of the Rights Issue of HK\$36,627,000 divided by 183,555,888 Shares, which represent 91,777,944 Shares in issue as at the Latest Practicable Date and 91,777,944 Rights Shares to be issued pursuant to the Rights Issue assuming that the Rights Issue had been completed on 30 June 2020.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 per Share immediately after the completion of the Rights Issue with excess applications is arrived at based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 immediately after the completion of the Rights Issue of HK\$20,803,000 divided by 183,555,888 Shares, which represent 91,777,944 Shares in issue as at the Latest Practicable Date and 91,777,944 Rights Shares to be issued pursuant to the Rights Issue assuming that the Rights Issue had been completed on 30 June 2020.

5. No adjustments have been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

**B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

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香港干諾道中111號
永安中心25樓

TO THE BOARD OF DIRECTORS OF CHINA FORTUNE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Fortune Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Appendix II to the prospectus issued by the Company dated 19 January 2021 (the “**Prospectus**”). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed rights issue on the basis of one rights share for every one adjusted shares held on the record date at the subscription price of HK\$0.53 per rights share (the “**Rights Issue**”) on the Group’s unaudited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2020 as if the Rights Issue had taken place at 30 June 2020. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s unaudited consolidated financial statements for the six months period ended 30 June 2020, on which no auditor’s report or review 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 (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements 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 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA 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 comply with ethical requirements and 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.

The purpose of the Unaudited Pro Forma Financial Information included in the prospectus 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 event or transaction at 30 June 2020 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 accountant's 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 on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (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.

BDO Limited

Certified Public Accountants

Choi Man On

Practicing Certificate Number: P02410

Hong Kong, 19 January 2021

1. RESPONSIBILITY STATEMENT

This Prospectus, 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 Prospectus 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 Prospectus misleading.

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

2. SHARE CAPITAL**(a) As at the Latest Practicable Date**

HK\$

Authorised share capital:

<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000</u>
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Issued and fully paid:

<u>91,777,944</u>	Shares of HK\$0.01 each	<u>917,779.44</u>
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(b) Immediately following the Rights Issue (assuming (i) no change in the number of issued Shares from the Latest Practicable Date up to the Record Date; and (ii) all Qualifying Shareholders have taken up the Rights Shares to which they are entitled)

HK\$

Authorised share capital:

<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000</u>
-----------------------	-------------------------	--------------------

HK\$

Issued and fully paid:

91,777,944	Shares immediately following the Capital Reorganisation having become effective	917,779.44
91,777,944	Rights Shares to be allotted and issued under the Rights Issue	917,779.44
<u>183,555,888</u>	Shares in issue immediately upon completion of the Rights Issue	<u>1,835,558.88</u>

All Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

Since 31 December 2019 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no Shares had been issued.

The Rights Shares, when issued and fully paid, will rank *pari passu* in all respects with the Adjusted Shares then in issue. Holders of 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 issue of the Rights Shares.

The Company will apply to the Stock Exchange for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. 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, there were no arrangements under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options, warrants or derivatives in issue which conferred any right to subscribe for, convert, or exchange into the Shares and there was no share or loan capital of any member of the Group which was under option, or agreed conditionally or unconditionally to be put under option.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of director	Capacity	Number of issued ordinary Shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by a discretionary trust	18,830,001	20.5
	<i>(Note)</i>		
	Beneficial owner	<u>25,999,628</u>	<u>28.3</u>
		<u>44,829,629</u>	<u>48.8</u>

Note:

These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a discretionary trust, the beneficiaries of which include Mr. Lau Siu Ying, his spouse and his children.

The interest disclosed above represents long positions in the shares and underlying shares of the Company or its associated corporations.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at the Latest Practicable Date, the following Shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of substantial shareholder	Capacity	Number of issued ordinary Shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying	Held by a discretionary trust	18,830,001	20.5
	<i>(Note 1)</i>		
	Beneficial owner	<u>25,999,628</u>	<u>28.3</u>
		<u>44,829,629</u>	<u>48.8</u>
Mr. Lee Wai, Timothy	Held by controlled entity <i>(Note 2)</i>	18,830,001	20.5

Notes:

- These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a discretionary trust, the beneficiaries of which include Mr. Lau Siu Ying, his spouse and his children.
- Under the SFO, Mr. Lee Wai, Timothy is deemed to have interests in the Shares of the Company as he is entitled to exercise more than one-third of the voting power at general meetings of Future 2000 Limited.

5. ADDITIONAL DISCLOSURE OF DEALINGS IN SHARES

As at the Latest Practicable Date,

- (a) save as disclosed in the section headed “Letter from the Board – Effects on the Shareholding Structure of the Company” of this Prospectus, none of the members of the Concert Group held, owned or controlled any other Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company;
- (b) no person had irrevocably committed themselves to vote for or against the resolution to be proposed at the SGM to approve the Capital Reorganisation, the Rights Issue and the Set-off Arrangement;
- (c) save for the Deeds of Covenants and Undertakings, the Concert Group did not have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons;
- (d) none of the members of the Concert Group had borrowed or lent any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into Shares;
- (e) save as disclosed in the paragraph headed “Directors’ and Chief Executive’s Interests in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporation” in this appendix, none of the Directors was interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares;
- (f) none of the Directors had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the period commencing six months before the date of the Rights Issue Announcement and ending on the Latest Practicable Date;
- (g) none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, nor (iii) any advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (other than persons enjoying exempt principal trader status under the Takeovers Code), had any interest in the Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company;
- (h) save for the Deeds of Covenants and Undertakings, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code;

- (i) no Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (j) none of the Company nor any Directors had borrowed or lent any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into Shares;
- (k) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Capital Reorganisation, the Rights Issue and the Set-off Arrangement;
- (l) there was no agreement, arrangement or understanding (including any compensation arrangement) (i) between the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence the Capital Reorganisation, the Rights Issue and the Set-off Arrangement; and (ii) between any Directors and any other persons which is conditional on or dependence upon the Capital Reorganisation, the Rights Issue and the Set-off Arrangement; and
- (m) save for the Deeds of Covenants and Undertakings, there was no material contract entered into by the Concert Group in which any Director had a material personal interest.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their respective associates was materially interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business as at the Latest Practicable Date.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contracts with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) had been entered into or amended within six months before 10 November 2020 (being the date of the Announcement); (ii) which were continuous contracts with a notice period of 12 months or more; or (iii) which were fixed term contracts with more than 12 months to run irrespective of the notice period. No Director had any service contracts with the Group other than those which were expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. DIRECTORS' INTERESTS IN GROUP'S ASSETS OR CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

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

As at the Latest Practicable Date, save for the Deeds of Covenants and Undertakings, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

10. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by members of the Group from 11 November 2018 (being the date falling two years immediately preceding 10 November 2020 (being the date of the Announcement)) up to and including the Latest Practicable Date:

- (i) the First Loan Agreement;
- (ii) the Second Loan Agreement;
- (iii) the sale and purchase agreement dated 29 September 2020 entered into by 上海遠嘉國際貿易有限公司 (Shanghai Yuanjia International Trade Co., Ltd.*), an indirect wholly-owned subsidiary of the Company (as seller) and 廣州萬創電子有限公司 (Guangzhou Wanchuang Electronics Co., Ltd.*) (as buyer), in respect of the disposal of the 51.0% issued share capital of the 重慶遠嘉通信設備有限公司 (Chongqing Yuanjia Communication Equipment Company Limited*);
- (iv) the Chan Deed of Covenants and Undertakings;
- (v) the CY Deed of Covenants and Undertakings;
- (vi) the HB Deed of Covenants and Undertakings;

* for identification purpose only

(vii) the KY Deed of Covenants and Undertakings; and

(viii) the Lau Deed of Covenants and Undertakings.

11. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, except as disclosed in the paragraph headed “MATERIAL CHANGE” set out in Appendix I to this Prospectus, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

12. EXPENSES

The expenses in connection with the Capital Reorganisation, the Change in Board Lot Size, the Rights Issue and the Set-off Arrangement, including but not limited to the financial advising fees, printing, registration, translation, legal and accounting fees are estimated to be approximately HK\$1.6 million and are payable by the Company.

13. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinions, letters or advice contained in this Prospectus:

Name	Qualifications
BDO Limited	certified public accountants

The above expert has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its letter, advice or report, as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding, directly or indirectly, in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which had been, since 31 December 2019 (the date to which the latest published audited financial statements of the Group were made up), acquired, or disposed of by or leased to, or were proposed to be acquired, disposed of by or leased to any member of the Group.

14. CORPORATE INFORMATION OF THE COMPANY AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered Office of the Company	Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Head Office and Principal Place of Business in Hong Kong of the Company	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong
Authorised Representatives of the Company	Mr. Lau Siu Ying Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong Mr. So Chi Kai Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong
Company Secretary of the Company	Mr. So Chi Kai <i>Certified Public Accountant</i>
Auditor/Reporting Accountants of the Company	BDO Limited <i>Certified Public Accountants</i> 25th Floor, Wing On Centre, 111 Connaught Road Central, Central, Hong Kong
Principal Bankers of the Company	China Construction Bank Shanghai Fujian Road branch No. 455, Beijing East Road, Huangpu District, Shanghai PRC China Merchants Bank Shanghai Bund Branch No. 16, Zhongshan East Road, Huangpu District, Shanghai PRC ICBC (Asia) Basement, Ground Floor and First Floor of 122 QRC, Nos. 122-126 Queen's Road Central, Hong Kong

Principal Share Registrar and Transfer Office of the Company	Conyers Corporate Services (Bermuda) Limited Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Hong Kong Branch Share Registrar and Transfer Office of the Company	Tricor Abacus Limited Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Legal Advisers to the Company	<i>As to Hong Kong law</i> D. S. Cheung & Co. 29/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong <i>As to Bermuda law</i> Conyers Dill & Pearman 29th Floor, One Exchange Square, 8 Connaught Square, Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Messis Capital Limited Room 1606, 16/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Hong Kong

15. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Name and address

Name	Address
Executive Directors	
Mr. Lau Siu Ying (<i>Chairman and Chief Executive Officer</i>)	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong

Name	Address
Mr. Wang Yu	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong

Non-executive Director

Mr. Hou Zhenyang	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong
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Independent non-executive Directors

Dr. Law Chun Kwan	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong
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Mr. Fok Wai Ming, Eddie	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong
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Dr. Lo Wai Shun	Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong
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Business address of the Directors and chief executive officer

The business address of the Directors and chief executive officer is the same as the Company's head office and principal place of business in Hong Kong at Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.

(b) Qualification and position held***Executive Directors***

Mr. Lau Siu Ying (“**Mr. Lau**”), aged 56, is the founder, Chairman and Chief Executive Officer of the Company since 1992. Mr. Lau has extensive working experiences in the telecommunications industry for over 25 years and has established solid business contacts in both Hong Kong and the PRC. Mr. Lau is responsible for directing the Group’s overall business policy and strategies as well as overseeing the Group’s business development in Hong Kong and the PRC. Prior to setting up his business, Mr. Lau worked for Hutchison Whampoa Group for approximately 5 years, in charge of the business development of the telecommunications in the PRC. Mr. Lau holds a bachelor degree in Business Administration from the Chinese University of Hong Kong and a master degree of science in Information Technology from the National University of Ireland, Dublin.

Mr. Lau is currently the trustee in New Asia College of the Chinese University of Hong Kong and the Board Councilor of China Mobile Communications Association. In the aspects of social and economic activities, Mr. Lau is devoted to promoting economic and educational development. He served as the vice president of the Hong Kong Association of Jieyang, the honorary president of Shanghai Chaoshan Chamber of Commerce, Hong Kong and Macau Director of the Dongguan City Youth Federation and the vice president of Hong Kong Island Chaoren Association Limited.

Mr. Lau has not entered into any service contract with the Company and there is no designated length of service but his appointment is subject to retirement by rotation and re-election and other related provisions as stipulated in the bye-laws of the Company and the Listing Rules. As at the Latest Practicable Date, Mr. Lau was entitled to receive a remuneration of approximately HK\$1,920,000 per annum.

Mr. Wang Yu (“**Mr. Wang**”), aged 54, joined the Group in April 2006 and was appointed as an Executive Director of the Company in November 2009. Mr. Wang is the General Manager of a subsidiary of the Company and in-charge of the mining business segment of the Company. Mr. Wang graduated from Xi’an Jiaotong University with a master degree and a bachelor degree in Computer Science. Mr. Wang has more than 10 years working experiences in channel and distribution management on computer products and mobile phones with local and multinational companies in the PRC. Prior to joining the Group, Mr. Wang was a General Manager of a listed company in the PRC focusing on IT business.

Pursuant to the letter of appointment with the Company, Mr. Wang is not appointed for any specified length or proposed length of service with the Company. Pursuant to the bye-laws of the Company, his appointment is subject to retirement and re-election at the next annual general meeting of the Company. As an executive Director of the Company, Mr. Wang will receive an annual director's fee of approximately RMB390,000 per annum. Mr. Wang has neither relationship with any Director, senior management nor substantial nor controlling shareholder of the Company.

Non-executive Director

Mr. Hou Zhenyang (“**Mr. Hou**”), aged 46, has over 15 years of experience in real estate investment trust funds (REITs), real estate development, management, acquisition, asset management, insurance and business management. He obtained a bachelor's degree in economics and marketing and a master degree in business administration from the University of Auckland, New Zealand, in 1997 and 2009, respectively.

Mr. Hou served in various positions of KVB Global Capital Limited from 2008 to 2014, including manager of the finance department, vice chairman, head of the investment and director. He joined as a managing partner of United States RW Holdings REIT, Asia from 2015 to 2019. He is currently the president of Asia Region of USA InvestCo Holdings Inc since July 2019 and also the vice chairman of Irvine Family Offices, Asia, since July 2020. Mr. Hou has extensive experience in business management, real estate operations, investment and financing as well as risk management.

Pursuant to the letter of appointment with the Company, Mr. Hou is not appointed for any specified length or proposed length of service with the Company. Pursuant to the bye-laws of the Company, he will hold office until the next general meeting of the Company. As a non-executive Director of the Company, Mr. Hou will receive an annual director's fee of HK\$120,000.

Independent non-executive Directors

Dr. Law Chun Kwan (“**Dr. Law**”), aged 54, was appointed as an independent non-executive Director of the Company in June 2012. Dr. Law has extensive working experience in various business fields including advertising, telecommunications, information technology and real estate development in both Hong Kong and the PRC. Dr. Law is presently engaged in real estate development business in the PRC. Dr. Law holds a bachelor degree of social science from the Chinese University of Hong Kong, a master degree of e-business and a doctorate degree of business administration in information systems from the Edith Cowan University, Western Australia.

Pursuant to the bye-laws of the Company, Dr. Law will hold office until the next general meeting of the Company. As an independent non-executive Director of the Company, Dr. Law will receive an annual director's fee of HK\$125,000, which was determined by reference to his duties and responsibilities, and the prevailing market conditions.

Mr. Fok Wai Ming, Eddie (“**Mr. Fok**”), aged 52, has over 20 years of experience in accounting, finance and corporate management of both listed and unlisted companies in Hong Kong. Mr. Fok obtained a bachelor's degree of science in engineering from the University of Hong Kong and a bachelor's degree in laws from the University of Wolverhampton. Mr. Fok is also a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Fok was previously a financial controller and company secretary of the Company from October 1999 to April 2000, an independent non-executive Director of the Company from September 2004 to September 2006, the chief financial officer and company secretary of the Company from September 2006 to November 2007 and a financial controller and company secretary of the Company from January 2014 to April 2018. He served Carnival Group International Holdings (stock code: 996) as executive director from 2007 to 2010. He also served as the company secretary of South West Eco Development Limited (stock code: 1908) from May 2013 to December 2013. He served as an independent non-executive director of Longhui International Holdings Limited (stock code: 1007) and Wanjia Group Holdings Limited (stock code: 401) from 2016 to 2018 and from 2017 to 2018 respectively. He is currently the director of Wayze Professional Services Limited.

Pursuant to the letter of appointment with the Company, Mr. Fok is not appointed for any specified length or proposed length of service with the Company. Pursuant to the bye-laws of the Company, he will hold office until the next general meeting of the Company. As an independent non-executive Director of the Company, Mr. Fok will receive an annual director's fee of HK\$125,000.

Dr. Lo Wai Shun (“**Dr. Lo**”), aged 59, was appointed as an independent non-executive Director of the Company in June 2018. Dr. Lo holds a bachelor degree in sciences and a master degree in philosophy from The Chinese University of Hong Kong, and a doctorate degree in Physics from Brown University, United States of America. He is also an Adjunct Professor of The Chinese University of Hong Kong and a Visiting Professor of Peking University (School of Innovation and Entrepreneurship). Dr. Lo is currently a general partner of DL Capitals, an angel investment fund focusing on disruptive and exponential technologies and has over 20 years of extensive experience in various business fields including intellectual property commercialisation, business models innovation and technology transfer. Dr. Lo had served as a non-executive director for various listed companies in Hong Kong from 2000 to 2005.

Pursuant to the letter of appointment with the Company, Dr. Lo is not appointed for any specified length or proposed length of service with the Company. Pursuant to the bye-laws of the Company, he will hold office until the next general meeting of the Company. As an independent non-executive director of the Company, Dr. Lo will receive an annual director's fee of HK\$125,000, which was determined by reference to his duties and responsibilities, and the prevailing market conditions. Dr. Lo is not connected and has no relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

16. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents and the written consent as referred to in the paragraph headed "13. Expert and Consent" in this appendix, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong).

17. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the head office and principal place of business of the Company in Hong Kong at Room 1505-06, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong during normal business hours (except Saturdays and public holidays) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m.; (ii) on the websites of the Company (www.chinafortune.com); and (iii) the SFC (www.sfc.hk) in the period from the date of this Prospectus up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for each of the three years ended 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020;
- (c) the report from BDO Limited on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this Prospectus;
- (d) the written consent referred to in the paragraph headed "13. Expert and Consent" in this appendix;
- (e) the material contracts referred to in the paragraph headed "10. Material Contracts" in this appendix; and
- (f) this Prospectus Documents.

18. LEGAL EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), so far as applicable.

19. MISCELLANEOUS

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) The English text of this Prospectus shall prevail over the respective Chinese text in case of inconsistency.