
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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LONGHUI INTERNATIONAL HOLDINGS LIMITED

龍輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

**(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE; AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



Merdeka Corporate Finance Limited

Underwriter to the Rights Issue



Merdeka Securities Limited

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



Alpha Financial Group Limited

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

A notice convening the extraordinary general meeting ("EGM") of the Company to be held at Suite 604, Ocean Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on Tuesday, 12 January 2021 at 11:00 a.m., at which the above proposal will be considered, is set out in this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude shareholders from attending and voting in person at the EGM if they so wish, in such event, the form of proxy shall be deemed to be revoked.

Shareholders and potential investors should note that the Rights Issue is conditional upon the fulfillment of the conditions referred to in the paragraph headed "Conditions of the Rights Issue" in the Letter from the Board. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Friday, 15 January 2021 and that dealing in the Rights Shares in the nil-paid form will take place from Friday, 29 January 2021 to Friday, 5 February 2021 (both days inclusive). Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be on Thursday, 11 February 2021), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

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

The Rights Issue is underwritten only on a best effort basis. 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 and not subscribed by subscribers procured by the Underwriter will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

PRECAUTIONARY MEASURES AND SPECIAL ARRANGEMENTS FOR THE EGM

Considering the outbreak of the COVID-19, certain measures will be implemented at the EGM with a view to addressing the risk to attendees of infection, including, without limitation:

- all attendees being required to (a) undergo body temperature screening; and (b) wear surgical masks prior to admission to the EGM venue
- attendees who are subject to health quarantine prescribed by the HKSAR Government not being admitted to the EGM venue
- all attendees being required to wear surgical masks throughout the EGM
- appropriate seating arrangement
- no distribution of corporate gift or refreshment

The Company reminds attendees that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. Furthermore, the Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly recommends that Shareholders appoint the Chairman of the EGM as their proxy and submit their form of proxy as early as possible. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

24 December 2020

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EXPECTED TIMETABLE

Set out below is the expected timetable of the Share Consolidation and the Rights Issue:

Event	Date (Hong Kong time)
Latest time for lodging transfer documents of the Shares to qualify for attendance and voting at the EGM	4:30 p.m. on Tuesday, 5 January 2021
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the EGM (both dates inclusive)	Wednesday, 6 January 2021 to Tuesday, 12 January 2021
Latest time for lodging proxy forms for the EGM	11:00 a.m. on Sunday, 10 January 2021
Record date for attendance and voting at the EGM	Tuesday, 12 January 2021
Date and time of the EGM	11:00 a.m. on Tuesday, 12 January 2021
Publication of the poll results announcement.	Tuesday, 12 January 2021
Register of members re-opens	Wednesday, 13 January 2021
Effective date of the Share Consolidation	Thursday, 14 January 2021
Commencement of dealings in the Consolidated Shares.	9:00 a.m. on Thursday, 14 January 2021
Original counter for trading in Existing Shares in board lots of 20,000 Existing Shares (in the form of existing share certificates in the colour of purple) temporarily closes.	9:00 a.m. on Thursday, 14 January 2021
Temporary counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates in the colour of purple) opens	9:00 a.m. on Thursday, 14 January 2021
First day of free exchange of existing share certificates in the colour of purple for new share certificates in the colour of yellow for Consolidated Shares	Thursday, 14 January 2021

EXPECTED TIMETABLE

Event	Date (Hong Kong time)
Last day of dealings in the Consolidated Shares on a cum-rights basis relating to the Rights Issue.	Thursday, 14 January 2021
First day of dealings in Consolidated Shares on an ex-rights basis relating to the Rights Issue	Friday, 15 January 2021
Latest time for the Shareholders to lodge transfer documents of Consolidated Shares in order to be qualified for the Rights Issue	4:30 p.m. on Monday, 18 January 2021
Closure of register of members to determine the eligibility of the Rights Issue (both dates inclusive)	Tuesday, 19 January 2021 to Tuesday, 26 January 2021
Record date for the Rights Issue	Tuesday, 26 January 2021
Register of members of the Company re-opens	Wednesday, 27 January 2021
Despatch of the Prospectus Documents (including the PAL, EAF and Prospectus) (in case of the Non-Qualifying Shareholders, the Prospectus only).	Wednesday, 27 January 2021
Original counter for trading in the Consolidated Shares in board lots of 20,000 Consolidated Shares (in the form of new share certificates in the colour of yellow) reopens	9:00 a.m. on Thursday, 28 January 2021
Parallel trading in the Consolidated Shares (in the form of both existing share certificates in the colour of purple in board lots of 1,000 Consolidated Shares and new share certificates in the colour of yellow in board lots of 20,000 Consolidated Shares) commences	9:00 a.m. on Thursday, 28 January 2021
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares and fully-paid Rights Shares.	Thursday, 28 January 2021
First day of dealings in nil-paid Rights Shares.	Friday, 29 January 2021
Latest time for splitting the PAL	4:30 p.m. on Tuesday, 2 February 2021
Last day of dealing in nil-paid Rights Shares.	Friday, 5 February 2021

EXPECTED TIMETABLE

Event	Date (Hong Kong time)
Latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares	4:00 p.m. on Wednesday, 10 February 2021
Latest time for the termination of the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Thursday, 11 February 2021
Temporary counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates in the colour of purple) closes	4:10 p.m. on Friday, 19 February 2021
Parallel trading in Consolidated Shares (represented by both existing share certificates in the colour of purple and new share certificates in the colour of yellow) ends	4:10 p.m. on Friday, 19 February 2021
Announcement of results of the Rights Issue	Friday, 19 February 2021
Despatch of share certificates for fully-paid Rights Shares and refund cheques (if any) for wholly and partially unsuccessful excess applications to be posted	Monday, 22 February 2021
Commencement of dealings in fully-paid Rights Shares.	9:00 a.m. on Tuesday, 23 February 2021
Latest time for free exchange of existing share certificates in the colour of purple for new share certificates in the colour of yellow.	Wednesday, 24 February 2021
Designated broker ceases to stand in the market to provide matching services for odd lots of the Consolidated Shares and fully-paid Rights Shares.	4:10 p.m. on Monday, 15 March 2021

All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Rights Issue will be announced as appropriate.

EXPECTED TIMETABLE

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

The latest time for acceptance of and payment for Rights Shares will not take place if a tropical cyclone warning signal no. 8 or above, or “extreme conditions” caused by super typhoons, or a “black” rainstorm warning is:

- i. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead the deadline for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; and
- ii. in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead the deadline for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 27 October 2020 in relation to, among other things, the Share Consolidation and the Rights Issue
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	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
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Longhui International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of the Company upon the Share Consolidation becoming effective
“controlling shareholders”	has the meaning ascribed thereto under the Listing Rules
“Convertible Bonds”	the 5-year zero coupon convertible bonds in the aggregate principal amount of HK\$129,470,312.50 issued by the Company on 4 July 2018
“COVID-19”	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness
“Delay Despatch Announcements”	the announcements of the Company dated 17 November 2020 and 8 December 2020 in relation to, among other things, the revised timetable for the proposed Share Consolidation and the proposed Rights Issue
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EAF(s)”	the excess application form(s) for application for excess Rights Shares proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“EGM”	the extraordinary general meeting of the Company to be held at Suite 604, Ocean Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on Tuesday, 12 January 2021 at 11:00 a.m. to consider the ordinary resolutions to be proposed to approve the Share Consolidation and the Rights Issue
“Existing Share(s)”	ordinary share(s) of HK\$0.00002 each in the share capital of the Company prior to the Share Consolidation having become effective
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company established by the Board comprising all the independent non-executive Directors, namely, Mr. Tam Bing Chung Benson, Mr. Cheung Ting Pong and Mr. Johnson Wan, to advise the Independent Shareholders in respect of the Rights Issue and as to voting at the EGM
“Independent Financial Adviser”	Alpha Financial Group Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the EGM under the Listing Rules
“Independent Third Party(ies)”	third party(ies) independent of and not connected (as defined under the Listing Rules) with the Company and connected person(s) of the Company
“Irrevocable Undertaking”	the irrevocable undertaking dated 27 October 2020 given by Shui Chak Group Limited to the Company as set out in the paragraph headed “Irrevocable Undertaking” in the Letter from the Board
“Last Trading Day”	27 October 2020, being the last trading day for the Shares before the publication of the Announcement

DEFINITIONS

“Latest Acceptance Date”	Wednesday, 10 February 2021, being the last day for acceptance and payment of the Rights Shares, or such other date as the Company may determine
“Latest Practicable Date”	21 December 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Latest Time for Acceptance”	4:00 p.m. on the Latest Acceptance Date
“Latest Time for Termination”	4:00 p.m. on Thursday, 11 February 2021, being the first Business Day following the Latest Acceptance Date, being the latest time for the termination of the Underwriting Agreement
“Listing Committee”	has the meaning ascribed thereto under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) in respect of whom the Directors, based on legal advice provided by legal advisers in the relevant jurisdictions, consider it necessary or expedient to exclude from the Rights Issue, on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Letter”	a letter from the Company to the Non-Qualifying Shareholders (if any) explaining the circumstances in which the Non-Qualifying Shareholders are not permitted to participate in the Rights Issue
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose registered address(es) as shown on such register at that time is/are in (a) place(s) outside Hong Kong, if any
“PAL(s)”	the renounceable provisional allotment letter(s) in such form as the Company may approve to be issued to the Qualifying Shareholders in connection with the Rights Issue
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be issued by the Company to the Shareholders containing details of the Rights Issue

DEFINITIONS

“Prospectus Documents”	the Prospectus, the PAL and the EAF
“Prospectus Posting Date”	Wednesday, 27 January 2021 (or such other date as may be determined by the Company), being the date of despatch of: (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Overseas Letter together with the Prospectus for information only to the Non-Qualifying Shareholders, if any
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company as at close of business on the Record Date
“Record Date”	the date by reference to which entitlements under the Rights Issue are expected to be determined, which is currently scheduled to be on Tuesday, 26 January 2021 or such later date as announced by the Company
“Registrar”	the branch share registrar and transfer office of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“Rights Issue”	up to 320,833,749 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than full conversion of the Convertible Bonds) at the Subscription Price by way of rights on the basis of one (1) Rights Share for every one (1) Consolidated Share held on the Record Date payable in full on acceptance
“Rights Share(s)”	new Consolidated Share(s) to be allotted and issued by the Company pursuant to the Rights Issue
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Consolidation”	the proposed consolidation of every twenty (20) issued and unissued Existing Shares into one (1) Consolidated Share
“Share(s)”	ordinary share(s) in issue and unissued share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subscription Price”	HK\$0.142 per Rights Share
“substantial shareholder(s)”	has the same meaning ascribed thereto under the Listing Rules
“Supplemental Underwriting Agreement”	the supplemental underwriting agreement dated 18 December 2020 and entered into between the Company and the Underwriter amending certain provisions of the Underwriting Agreement
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Underwriter”	Merdeka Securities Limited, a corporation licensed to carry out type 1 (dealing in securities) regulated activity under the SFO
“Underwriting Agreement”	the underwriting agreement entered into between the Company and the Underwriter on 27 October 2020 in relation to the underwriting arrangement in respect of the Rights Issue (as amended by the Supplemental Underwriting Agreement)
“Underwritten Shares”	such number of Unsubscribed Rights Shares (excluding the Rights Shares to be provisionally allotted to Shui Chak Group Limited subject to the Irrevocable Undertaking and up to 159,250,437 Rights Shares) to be underwritten by the Underwriter on a best effort basis subject to the terms and conditions of the Underwriting Agreement
“Unsubscribed Rights Shares”	consists of (i) the Rights Shares that are not subscribed by the Qualifying Shareholders or holders of nil-paid rights, excluding those Rights Shares to be provisionally allotted to Shui Chak Group Limited for which subscription of Rights Shares will be subject to the Irrevocable Undertaking as set out in the paragraph headed “Irrevocable Undertaking” in the Letter from the Board; and (ii) the unsold entitlement of the Non-Qualifying Shareholders to the Rights Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

LETTER FROM THE BOARD

LONGHUI INTERNATIONAL HOLDINGS LIMITED

龍輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

Board of Directors

Executive Directors:

Mr. Hung Shui Chak
Mr. So Kam Chuen
Mr. Yuan Mingjie

Independent non-executive Directors:

Mr. Tam Bing Chung Benson
Mr. Cheung Ting Pong
Mr. Johnson Wan

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal
place of business:*

Room 1502, 15/F.
Lucky Building
39 Wellington Street, Central
Hong Kong

24 December 2020

*To the Qualifying Shareholders and, for information only,
the Non-Qualifying Shareholders (if any)*

Dear Sir or Madam,

**(1) PROPOSED SHARE CONSOLIDATION; AND
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1)
RIGHTS SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE**

INTRODUCTION

References are made to (i) the Announcement in relation to, among other matters, the Share Consolidation and the Rights Issue; and (ii) the Delay Despatch Announcements.

The purpose of this circular is to provide you with further details of the Share Consolidation, the Rights Issue and a notice convening the EGM.

(1) PROPOSED SHARE CONSOLIDATION

The Board intends to put forward a proposal to the Shareholders to effect the Share Consolidation which involves the consolidation of every twenty (20) issued and unissued Existing Shares into one (1) Consolidated Share. As none of the Shareholders or their

LETTER FROM THE BOARD

respective associates would have any interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution relating to the Share Consolidation at the EGM.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the fulfillment of the following conditions:

- (i) the passing of the ordinary resolution by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation; and
- (iii) the compliance with all relevant procedures and requirements under the laws of the Cayman Islands (where applicable) and the Listing Rules to effect the Share Consolidation.

The Share Consolidation will become effective on the second Business Day immediately following the fulfillment of the above conditions. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Listing application

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective.

Subject to the granting of listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange upon the Share Consolidation becoming effective, as well as compliance with the stock admission requirements of the HKSCC, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second 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. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

None of the Existing Shares are listed or dealt in on any other stock exchange other than the Stock Exchange, and at the time the Share Consolidation becoming effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

LETTER FROM THE BOARD

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$380,000 divided into 19,000,000,000 Existing Shares of HK\$0.00002 each, of which 6,373,602,437 Existing Shares have been issued and are fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective and on the basis that no further Existing Shares will be allotted, issued or repurchased prior thereto, the authorised share capital of the Company will become HK\$380,000 divided into 950,000,000 Consolidated Shares of HK\$0.0004 each, of which 318,680,121 Consolidated Shares will be in issue and fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other in accordance with the Company's articles of association.

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Group or the interests or rights of the Shareholders, save for any fractional Consolidated Shares to which the Shareholders may be entitled.

Adjustments in relation to the other securities of the Company

The Company adopted a share option scheme on 10 October 2010 for a period of 10 years which has already expired. As at the Latest Practicable Date, the Company had no outstanding share options for subscription of Existing Shares under the expired share option scheme.

As at the Latest Practicable Date, there are outstanding Convertible Bonds in the principal amount of HK\$4,414,937,7075 convertible into 43,072,563 Existing Shares (2,153,628 Consolidated Shares). The conversion price of the outstanding Convertible Bonds will be adjusted according in accordance with the terms of the Convertible Bonds. The Share Consolidation may lead to adjustments to the conversion price of the outstanding Convertible Bonds pursuant to the terms and conditions of the Convertible Bonds. The Company will make further announcement(s) on such adjustments as and when appropriate.

Save as disclosed above, the Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares as at the Latest Practicable Date. The Company also has no intention to issue or grant any convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares on or before the Record Date.

LETTER FROM THE BOARD

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated (rounded down to the nearest whole number) and, if possible, sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares of the Company regardless of the number of share certificates held by such holder.

Shareholders concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser and may wish to consider the possibility of buying or selling Shares in a number sufficient to make up an entitlement to receive a whole number of Consolidated Shares.

Odd lots arrangements and matching services

In order to facilitate the trading of odd lots, if any, of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Merdeka Securities Limited as an agent to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares during the period from Thursday, 28 January 2021 to 4:10 p.m. on Monday, 15 March 2021. Shareholders who wish to take advantage of this facility should contact Mr. Chow Man Ho of Merdeka Securities Limited at Room 1108, 11/F., Wing On Centre, 111 Connaught Road Central, Hong Kong (telephone number: (852) 2868 1063 during office hours (i.e. 9:00 a.m. to 6:00 p.m.) of such period.

Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, during the period from Thursday, 14 January 2021 to Wednesday, 24 February 2021 (both days inclusive) submit the existing share certificates in the colour of purple for the Existing Shares to the Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in exchange for new share certificates in the colour of yellow for the Consolidated Shares at the expense of the Company.

Thereafter, existing share certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for Consolidated Shares at the expense of the Shareholders on payment of a fee of HK\$2.50 (or such higher amount as may be specified by the Stock Exchange from time to time) for each existing share certificate cancelled or each new share certificate issued for Consolidated Shares (whichever is higher).

LETTER FROM THE BOARD

After Wednesday, 24 February 2021, existing share certificates for the Existing Shares will only remain effective as documents of title and may be exchanged for share certificates for Consolidated Shares at any time but will not be accepted for delivery, trading and settlement purposes.

REASONS FOR THE SHARE CONSOLIDATION

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and last updated on 1 October 2020, the expected board lot value should be greater than HK\$2,000 per board lot taking into account the minimum transaction costs for a securities trade.

It is expected that the Share Consolidation will increase the nominal value of the Existing Shares and would bring about a corresponding upward adjustment in the trading price per Consolidated Share. Immediately prior to the Latest Practicable Date, the last trading price of the Company was HK\$0.01, with a board lot size of 20,000, the existing board lot value was only HK\$200, which was less than HK\$2,000. Upon the Share Consolidation becoming effective, the share price of the Company would be adjusted to HK\$0.20, with a board lot size of 20,000, the theoretical price per board lot would be HK\$4,000. Thus, the Board considers that, despite the creation of odd lot shares as a result of the Share Consolidation, it would maintain the trading amount for each board lot at a reasonable level in order to attract more investors and to expand the shareholder base of the Company.

Upon the Share Consolidation becoming effective, the board lot size for trading in the Consolidated Shares will remain as 20,000 Consolidated Shares.

Further, the Share Consolidation would reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, since most of the banks/securities houses will charge a minimum transaction costs for each securities trade. It is hoped that this will make investing in the Shares more attractive to a broader range of investors, in particular to institutional investors whose house rules might otherwise prohibit or restrict trading in securities that are priced below a prescribed floor, and thus help to further broaden the shareholder base of the Company. Accordingly, the Board is of the view that the Share Consolidation is beneficial to the Company and the Shareholders as a whole.

As at the Latest Practicable Date, save for the Rights Issue and the transactions contemplated thereunder, the Company has no intention to carry out other corporate actions or arrangements which may have an effect of undermining or negating the intended purpose of the Share Consolidation, and the Company does not have any plan to conduct any equity fund raising activities in the coming 12 months.

LETTER FROM THE BOARD

Shareholders should take note that the Share Consolidation is conditional upon satisfaction of the conditions set out in the paragraph headed “Conditions of the Share Consolidation” above. Therefore, the Share Consolidation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

(2) PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Share Consolidation having become effective, with the terms set out as follows:

Issue statistics

Basis of the Rights Issue	:	One (1) Rights Share (in nil-paid form) for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.142 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	6,373,602,437 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	318,680,121 Consolidated Shares (assuming no Shares are issued or repurchased on or before the Record Date)
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 318,680,121 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date) or up to 320,833,749 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds)
Aggregate nominal value of the Rights Shares	:	Up to HK\$127,472.0484 (assuming no change in the number of Consolidated Shares in issue on or before the Record Date) or up to HK\$128,333.4996 (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds)

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- Number of issued Consolidated Shares upon completion of the Rights Issue (assuming that the Rights Issue is fully subscribed) : Up to 637,360,242 Consolidated Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue) or up to 641,667,498 Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
- Maximum funds raised before expenses : Up to approximately HK\$45.25 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date and all the Rights Shares will be taken up); or up to approximately HK\$45.56 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds and all the Rights Shares will be taken up)

As at the Latest Practicable Date, there are outstanding Convertible Bonds in the principal amount of HK\$4,414,937.7075 convertible into 43,072,563 Existing Shares. Save for the foregoing, the Group had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into Shares.

Assuming no change in the number of issued Shares on or before the Record Date and that no new Consolidated Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 318,680,121 Rights Shares proposed to be issued pursuant to the terms of the Rights Issue represent: (i) 100.00% of the issued share capital of the Company upon the Share Consolidation becoming effective; and (ii) 50.00% of the enlarged issued share capital of the Company upon completion of the Rights Issue.

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Assuming no change in the number of issued Consolidated Shares on or before the Record Date other than the full conversion of the Convertible Bonds (i.e. 2,153,628 Consolidated Shares) and that no new Consolidated Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 320,833,749 Rights Shares proposed to be issued pursuant to the Rights Issue represents (i) approximately 100.68% of the issued share capital of the Company upon the Share Consolidation becoming effective; and (ii) 50.00% of the enlarged issued share capital of the Company upon completion of the Rights Issue.

Subscription Price

The Subscription Price is HK\$0.142 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 29.00% to the theoretical closing price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.0100 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 29.00% to the average theoretical closing price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.0100 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 29.70% to the average theoretical closing price of approximately HK\$0.202 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.0101 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 29.00% to the theoretical closing price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.0100 as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a discount of approximately 16.96% to the theoretical ex-rights price of approximately HK\$0.171 per Consolidated Share (taking into account the effect of the Share Consolidation) based on the theoretical ex-rights price of approximately HK\$0.00855 per Existing Share based on the closing price of HK\$0.0100 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and

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- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 14.50% of the theoretical diluted price of HK\$0.171 per Consolidated Share (after taking into account the effect of the Share Consolidation) to the benchmarked price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.0100 per Existing Share and the average closing prices of the Shares as quoted on the Stock Exchange in the five (5) consecutive trading days immediately prior to the Last Trading Day of HK\$0.0100 per Existing Share).

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.136 (assuming all the Rights Shares will be taken up) and approximately HK\$0.136 (assuming all the Convertible Bonds being converted and all the Rights Shares will be taken up).

The Subscription Price was determined by the Company with reference to, amongst other factors, (i) the recent closing prices of the Shares; (ii) the prevailing market conditions; and (iii) the funding and capital needs of the Company as set out in the paragraph headed “Reasons for the Rights Issue and Use of Proceeds” below. The Rights Issue will not result in a theoretical dilution effect of 25% or more.

After taking into consideration the reasons for the Rights Issue as stated in the paragraph headed “Reasons for the Rights Issue and Use of Proceeds” below, the Directors consider that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders. Subject to the Share Consolidation having become effective and the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Overseas Letter together with the Prospectus only (without the PAL and the EAF), for information only, to the Non-Qualifying Shareholders (if any). To qualify for the Rights Issue, a Shareholder must, at the close of business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii) not be a Non-Qualifying Shareholder.

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In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:30 p.m. (Hong Kong time) on Monday, 18 January 2021 at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

It is expected that the last day of dealings in the Consolidated Shares on a cum-rights basis is Thursday, 14 January 2021, and the Consolidated Shares will be dealt with on an ex-rights basis from Friday, 15 January 2021.

Application for all or any part of a Qualifying Shareholder’s provisional allotment should be made by duly completing and signing the PAL (in accordance with the instructions printed therein) and lodging the same with a cheque or banker’s cashier order for the Rights Shares being applied for with the Registrar at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong on or before 4:00 p.m. on the Latest Acceptance Date.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience 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 Shares arising from the aggregation of fractional entitlements). **If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

Rights of the Overseas Shareholders

The Prospectus Documents to be issued in connection with the Rights Issue will not be registered or filed under the securities law of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

Based on the register of members of the Company as at the Latest Practicable Date, there are four Overseas Shareholders with registered address located in the PRC and United States of America, which are interested in an aggregate of 12,500 Existing Shares. The Board will comply with Rule 13.36(2)(a) of the Listing Rules and make necessary enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders (if any) under the laws of the relevant overseas jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges. If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to any Overseas Shareholders on account either of the legal restrictions under the laws of relevant place(s) or the requirements of the relevant overseas regulatory body or stock exchange, no provisional allotment of the nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Non-Qualifying Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Prospectus to be issued.

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Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. Any net proceeds of sale thereof, after deduction of expenses, will be distributed by the Company to the Non-Qualifying Shareholders in Hong Kong dollars, at their own risk, pro rata to their respective entitlements provided that if any of such persons would be entitled to a sum not exceeding HK\$100, such sum will be retained by the Company for its own benefit. Any such unsold nil-paid Rights Shares to which such Non-Qualifying Shareholders would otherwise have been entitled, together with any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by transferees of nil-paid Rights Shares, will be available for excess application by the Qualifying Shareholders under the EAF(s).

The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 6 January 2021 to Tuesday, 12 January 2021, both dates inclusive, to determine the eligibility of the Shareholders to vote at the EGM. The register of members of the Company will be closed from Tuesday, 19 January 2021 to Tuesday, 26 January 2021 (both dates inclusive) to determine the eligibility of the Rights Issue. No transfer of Shares will be registered during the above periods.

Fractional entitlements to the Rights Shares

On the basis of the entitlement to subscribe one (1) Rights Share for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements of the Consolidated Shares to the Rights Shares will arise from the Rights Issue.

Basis of provisional allotments

The basis of the provisional allotment shall be one (1) Rights Share (in nil-paid form) for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment shall be made by duly completing a PAL and lodging the same with a cheque or a banker's cashier order for the sum payable for the Rights Shares accepted for with the Registrar by the Latest Time for Acceptance.

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Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders, any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise not subscribed for by transferees of nil-paid Rights Shares and for any unsold Rights Shares arising out of the aggregation of fractional entitlements.

Application for excess Rights Shares can be made only by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Hong Kong by not later than 4:00 p.m. on Wednesday, 10 February 2021.

The Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis, according to the principle that any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of excess Rights Shares applied for but no reference will be made to Rights Shares comprised in applications by PAL or the existing number of Shares held by Qualifying Shareholders. No preference will be given to topping up odd lots to whole board lots.

If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders and/or transferees of nil-paid Rights Shares under PALs 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.

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 shareholder or its 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.

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

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For Shareholders whose Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar, for completion of the relevant registration not later than 4:30 p.m. on Monday, 18 January 2021.

Status of the Rights Shares

The Rights Shares (when allotted, fully paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Certificates of the Rights Shares and refund cheques

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 Monday, 22 February 2021 by ordinary post to those entitled thereto, 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 Monday, 22 February 2021 by ordinary post to the applicants, at their own risk, to their registered addresses.

If the Rights Issue does not proceed, the monies received in respect of the relevant provisional allotments will be refunded to the Qualifying Shareholders or such other person to whom the nil-paid rights have been validly renounced or transferred or, in the case of joint acceptances, to the first-named person, without interest and by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders or such other person to their registered addresses by the Registrar on or around Monday, 22 February 2021.

Application for listing

The Company will apply to the Listing Committee for the listing of, and the permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms) to be allotted and issued pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

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The board lot size of the nil-paid Rights Shares shall be the same as that of the fully-paid Rights Shares, i.e. 20,000 Shares in one board lot.

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 as well as compliance with the stock admission requirement of HKSCC, 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 commencement dates of the dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any), the Company will arrange odd lot matching services from Thursday, 28 January 2021 to 4:10 p.m. on Monday, 15 March 2021 (both dates inclusive). Shareholders should note that matching of the sale and purchase of odd lots of the Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed. Further details in respect of the odd lot arrangement will be set out in the Prospectus.

Taxation

Shareholders are advised to consult their professional advisers if they are in any doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the Rights Shares and, regarding the Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf.

Rights Issue on a best effort basis

As the Rights Issue will proceed on a best effort basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) or EAF(s) may unwittingly incur an obligation to make a general offer for the Shares and Convertible Bonds under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules. Investors are advised to exercise caution when dealing in the Shares. There is no minimum amount to be raised under the Rights Issue.

LETTER FROM THE BOARD

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled:

- (1) the passing of the necessary resolutions at the EGM to approve the Share Consolidation and the Share Consolidation having become effective;
- (2) the passing by the Independent Shareholders who are entitled to vote and not required to abstain from voting under the Listing Rules of the necessary resolution(s) at the EGM to approve the Rights Issue;
- (3) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly signed by all the 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 Prospectus Posting Date;
- (4) the posting of the Prospectus Documents to the Qualifying Shareholders by the Prospectus Posting Date and the posting of the Prospectus and a letter to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;
- (5) the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Business Day prior to the first day of their dealings;
- (6) the compliance with and performance of all the undertakings and obligations of Shui Chak Group Limited or any of its nominee(s), under the Irrevocable Undertaking;
- (7) compliance with the requirements under the applicable laws and regulations of Hong Kong and the Cayman Islands; and
- (8) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with the terms of the Underwriting Agreement at or before the Latest Time for Termination.

The above conditions are incapable of being waived. If the conditions are not fully satisfied by the Latest Time for Termination (or such other date as the Company and the Underwriter may mutually agree in writing) or if the Underwriting Agreement is rescinded or terminated pursuant to the terms thereof, all obligations and liabilities of

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the parties under the Underwriting Agreement shall forthwith cease and determine and neither party shall have any claim against the other for fees, costs, damages, compensation or otherwise.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Irrevocable Undertaking

As at the Latest Practicable Date, Shui Chak Group Limited is interested in 3,231,666,250 Existing Shares or 161,583,312 Consolidated Shares upon completion of the Share Consolidation, representing approximately 50.70% of the total number of the existing issued Shares.

Pursuant to the Irrevocable Undertaking, (i) Shui Chak Group Limited has undertaken to the Company that it will subscribe for 161,583,312 Rights Shares which comprise the full acceptance of their provisional entitlement in respect of 161,583,312 Consolidated Shares beneficially held by it (upon completion of the Share Consolidation); and (ii) it will not dispose of 161,583,312 Consolidated Shares owned by it and such Shares will remain beneficially owned by it up to and including the date on which completion of the Rights Issue takes place or the date on which the Company announces that the Rights Issue will not proceed, whichever is earlier.

Save for the Irrevocable Undertaking, the Company has not received any information or irrevocable undertaking from any other Shareholders of their intention in relation to the Rights Shares to be allotted to them under the Rights Issue as at the Latest Practicable Date.

THE UNDERWRITING AGREEMENT

On 27 October 2020 (after trading hours of the Stock Exchange), the Company entered into the Underwriting Agreement (as amended by the Supplemental Underwriting Agreement) with the Underwriter. Details of the Underwriting Agreement are set out below:

Date : 27 October 2020 (after trading hours) (as amended by the Supplemental Underwriting Agreement on 18 December 2020)

Underwriter : Merdeka Securities Limited, a corporation licensed to carry out type 1 (dealing in securities) regulated activity under the SFO.

As at the Latest Practicable Date, the Underwriter is independent of and not connected with the Company or its connected persons.

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- Number of Underwritten Shares : Subject to the terms and conditions of the Underwriting Agreement, the Underwriter agreed to procure, on a best effort basis, the subscription (but will not itself subscribe) for the Underwritten Shares not being taken up (other than the Rights Shares to be provisionally allotted to Shui Chak Group Limited subject to the Irrevocable Undertaking)
- Commission : The higher of HK\$100,000 or 1.50% of the aggregate Subscription Price in respect of such number of the Rights Shares actually procured by the Underwriter for subscription pursuant to the Underwriting Agreement.

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events. If at any time, prior to the Latest Time for Termination:

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
 - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

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- (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iv) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue; or
- (v) the Prospectus or circular or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter are material to the Group as a whole and are likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

then the Underwriter shall at its sole and absolute discretion be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Rescission or termination of the Underwriting Agreement shall be without prejudice to any rights of any party in respect of any breach by the other prior to such rescission or termination.

If the Underwriter gives a notice of termination to the Company in accordance with the terms of the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises its rights to terminate the Underwriting Agreement, the Rights Issue will not proceed.

LETTER FROM THE BOARD

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in the hotpot restaurant business in the PRC.

As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Group suffered loss for the period attributable to owners of the Company of approximately RMB52.47 million which was mainly attributable to the outbreak of the COVID-19 pandemic since early 2020, which has materially and adversely impacted the revenue from the Group's restaurant operations. As at 30 June 2020, the Group had cash and bank balances amounting to approximately RMB1.72 million comparing to cash and bank balance of approximately RMB5.34 million as at 31 December 2019, and the net current liabilities of the Group increased from approximately RMB182.47 million as at 31 December 2019 to approximately RMB200.32 million as at 30 June 2020. The Board considered it necessary to conduct fund raising activities to strengthen the financial position of the Group as the outbreak of the COVID-19 pandemic had severely impacted the Group's business for the first half of 2020.

The Board has considered other alternative means of fund raising, such as debt financing/bank borrowings and placing of new Shares, before resolving to the Rights Issue. The Company has considered the pros and cons of different fund-raising options. In respect of debt financing, the Company has approached commercial banks, but it was unable to obtain any debt financing at terms acceptable to the Company as, save for the collaterals for the existing banking facilities, the Group does not have any other significant assets which is satisfactory to the banks and can serve as collaterals for further bank loans. Also, the Board does not consider debt financing to be desirable at this stage as the expected finance costs are high and additional borrowings will deteriorate the gearing position of the Group.

In comparison, the Rights Issue is pre-emptive in nature, allowing the Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (a) increase their respective interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability) or through excess application; or (b) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market (subject to the market demand). As an open offer does not allow the trading of rights entitlements, rights issue is preferred. Accordingly, the Directors consider that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

The net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK\$43.25 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date) and approximately HK\$43.56 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds).

The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately HK\$25.88 million for the repayment of the existing indebtedness of the Group from Independent Third Parties; (ii) approximately HK\$3.75 million for the

LETTER FROM THE BOARD

repayment of bank loan; and (iii) approximately HK\$13.62 million for the general working capital of the Group, including the rental payment of the Group's restaurants located in the PRC, staff costs and settlement of the Group's day-to-day operating expenses.

Set out below are the information of the existing indebtedness of the Group as of 30 November 2020:

Lender	Date of loan	Amount (RMB)	Maturity Date	Interest Rate
Lender A (notes 1)	16/3/2020	1,000,000	15/3/2021	0%
	17/3/2020	1,000,000	16/3/2021	0%
	18/3/2020	1,000,000	17/3/2021	0%
Lender B (notes 2)	1/1/2020	6,000,000	31/12/2020	0%
Lender C (notes 3)	During the period between 27/6/2019 and 17/8/2020	24,310,000	During the period between 26/6/2020 and 17/8/2021	0%
	Total	<u>33,310,000</u>		
Bank of Shanghai	25/3/2020	<u>3,000,000</u>	25/3/2021	4.55%
	Total	<u>3,000,000</u>		

Notes:

- (1) Lender A is a company incorporated in the PRC and is an independent third party to the Company.
- (2) Lender B is a company incorporated in the PRC and is an independent third party to the Company.
- (3) Lender C is an individual and is an independent third party to the Company. Lender C has provided various loans to the Company during the period from 27 June 2019 to 17 August 2020.

In the event that there is no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds, the additional net proceeds of approximately HK\$0.31 million will be applied towards to the general working capital of the Group.

The Rights Issue is underwritten only on a best effort basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event the Rights Issue is undersubscribed, any Unsubscribed Rights Shares (excluding those Rights Shares to be provisionally allotted to Shui Chak Group Limited for which subscription of Rights Shares will be subject to the Irrevocable Undertaking as set out in the paragraph headed "Irrevocable Undertaking" above) will be subscribed by subscribers procured by the Underwriter, on a best effort basis, pursuant to the Underwriting Agreement. Any Unsubscribed Rights Shares not subscribed by the subscribers procured by the Underwriter

LETTER FROM THE BOARD

will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue.

Assuming the Rights Issue is undersubscribed, except for those Rights Shares to be provisionally allotted to Shui Chak Group Limited, the amount of net proceeds will be approximately HK\$20.94 million and the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue will be fully applied by the Company as to the repayment of the existing indebtedness of the Group from Independent Third Parties.

Depending on the level of subscription of the Rights Issue, the Company intends to utilise the net proceeds in the following order of priority:

- (1) fully settle the outstanding indebtedness of the Group from Independent Third Parties of approximately HK\$25.88 million;
- (2) repayment of the bank loans of approximately HK\$3.75 million; and
- (3) the remaining net proceeds (if any) will then be applied towards the general working capital of the Group, including the rental payment of the Group's restaurants located in PRC, staff costs and settlement of the Group's day-to-day operating expenses.

Further details of the use of proceeds which will be made by the Company in the announcement of results of the Rights Issue.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Share Consolidation; (iii) immediately after completion of the Share Consolidation and the Rights Issue assuming all Shareholders have taken up all the entitled Rights Shares; (iv) immediately after completion of the Share Consolidation and the Rights Issue assuming none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares; and (v) immediately after completion of the Share Consolidation and the Rights Issue assuming none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares and all the Unsubscribed Rights Shares were subscribed for through the Underwriter:

(i) assuming there is no other change in the shareholding structure of the Company before the completion of the Rights Issue:

	As at the Latest Practicable Date		Immediately after completion of the Share Consolidation		Immediately after completion of the Share Consolidation and the Rights Issue (assuming all Shareholders have taken up all the entitled Rights Shares)		Immediately after completion of the Share Consolidation and the Rights Issue (assuming none of the Qualifying Shareholders except Shui Chak Group Limited pursuant to the Irrevocable Undertaking have taken up any entitled Rights Shares) and none of the Unsubscribed Rights Shares were subscribed for through the Underwriter		Immediately after completion of the Share Consolidation and the Rights Issue assuming none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares and all the Unsubscribed Rights Shares were subscribed for through the Underwriter	
	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %
Controlling Shareholder										
Shui Chak Group Limited (Note)	3,231,666,250	50.70	161,583,312	50.70	323,166,624	50.70	323,166,624	67.29	323,166,624	50.70
Director										
So Kam Chuen	44,714,625	0.70	2,235,731	0.70	4,471,462	0.70	2,235,731	0.47	2,235,731	0.35
Public Shareholder										
Other Shareholders	3,097,221,562	48.60	154,861,078	48.60	309,722,156	48.60	154,861,078	32.24	154,861,078	24.30
Subscribers procured by the Underwriter	—	—	—	—	—	—	—	—	157,096,809	24.65
Total	6,373,602,437	100.00	318,680,121	100.00	637,360,242	100.00	480,263,433	100.00	637,360,242	100.00

LETTER FROM THE BOARD

- (ii) assuming all the Convertible Bonds being converted on or before the Record Date and there is no other change in the shareholding structure of the Company before the completion of the Rights Issue:

	As at the Latest Practicable Date and assuming all the Convertible Bonds being converted		Immediately after completion of the Share Consolidation and assuming all the Convertible Bonds being converted		Immediately after completion of the Share Consolidation and the Rights Issue (assuming all the Convertible Bonds being converted and all Shareholders have taken up all the entitled Rights Shares)		Immediately after completion of the Share Consolidation and the Rights Issue (assuming all the Convertible Bonds being converted and none of the Qualifying Shareholders except Shui Chak Group Limited pursuant to the Irrevocable Undertaking have taken up any entitled Rights Shares) and none of the Unsubscribed Rights Shares were subscribed for through the Underwriter		Immediately after completion of the Share Consolidation and the Rights Issue assuming all the Convertible Bonds being converted and none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares and all the Unsubscribed Rights Shares were subscribed for through the Underwriter	
	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %
Controlling Shareholder										
Shui Chak Group Limited <i>(Note)</i>	3,231,666,250	50.36	161,583,312	50.36	323,166,624	50.36	323,166,624	66.99	323,166,624	50.36
Director										
So Kam Chuen	59,619,500	0.93	2,980,975	0.93	5,961,950	0.93	2,980,975	0.62	2,980,975	0.47
Public Shareholder										
Other Shareholders	3,125,389,250	48.71	156,269,462	48.71	312,538,924	48.71	156,269,462	32.39	156,269,462	24.35
Subscribers procured by the Underwriter	—	—	—	—	—	—	—	—	159,250,437	24.82
Total	<u>6,416,675,000</u>	<u>100.00</u>	<u>320,833,749</u>	<u>100.00</u>	<u>641,667,498</u>	<u>100.00</u>	<u>482,417,061</u>	<u>100.00</u>	<u>641,667,498</u>	<u>100.00</u>

Note: Shui Chak Group Limited is a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Hung Shui Chak, the chairman of the Company and an executive Director.

As the Rights Issue is underwritten on a best effort basis, any Rights Shares not subscribed under the PAL, EAF or through the Underwriter will not be issued by the Company and the Rights Issue will be scaled down accordingly.

As illustrated in the abovementioned scenarios and pursuant to the Underwriting Agreement, given the fact that any subscribers, which may or may not be procured by the Underwriter, shall be Independent Third Parties, their respective shareholdings shall fall into public shareholdings such that there shall not be a public float issue under the Listing Rules upon completion of the Rights Issue. In addition, the Underwriter undertakes that, upon completion of the Rights Issue, the public float requirements under the Listing Rules shall be fulfilled by the Company.

LETTER FROM THE BOARD

EQUITY FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

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

Shareholders and potential investors should note that the Rights Issue is conditional upon the conditions set out in the paragraph headed “Conditions of the Rights Issue” 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. Accordingly, the Rights Issue may or may not proceed.

Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Friday, 15 January 2021 and that dealing in the Rights Shares in the nil-paid form will take place from Friday, 29 January 2021 to Friday, 5 February 2021 (both days inclusive) while the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be on Thursday, 11 February 2021), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

LISTING RULES IMPLICATIONS

The Share Consolidation is conditional upon, among other things, the approval of Shareholders at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder will be required to abstain from voting on the resolution in relation to the Share Consolidation at the EGM.

In accordance with Rule 7.19A of the Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is subject to the approval of the minority Shareholders at the EGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where minority Shareholders’ approval is required for a rights issue under Rule 7.19A, the rights issue must be made conditional on approval by the shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the rights issue.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Shui Chak Group Limited is the controlling shareholder of the Company, as such Shui Chak Group Limited shall abstain from voting in favour of the resolution relating to the Rights Issue at the EGM.

EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve, among other things, the Share Consolidation and the Rights Issue. A notice convening the EGM to be held at Suite 604, Ocean Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong on Tuesday, 12 January 2021 at 11:00 a.m. is enclosed with this circular.

Subject to the approval of the Rights Issue by the Independent Shareholders at the EGM, the Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and the PAL(s) and the EAF(s) are expected to be despatched to the Qualifying Shareholders on or before the Prospectus Posting Date. The Company will, to the extent reasonably practicable and legally permitted and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, send the Overseas Letter together with the Prospectus to the Non-Qualifying Shareholders for their information only.

As at the Latest Practicable Date, Shui Chak Group Limited is the controlling shareholder of the Company, as such Shui Chak Group Limited will have to abstain from voting in favour of the resolution relating to the Rights Issue at the EGM.

To the best knowledge of the Directors, as at the Latest Practicable Date, no Shareholder has a material interest in the Share Consolidation and accordingly, no Shareholder will have to abstain from voting at the resolution approving the Share Consolidation at the EGM. Save for the Irrevocable Undertaking, the Board has not received any information from any substantial shareholder of its intention to take up the Rights Issue to be provisionally allotted or offered to it/him/her.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

The resolutions proposed to be approved at the EGM will be taken by poll in accordance with Rule 13.39(4) of the Listing Rules. An announcement will be made by the Company after the EGM on the results of the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Tam Bing Chung Benson, Mr. Cheung Ting Pong and Mr. Johnson Wan, was established to advise the Independent Shareholders regarding the terms of the Rights Issue and the voting recommendation on the relevant resolution. Alpha Financial Group Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Rights Issue and the voting recommendation on the relevant resolution.

The Shareholders are advised to read carefully the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Adviser set out in this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolution approving the Rights Issue at the EGM.

Further, the Directors consider that the terms of the Share Consolidation are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, therefore, the Directors recommend the Shareholders to vote in favour of the proposed resolution approving the Share Consolidation at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully
For and on behalf of the Board
Longhui International Holdings Limited
Hung Shui Chak
Chairman and Executive Director

LONGHUI INTERNATIONAL HOLDINGS LIMITED

龍輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

24 December 2020

*To the Qualifying Shareholders and, for information only,
the Non-Qualifying Shareholders (if any)*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1)
RIGHTS SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE**

We have been appointed to form an independent board committee to consider and advise you on the terms of the Rights Issue and the voting recommendation on the relevant resolution, details of which are set out in the circular issued by the Company to the Shareholders dated 24 December 2020 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 10 to 35 and pages 37 to 63 of the Circular, respectively, and the additional information set out in the appendices to the Circular.

Having taken into account the background of and reasons for the Rights Issue and having taken into consideration of the advice of the Independent Financial Adviser, in relation thereto as set out on pages 37 to 63 of the Circular, we concur with the view of the Independent Financial Adviser and consider that the terms of the Rights Issue (including the Subscription Price and the subscription ratio) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Tam Bing Chung Benson
*Independent non-executive
Director*

Mr. Cheung Ting Pong
*Independent non-executive
Director*

Mr. Johnson Wan
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the full text of a letter from Alpha Financial Group Limited, the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in the Circular.



Alpha Financial Group Limited
Room A, 17/F
Fortune House
61 Connaught Road Central
Central, Hong Kong

24 December 2020

To: The Independent Board Committee and the Independent Shareholders of Longhui International Holdings Limited

Dear Sir/Madam,

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

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 24 December 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Alpha Financial Group Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to (i) give our recommendation as to whether the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned; (ii) give our recommendations as to whether the Rights Issue are in the interests of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the Letter from the Board, the Company proposed to raise gross proceeds of up to (i) approximately HK\$45.25 million by way of a rights issue of 318,680,121 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date); or (ii) approximately HK\$45.56 million by way of a rights issue of 320,833,749 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds), at the Subscription Price of HK\$0.142 per Rights Share on the basis of one (1) Rights Share for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date. The Rights Issue will only be available to the Qualifying Shareholders and will not be available to the Non-Qualifying Shareholders.

On 27 October 2020 (after trading hours of the Stock Exchange), the Company entered into the Underwriting Agreement (as amended by the Supplemental Underwriting Agreement) with the Underwriter, pursuant to which the Underwriter agreed to procure, on a best effort basis, the subscription (but will not itself subscribe) for the Underwritten Shares not being taken up (other than the Rights Shares to be provisionally allotted to Shui Chak Group Limited subject to the Irrevocable Undertaking). As the Rights Issue is underwritten on best effort basis, any Rights Shares not subscribed under the PAL, EAF or through the Underwriter will not be issued by the Company and the Rights Issue will be scaled down accordingly.

Further, as the Rights Issue will proceed on a best effort basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) or EAF(s) may unwittingly incur an obligation to make a general offer for the Shares and Convertible Bonds under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules. Investors are advised to exercise caution when dealing in the Shares. There is no minimum amount to be raised under the Rights Issue.

On 27 October 2020, Shui Chak Group Limited has also given an irrevocable undertaking to the Company that it will subscribe for 161,583,312 Rights Shares which comprise the full acceptance of their provisional entitlement in respect of 161,583,312 Consolidated Shares beneficially held by it (upon completion of the Share Consolidation); and (ii) it will not dispose of 161,583,312 Consolidated Shares owned by it and such Shares will remain beneficially owned by it up to and including the date on which completion of the Rights Issue takes place or the date on which the Company announces that the Rights Issue will not proceed, whichever is earlier.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Listing Rules Implication

In accordance with Rule 7.19A(1) of the Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is subject to the approval of the minority Shareholders at the EGM by way of poll. Pursuant to Rule 7.27A(1) of the Listing Rules, where minority Shareholders' approval is required for a rights issue under Rule 7.19A, the rights issue must be made conditional on approval by the shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, the directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the rights issue.

As at the Latest Practicable Date, Shui Chak Group Limited is the controlling shareholder of the Company, as such Shui Chak Group Limited will have to abstain from voting in favour of the resolution relating to the Rights Issue at the EGM.

The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Tam Bing Chung Benson, Mr. Cheung Ting Pong and Mr. Johnson Wan, has been established to advise the Independent Shareholders in relation to the terms of the Rights Issue and the voting recommendation on the relevant resolution. We, Alpha Financial Group Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, there have been no engagements between the Company and Alpha Financial Group Limited. As at the Latest Practicable Date, apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, there were no relationship or interests between (a) Alpha Financial Group Limited; and (b) the Company or any other parties that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue as detailed in this circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF ADVICE

In formulating our advice and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular which have been provided by the Company, the Directors and the Management, and for which they are solely and wholly responsible, were true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Rights Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Rights Shares and, if in any doubt, should consult their own professional advisers.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

In arriving at our advice in relation to the Rights Issue, we have taken into consideration the following factors:

1. Information of the Group

1.1 Background of the Group

According to the Company's interim report for the six months ended 30 June 2020 (the "2020 Interim Report"), the Group is principally engaged in the hotpot restaurant business in the PRC. The Company has created three brands namely Faigo ("輝哥"), Xiao Faigo Hotpot ("小輝哥火鍋") and Hong Yuanwai ("洪員外"). Restaurants operating under the brand Faigo target to the high-end market such as business clientele, while restaurants operating under the brands Xiao Faigo Hotpot ("小輝哥火鍋") and Hong Yuanwai ("洪員外") cater to the mid-tier market for a wide spectrum of guests.

1.2 Historical financial information of the Group

Set out below is certain summary of the key financial information as extracted from the Company's annual reports for the year ended 31 December 2018 (the "2018 Annual Report") and 2019 (the "2019 Annual Report") and the 2020 Interim Report.

	For the year ended 31 December			For the six months ended 30 June	
	2017 (audited and restated)	2018 (audited)	2019 (audited)	2019 (unaudited)	2020 (unaudited)
<i>RMB'000</i>					
Revenue	700,432	624,707	418,565	237,904	77,318
Profit/(loss) for the year/period attributable to owners of the Company	25,675	(451,095)	(127,513)	(55,205)	(52,465)

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	As at 31 December			As at
	2017	2018	2019	30 June
<i>RMB'000</i>	(audited and restated)	(audited)	(audited)	(unaudited)
Cash and cash equivalents	60,431	51,631	5,338	1,723
Total assets	388,873	323,450	305,324	195,173
Total liabilities	338,509	360,083	387,295	329,565
Net current liabilities	25,165	53,482	182,473	200,317
Net assets/(liabilities)	50,364	(36,633)	(81,971)	(134,392)

For the year ended 31 December 2018

According to the 2018 Annual Report, the Group recorded revenue of approximately RMB624.7 million for the year ended 31 December 2018, representing a decrease of approximately 10.8% from approximately RMB700.4 million for the year ended 31 December 2017. The decrease in revenue was mainly attributable to the decrease in revenue of the hotpot business from its existing restaurants due to the decrease of customer flow impacted by the economic recession in mainland and competition with other restaurants which lead to lesser attraction from customers as compared to the year ended 31 December 2017. Loss for the year attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB451.1 million, as compared to the profit for the year of approximately RMB25.7 million (restated) for the year ended 31 December 2017. The net loss was mainly attributable to: (i) the listing expenses of approximately RMB399.7 million incurred for the resumption of the trading of the shares of the Company on the Stock Exchange during the year ended 31 December 2018; (ii) the decrease in revenue of the hotpot business from its existing restaurants as stated above; (iii) the existing thin profit margin and further decrease in the gross profit margin of the hotpot business for the year ended 31 December 2018 as compared to the year ended 31 December 2017 as a result of the increase in direct costs of raw materials and operation; (iv) the delay in the opening of new restaurants according to original plan due to the adverse market condition; and (v) provision for impairment on property, plant and equipment of approximately RMB9.0 million.

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For the year ended 31 December 2019

According to the 2019 Annual Report, the Group recorded revenue of approximately RMB418.6 million for the year ended 31 December 2019, representing a decrease of approximately 33.0% from approximately RMB624.7 million for the year ended 31 December 2018. The decrease in revenue was mainly attributable to the slowdown in China's economic growth and the increasing uncertainty in the external environment, as well as the intense competition in the market. This challenging business environment during the year ended 31 December 2019 posed significant negative impact on the overall business operation and also inevitably led to the closure and suspension of certain restaurants of the Group. Loss for the year attributable to owners of the Company for the year ended 31 December 2019 was approximately RMB127.5 million, as compared to the loss for the year of approximately RMB451.1 million for the year ended 31 December 2018. The net loss was mainly attributable to (i) the challenging business environment during the year ended 31 December 2019, which posed significant negative impact on the overall business operation and also inevitably led to the closure and suspension of certain restaurants of the Group; and (ii) the provision for impairment on property, plant and equipment and right-of-use assets in respect of these restaurants and certain underperforming restaurants of the Group of approximately RMB14.8 million and RMB8.0 million respectively during the year ended 31 December 2019.

For the six months ended 30 June 2020

According to the 2020 Interim Report, the Group recorded revenue of approximately RMB77.3 million for the six months ended 30 June 2020, representing a decrease of approximately 67.5% from approximately RMB237.9 million for the six months ended 30 June 2019. The decrease in revenue was mainly attributable to the outbreak of COVID-19 pandemic since early 2020, which has materially and adversely impacted the revenue from restaurant's operations. Loss for the period attributable to owners of the Company for the six months ended 30 June 2020 was approximately RMB52.5 million, as compared to the loss for the period of approximately RMB55.2 million for the six months ended 30 June 2019. The loss for the period for the six months ended 30 June 2020 was mainly attributable to the outbreak of COVID-19 pandemic since early 2020, which has materially and adversely impacted the revenue from restaurant's operations.

As at 30 June 2020, the Group had total assets, total liabilities and net liabilities of approximately RMB195.2 million, RMB329.6 million and RMB134.4 million, respectively. The Group had cash and cash equivalents amounting to approximately RMB1.7 million as at 30 June 2020.

2. Reasons for the Rights Issue and use of proceeds

As disclosed in the 2020 Interim Report, the Group suffered loss for the period attributable to owners of the Company of approximately RMB52.5 million which was mainly attributable to the outbreak of the COVID-19 pandemic since early 2020, which has materially and adversely impacted the revenue from the Group's restaurant operations. As at 30 June 2020, the Group had cash and bank balances amounting to approximately RMB1.7 million comparing to cash and bank balance of approximately RMB5.3 million as at 31 December 2019, and the net current liabilities of the Group increased from approximately RMB182.5 million as at 31 December 2019 to approximately RMB200.3 million as at 30 June 2020. The Board considered it necessary to conduct fund raising activities to strengthen the financial position of the Group as the outbreak of the COVID-19 pandemic had severely impacted the Group's business for the first half of 2020.

The net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK\$43.25 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date) and approximately HK\$43.56 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds).

The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately HK\$25.88 million for the repayment of the existing indebtedness of the Group from Independent Third Parties; (ii) approximately HK\$3.75 million for the repayment of bank loan; and (iii) approximately HK\$13.62 million for the general working capital of the Group, including the rental payment of the Group's restaurants located in the PRC, staff costs and settlement of the Group's day-to-day operating expenses.

In the event that there is no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds, the additional net proceeds of approximately HK\$0.31 million will be applied towards to the general working capital of the Group.

As the Rights Issue will proceed on a best effort basis, assuming the Rights Issue is undersubscribed, except for those Rights Shares to be provisionally allotted to Shui Chak Group Limited, the amount of net proceeds will be approximately HK\$20.94 million and the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue will be fully applied by the Company as to the repayment of the existing indebtedness of the Group from Independent Third Parties.

Depending on the level of subscription of the Rights Issue, the Company intends to utilise the net proceeds in the following order of priority:

- (i) fully settle the outstanding indebtedness of the Group from Independent Third Parties of approximately HK\$25.88 million;
- (ii) repayment of the bank loans of approximately HK\$3.75 million; and

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- (iii) the remaining net proceeds (if any) will then be applied towards the general working capital of the Group, including the rental payment of the Group's restaurants located in PRC, staff costs and settlement of the Group's day-to-day operating expenses.

2.1 Overview of the restaurant business and latest developments of COVID-19 in the PRC

As published on the website of National Data* (國家數據) (“**National Data**”) by the National Bureau of Statistics* (國家統計局) of the PRC, the revenue generated by enterprises of designated size in the catering sector in the PRC endured a slump since Q1 of 2020, where the outbreak of the COVID-19 pandemic started to impact the catering sector of the PRC, representing a decrease of up to approximately 46.22% over the period as compared to the same corresponding months of the previous year. It is also noted that, the sector has been recovering steadily over Q3 of 2020 and experienced an increase of approximately 2.62% to 7.74% from September to November 2020 as compared to the same corresponding months last year, indicating that the catering sector has recovered from the slump completely.

The table below shows a summary of the aforementioned monthly revenue generated by enterprises of designated size of the catering sector in the PRC from 2019 as published on the website of National Data:

	2019	2020	Change
	<i>RMB billion</i>	<i>RMB billion</i>	<i>Approximate %</i>
January	N/A ^(Note)	N/A ^(Note)	—
February	N/A ^(Note)	N/A ^(Note)	—
March	72.58	39.03	(46.22)%
April	69.12	50.53	(26.90)%
May	75.48	64.47	(14.59)%
June	78.87	68.47	(13.19)%
July	77.73	72.12	(7.22)%
August	81.46	79.61	(2.27)%
September	81.45	83.58	2.62%
October	84.62	91.17	7.74%
November	83.10	86.02	3.51%
December	91.40	N/A ^(Note)	—

Source: The website of National Data (<http://data.stats.gov.cn/>)

Note: Figures not published or unavailable

We also note that, based on information published by the National Health Commission* (國家衛生健康委員會), the overall situation of COVID-19 in China continued to be contained with low number of local infection cases, after the implementation of certain disease containment efforts to curb the spread of the disease as mentioned in the report published by the World Health Organisation. As a result, the economy of the PRC is able to recover from the economic damage arose from the outbreak of COVID-19 pandemic.

In addition, according to the 2020 Annual Report for the Catering Sector in the PRC* (2020中國餐飲年度報告) published by the China Hotel Association* (中國飯店協會), despite of the impact due to the outbreak of the COVID-19 pandemic in early 2020, the sector has been steadily progressing since then. In the same report, they also recognised the hotpot restaurants operated by the Group as one of the Top 20 Hotpot Restaurant Enterprises* (2020 中國火鍋企業TOP20) in the PRC.

Based on the aforementioned factors, with the recovery of the catering sector in the PRC after the outbreak of the COVID-19 pandemic and the continued successful containment of COVID-19 in the PRC, we are of the view that the Group is well-positioned to re-capture the opportunities in the hotpot restaurant business as one of the top hotpot restaurants in the PRC.

2.2 *Financing alternatives*

Through discussions with the Management of the Group, we understand that other alternative means of fund raising, including (i) debt financing/bank borrowings; and (ii) placing of new Shares has each been individually explored and rejected for the following reasons respectively:

(i) Debt financing/bank borrowings

As set out in the Letter from the Board, the Company has approached commercial banks, but it was unable to obtain any debt financing at terms acceptable to the Company as, save for the collaterals for the existing banking facilities, the Group does not have any other significant assets which is satisfactory to the banks and can serve as collaterals for further bank loans. Also, the Directors consider, and we concur, that additional debt financing are not desirable at this stage as the expected finance costs are high and additional borrowings will deteriorate the gearing position of the Group. In comparison, the equity raised through the Rights Issue would not be interest-bearing and hence the Company would have savings in interest payable as compared with incurring interest costs. Therefore, the Rights Issue as compared to debt financing would allow the Company to strengthen its capital base and liquidity without incurring interest costs.

(ii) Placing of new shares

As discussed with the Board, the Directors are of the view, and we concur, that it can only raise funds by way of placing of new shares of the Company in a relatively small size given the current market capitalization of the Company and more importantly it would result into dilution of the equity interests of the existing Shareholders who cannot participate in the placing.

In comparison, the Rights Issue is pre-emptive in nature, allowing the Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (a) increase their respective interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability) or through excess application; or (b) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market (subject to the market demand), whereas an open offer does not allow the trading of rights entitlements.

After taking into account all of the above factors and considerations, we concur with the Directors that the current fund raising method by way of the Rights Issue, which (i) offers all the Qualifying Shareholders equal opportunity to subscribe for their pro-rata provisional allotments of the Rights Shares and hence avoids dilution and participate as fully as the Qualifying Shareholders wish in the growth opportunity of the Company by way of applying for excess Right Shares; (ii) allows the Qualifying Shareholders who decide not to take up their entitlements under the Rights Issue to sell the nil-paid Rights Shares in the market for economic benefits; and (iii) allows the Company to strengthen its capital base and liquidity without incurring interest costs and also enables the Company to reduce its gearing ratio, is appropriate and acceptable for the Company and its Shareholders as a whole.

3. Principal terms of the Rights Issue

Issue statistics

Basis of the Rights Issue	:	One (1) Rights Share (in nil-paid form) for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.142 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	6,373,602,437 Existing Shares

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- Number of Consolidated Shares in issue upon the Share Consolidation becoming effective : 318,680,121 Consolidated Shares (assuming no Shares are issued or repurchased on or before the Record Date)
- Number of Rights Shares to be issued pursuant to the Rights Issue : Up to 318,680,121 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date) or up to 320,833,749 Rights Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds)
- Aggregate nominal value of the Rights Shares : Up to HK\$127,472.0484 (assuming no change in the number of Consolidated Shares in issue on or before the Record Date) or up to HK \$128,333.4996 (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds)
- Number of issued Consolidated Shares upon completion of the Rights Issue (assuming that the Rights Issue is fully subscribed) : Up to 637,360,242 Consolidated Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue) or up to 641,667,498 Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
- Maximum funds raised before expenses : Up to approximately HK\$45.25 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date and all the Rights Shares will be taken up); or up to approximately HK\$45.56 million (assuming no change in the number of Consolidated Shares in issue on or before the Record Date other than the full conversion of the Convertible Bonds and all the Rights Shares will be taken up)

As at the Latest Practicable Date, there are outstanding Convertible Bonds in the principal amount of HK\$4,414,937.7075 convertible into 43,072,563 Existing Shares. Save for the foregoing, the Group had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into Shares.

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Assuming no change in the number of issued Shares on or before the Record Date and that no new Consolidated Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 318,680,121 Rights Shares proposed to be issued pursuant to the terms of the Rights Issue represent: (i) 100.00% of the issued share capital of the Company upon the Share Consolidation becoming effective; and (ii) 50.00% of the enlarged issued share capital of the Company upon completion of the Rights Issue.

Assuming no change in the number of issued Consolidated Shares on or before the Record Date other than the full conversion of the Convertible Bonds (i.e. 2,153,628 Consolidated Shares) and that no new Consolidated Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 320,833,749 Rights Shares proposed to be issued pursuant to the Rights Issue represents (i) approximately 100.68% of the issued share capital of the Company upon the Share Consolidation becoming effective; and (ii) 50.00% of the enlarged issued share capital of the Company upon completion of the Rights Issue.

3.1 Subscription Price

The Subscription Price is HK\$0.142 per Rights Share. As advised by the Directors, the Subscription Price was determined by the Company with reference to, amongst other factors, (i) the recent closing prices of the Shares; (ii) the prevailing market conditions; and (iii) the funding and capital needs of the Company.

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

Comparison with prevailing market price

We note that the Subscription Price represents:

- (i) a discount of approximately 29.00% to the theoretical closing price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.0100 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 29.00% to the average theoretical closing price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.0100 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

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- (iii) a discount of approximately 29.70% to the average theoretical closing price of approximately HK\$0.202 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.0101 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 16.96% to the theoretical ex-rights price of approximately HK\$0.171 per Consolidated Share (taking into account the effect of the Share Consolidation) based on the theoretical ex-rights price of approximately HK\$0.00855 per Existing Share based on the closing price of HK\$0.0100 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a discount of approximately 29.00% to the theoretical closing price of HK\$0.200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.0100 as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the above, we note that the Subscription Price in general represents a discount to the prevailing market price of the Shares. The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.136 (assuming all the Rights Shares will be taken up) and approximately HK\$0.136 (assuming all the Convertible Bonds being converted and all the Rights Shares will be taken up). The Directors consider that the discount of the Subscription Price would encourage the Shareholders to participate in the Rights Issue and accordingly maintain their pro-rata shareholdings in the Company and participate in the future growth of the Group, and that the terms of the Rights Issue, including the Subscription Price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

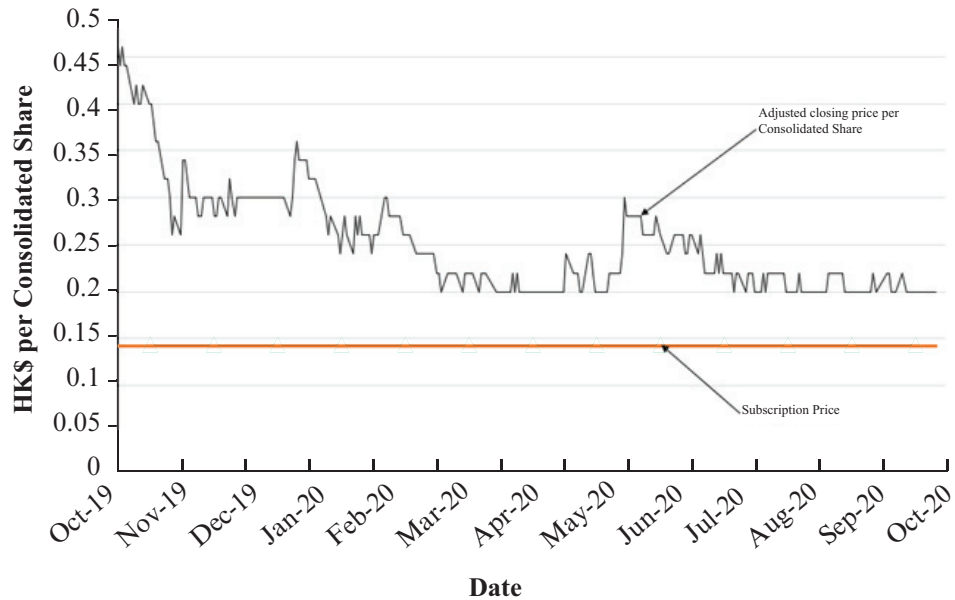
Comparison with adjusted historical daily closing prices of the Consolidated Share

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the movement of the adjusted daily closing prices (as adjusted for 20-to-1 Share Consolidation) of the Company for the twelve-month period ended on and including the Last Trading Day (i.e. 27 October 2020) (the “**Review Period**”) and compared with the Subscription Price. We consider the Review Period is adequate to reflect the general market sentiment primarily caused by the US-Mainland trade tensions and the outbreak of COVID-19 pandemic since the third quarter of 2019 and illustrates the general trend and level of movement of the adjusted daily closing price of the Consolidated Shares.

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The chart set out below illustrates the adjusted historical daily closing price of the Consolidated Share:

Adjusted closing price per Consolidated Share on the Stock Exchange



Source: The website of the Stock Exchange

During the Review Period, the average adjusted closing price was approximately HK\$0.2526 per Consolidated Share (the “**Average Adjusted Closing Price**”). The daily adjusted closing price range from HK\$0.2 per Consolidated Share (the “**Lowest Adjusted Closing Price**”) to HK\$0.46 per Consolidated Share (the “**Highest Adjusted Closing Price**”) during the Review Period. As illustrated in the chart above, the adjusted prevailing market closing price of the Consolidated Shares during the Review Period demonstrated an overall declining trend as shown in the above diagram, which was mainly attributable to the decline in financial performance of the Group as a result of the challenging business environment and the outbreak of COVID-19 pandemic during the Review Period, which has materially and adversely impacted the Group’s operation.

The Consolidated Shares were traded above the Subscription Price during the Review Period. The Subscription Price of HK\$0.142 represents (i) a discount of approximately 29.0% to the Lowest Adjusted Closing Price of HK\$0.2 per Consolidated Share; (ii) a discount of approximately 69.1% to the Highest Adjusted Closing Price of HK\$0.46 per Consolidated Share; and (iii) a discount of approximately 43.8% to the Average Adjusted Closing Price of HK\$0.2526 per Consolidated Share during the Review Period. Given that the prevailing adjusted historical daily closing price have already reflected the market valuation of the Company based on its financial results and the prevailing market sentiment, we consider it is fair and reasonable for the Company to determine the Subscription

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Price with reference to the adjusted prevailing market closing price of the Consolidated Shares and a discount to enhance the attractiveness of the Rights Issue. Otherwise, the Shareholders will have much fewer incentives to participate in the Rights Issue. Besides, as discussed in the paragraph headed “Comparison with recent rights issue transactions” below, we also noted that it is common market practice to set the Subscription Price at a discount to prevailing market prices to increase the attractiveness and encouraging the shareholders to participate in a rights issue to meet the companies’ need for additional funding.

Review on the trading liquidity of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, apart from the adjusted daily closing price of the Consolidated Shares, we have also reviewed the trading volume data in respect of the Consolidated Shares during the Review Period as illustrated in the table below:

Month	No. of trading days	Total trading volume <i>Number of Shares</i>	Average daily trading volume <i>Number of Shares</i> <i>(Note 1)</i>	Total no. of issued Shares	Approximate % of average daily trading volume to total no. of Shares in issue <i>(Note 2)</i>
2019					
October (Starting from 28 October)	4	192,045,000	48,011,250	6,373,602,437	0.75%
November	21	1,195,743,100	56,940,148	6,373,602,437	0.89%
December	20	275,899,000	13,794,950	6,373,602,437	0.22%
2020					
January	20	760,587,500	38,029,375	6,373,602,437	0.60%
February	20	316,684,600	15,834,230	6,373,602,437	0.25%
March	22	365,878,800	16,630,855	6,373,602,437	0.26%
April	19	126,885,000	6,678,158	6,373,602,437	0.10%
May	20	127,573,800	6,378,690	6,373,602,437	0.10%
June	21	320,633,500	15,268,262	6,373,602,437	0.24%
July	22	214,602,500	9,754,659	6,373,602,437	0.15%
August	21	178,800,000	8,514,286	6,373,602,437	0.13%
September	22	81,878,500	3,721,750	6,373,602,437	0.06%
October (up to and including the Last Trading Day)	15	55,593,600	3,706,240	6,373,602,437	0.06%
				Maximum	0.89%
				Minimum	0.06%
				Average	0.29%

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Source: The website of the Stock Exchange as well as next day disclosure returns, monthly returns and announcements published by the Company on the website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on number of Shares in issue stated in the monthly return of the Company as at the respective month-end.

As illustrated in the table above, we noted that the average number of Shares traded per trading day in each month during the Review Period as a percentage of the total number of issued Shares as at the respective month-ends ranged from approximately 0.06% to approximately 0.89%. Given the relatively thin trading volume of the Shares during the Review Period, it would be difficult for the Shareholders to acquire/dispose a substantial block of the Shares in the open market, without exerting impact on the share price. Accordingly, we consider that it is reasonable for the Subscription Price to be set at a discount to the adjusted prevailing historical closing prices of the Consolidated Shares in order to attract and encourage the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interests in the Company.

Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have independently reviewed rights issues exercises initially announced by companies listed on the Stock Exchange during the six-month period prior to the Last Trading Day from 28 April 2020 to 27 October 2020. Based on such search criteria, we have identified 25 rights issues (the “**Rights Issue Comparable(s)**”) for comparison purposes. Although the circumstances surrounding such Rights Issue Comparables may be different from those relating to the Company, we consider that the six-month period is adequate and fair and reasonable to capture the prevailing market conditions arising from the impact from the outbreak of COVID-19 pandemic and the trade war between the U.S. and the PRC, in relation to rights issue exercises which the Right Issues Comparables, for illustrative purpose only, as a review of the rights issue transactions within the previous six-month period is more demonstrative of the prevailing market practices. Although the Rights Issue Comparables may be different from the Group in terms of business nature, financial performance, financial position and funding requirements, the Rights Issue Comparables can serve as a market reference for recent market practices in relation to the subscription prices under other rights issues as compared to the relevant prevailing market share prices and provide an insight to the reasonableness of the Subscription Price in respect of the Rights Issue.

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To the best of our knowledge, the list of Rights Issue Comparables is an exhaustive list of rights issues meeting the aforesaid search criteria and is a fair and representative sample to be taken as a general reference of the recent market practices in relation to rights issues, details of which are set out in the table below.

Company name	Stock code	Date of announcement	Basis of entitlement	(Discount)/ premium of subscription price (to)/ over the closing price per share on the respective last trading day	(Discount)/ premium of subscription price (to)/ over the theoretical ex-rights price	Potential maximum dilution <i>(Note 1)</i>	Underwriting Commission <i>(Note 2)</i>	Application for excess rights shares
CHK Oil Limited	632	19-Oct-20	3 for 8	26.58%	17.99%	27.27%	N/A	Yes
The Hong Kong Building and Loan Agency Limited	145	16-Oct-20	1 for 3	(13.90)%	(10.90)%	25.00%	1.50%	Yes
Green International Holdings Limited	2700	25-Sep-20	1 for 1	(17.81)%	(9.77)%	50.00%	2.50%	Yes
Wan Cheng Metal Packaging Company Limited	8291	18-Sep-20	3 for 1	(19.40)%	(5.70)%	75.00%	N/A	No
Amber Hill Financial Holdings Limited	33	11-Sep-20	3 for 1	(23.66)%	(7.79)%	75.00%	N/A	No
Aeso Holding Limited	8341	3-Sep-20	3 for 1	(16.70)%	(4.80)%	75.00%	N/A	No
Royal Century Resources Holdings Limited	8125	28-Aug-20	2 for 1	(25.00)%	(10.00)%	66.67%	2.00%	No
Milan Station Holdings Limited	1150	28-Aug-20	5 for 2	(10.57)%	(3.51)%	71.40%	2.00%	Yes
Wealth Glory Holdings Limited	8269	24-Aug-20	5 for 2	(11.10)%	(3.60)%	71.43%	2.50%	Yes
Beaver Group (Holding) Company Limited	8275	10-Aug-20	1 for 2	(28.95)%	(20.59)%	33.33%	5.00%	Yes
Greatwalle Inc.	8315	5-Aug-20	1 for 3	(27.54)%	(21.88)%	25.00%	fixed amount of HK\$200,000	Yes
Larry Jewelry International Company Limited	8351	30-Jul-20	5 for 1	(29.17)%	(6.59)%	83.33%	5.00%	Yes
Langham Hospitality Investments Limited	1270	16-Jul-20	1 for 2	(13.60)%	(9.50)%	33.30%	N/A	Yes
National Investments Fund Limited	1227	7-Jul-20	5 for 1	(28.57)%	(6.25)%	83.33%	3.50%	Yes
China Merchants Securities Co., Ltd	6099	6-Jul-20	3 for 10	(41.79)%	(20.33)%	23.08%	0.00%	Yes
Luxey International (Holdings) Limited	8041	2-Jul-20	1 for 2	(58.30)%	(48.20)%	33.33%	N/A	Yes
Cathay Pacific Airways Limited	293	9-Jun-20	7 for 11	(46.90)%	(35.00)%	38.90%	2.00%	Yes
Summit Ascent Holdings Limited	102	1-Jun-20	3 for 2	0.00%	0.00%	60.00%	0.00%	No
Forebase International Holdings Limited	2310	29-May-20	1 for 2	0.00%	0.00%	33.33%	N/A	No

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Company name	Stock code	Date of announcement	Basis of entitlement	(Discount)/ premium of subscription price (to)/ over the closing price per share on the respective last trading day	(Discount)/ premium of subscription price (to)/ over the theoretical ex-rights price	Potential maximum dilution <i>(Note 1)</i>	Underwriting Commission <i>(Note 2)</i>	Application for excess rights shares
Teamway International Group Holdings Limited	1239	27-May-20	2 for 1	(14.89)%	(5.51)%	66.67%	N/A	Yes
Chinese Strategic Holdings Limited	8089	26-May-20	1 for 2	(24.53)%	(17.81)%	33.33%	3.00%	Yes
Future World Financial Holdings Limited	572	22-May-20	1 for 2	(10.00)%	(6.90)%	33.33%	5.00%	No
hmvod Limited	8103	19-May-20	5 for 1	(64.00)%	(22.90)%	83.30%	3.00%	Yes
HongDa Financial Holding Limited	1822	15-May-20	1 for 5	0.00%	0.00%	16.67%	N/A	Yes
Victory City International Holdings Limited	539	11-May-20	2 for 1	(30.35)%	(12.50)%	66.67%	1.75%	Yes
			<i>Maximum</i>	26.58%	17.99%	83.33%	5.00%	
			<i>Minimum</i>	(64.00)%	(48.20)%	16.67%	0.00%	
			<i>Average</i>	(21.21)%	(10.88)%	51.35%	2.58%	
			<i>Median</i>	(19.40)%	(7.79)%	50.00%	2.50%	
The Company	1007	27-Oct-20	1 for 1	(29.00)%	(16.96)%	50.00%	Higher of HK\$100,000 or 1.50%	Yes

Source: The website of the Stock Exchange

Notes:

1. The potential maximum dilution of shareholding is calculated by the number of new rights shares divided by the total number of issued shares as enlarged by the issue of the new rights shares.
2. N/A as the relevant information was not included as part of the analysis in their respective published announcements.

As shown in the above table, the subscription prices of most of the Rights Issue Comparables are set at discounts to the respective closing price per share on the last trading day ranging from a discount of approximately 64.00% to a premium of approximately 26.58%, with an average discount and median discount of approximately 21.21% and 19.40% respectively. The Subscription Price, which represents a discount of approximately 29.00% to the theoretical closing price of the Consolidated Share, falls within the range of discounts of the

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Rights Issue Comparables and is broadly in line with the average discount of approximately 21.21% of the Rights Issue Comparables and the median discount of approximately 19.40% of the Rights Issue Comparables.

The subscription prices to the theoretical ex-rights price per share of the Rights Issue Comparables ranged from a discount of approximately 48.20% to a premium of approximately 17.99%, with an average discount and median discount of approximately 10.88% and 7.79% respectively. The Subscription Price, which represents a discount of approximately 16.96% to the theoretical ex-rights price of Consolidated Share, falls within the range of the Rights Issue Comparables and is broadly in line with the corresponding average and median of the Rights Issue Comparables.

The maximum dilution effect of the Rights Issue of approximately 50.00% falls within the range of the maximum dilution effect of the Rights Issue Comparables ranging from approximately 16.67% to approximately 83.33%, and is broadly in line with the corresponding average and median of the Rights Issue Comparables of approximately 51.35% and approximately 50.00%, respectively.

Having considered:

- (i) it is common for listed issuers in Hong Kong to issue rights shares at a discount to market price in order to enhance the attractiveness of a rights issue as illustrated in our analysis above;
- (ii) the Subscription Price was determined by the Company with reference to, amongst other factors, (a) the recent closing prices of the Shares; (b) the prevailing market conditions; and (c) the funding and capital needs of the Company;
- (iii) the discounts of the Subscription Price to the theoretical closing price of the Consolidated Share on the Last Trading Day and to the theoretical ex-rights price of Consolidated Share fall within the corresponding ranges of the Rights Issue Comparables and are broadly in line with the respective corresponding average and median of the Rights Issue Comparables;
- (iv) the potential maximum dilution on shareholding of the Rights Issue fall within the range of the Rights Issue Comparables and is broadly in line with the corresponding average and median of the Rights Issue Comparables;
- (v) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares under the Rights Issue where all Shareholders are given with the same discounts of the Subscription Price to the theoretical closing price of the Consolidated Share on the Last Trading Day and to the theoretical ex-rights price and the same potential maximum dilution; and

- (vi) (a) the Group's deterioration from profit making for the year ended 31 December 2017 to loss making for each of the two years ended 31 December 2019 and the six months ended 30 June 2020 as a result of the challenging business environment and the outbreak of COVID-19 pandemic during these years, which has materially and adversely impacted the Group's operation; (b) the adjusted prevailing market price of Consolidated Shares and the generally downward trend of the adjusted closing prices of the Consolidated Shares during the Review Period; and (c) low trading liquidity of the Shares, may have an implication on the discounts of the Subscription Price to the theoretical closing price per Consolidated Share on the Last Trading Day and the theoretical ex-rights price.

Based on the abovementioned reasons, we consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.2 Underwriting commission

As set out in the Letter from the Board, the Underwriter will receive an underwriting commission at the higher of HK\$100,000 or 1.50% (the "**Underwriting Commission**") of the aggregate Subscription Price in respect of such number of the Rights Shares. According to the Rights Issue Comparables as set out above, the underwriting commission of the Rights Issue Comparables ranged from a minimum of nil to a maximum of 5.00%, with an average and median of approximately 2.58% and 2.50%, respectively. As the Underwriting Commission falls within the range and below the average and median of the Rights Issue Comparables, we are of the view that the Underwriting Commission is in line with market practice and is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

It should also be noted that the Rights Issue will not proceed if the Underwriter exercises its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are set out in the section headed "Termination of the Underwriting Agreement" in the Letter from the Board. In view that it is common to have a termination clause incorporated in the underwriting agreement and the termination events are customary in nature, we consider such provisions are normal commercial terms and in line with the normal market practice. We have also reviewed other major terms of the Underwriting Agreement and are not aware of any terms being unusual.

3.3 Application for excess Rights Shares

As set out in the Letter from the Board, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders, any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise not subscribed for by transferees of nil-paid Rights Shares and for any unsold Rights Shares arising out of the aggregation of fractional entitlements.

The Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis, according to the principle that any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of excess Rights Shares applied for but no reference will be made to Rights Shares comprised in applications by PAL or the existing number of Shares held by Qualifying Shareholders. No preference will be given to topping up odd lots to whole board lots.

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 shareholder or its 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.

Based on our review of the basis of allocation, we are not aware of any unusual arrangement as compared to the Rights Issue Comparables. We therefore consider that such allocation basis is consistent with normal market practice.

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3.4 Potential dilution effect of the Rights Issue

For illustrative purpose, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Share Consolidation; (iii) immediately after completion of the Share Consolidation and the Rights Issue assuming all Shareholders have taken up all the entitled Rights Shares; (iv) immediately after completion of the Share Consolidation and the Rights Issue assuming none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares; and (v) immediately after completion of the Share Consolidation and the Rights Issue assuming none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares and all the Unsubscribed Rights Shares were subscribed for through the Underwriter:

(i) assuming there is no other change in the shareholding structure of the Company before the completion of the Rights Issue:

	As at the Latest Practicable Date		Immediately after completion of the Share Consolidation		Immediately after completion of the Share Consolidation and the Rights Issue (assuming all Shareholders have taken up all the entitled Rights Shares)		Immediately after completion of the Share Consolidation and the Rights Issue (assuming none of the Qualifying Shareholders except Shui Chak Group Limited pursuant to the Irrevocable Undertaking have taken up any entitled Rights Shares) and none of the Unsubscribed Rights Shares were subscribed for through the Underwriter		Immediately after completion of the Share Consolidation and the Rights Issue assuming none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares and all the Unsubscribed Rights Shares were subscribed for through the Underwriter	
	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %
Controlling Shareholder										
Shui Chak Group Limited (Note)	3,231,666,250	50.70	161,583,312	50.70	323,166,624	50.70	323,166,624	67.29	323,166,624	50.70
Director										
So Kam Chuen	44,714,625	0.70	2,235,731	0.70	4,471,462	0.70	2,235,731	0.47	2,235,731	0.35
Public Shareholder										
Other Shareholders	3,097,221,562	48.60	154,861,078	48.60	309,722,156	48.60	154,861,078	32.24	154,861,078	24.30
Subscribers procured by the Underwriter	—	—	—	—	—	—	—	—	157,096,809	24.65
Total	6,373,602,437	100.00	318,680,121	100.00	637,360,242	100.00	480,263,433	100.00	637,360,242	100.00

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(ii) assuming all the Convertible Bonds being converted on or before the Record Date and there is no other change in the shareholding structure of the Company before the completion of the Rights Issue:

	As at the Latest Practicable Date and assuming all the Convertible Bonds being converted		Immediately after completion of the Share Consolidation and assuming all the Convertible Bonds being converted		Immediately after completion of the Share Consolidation and the Rights Issue (assuming all the Convertible Bonds being converted and all Shareholders have taken up all the entitled Rights Shares)		Immediately after completion of the Share Consolidation and the Rights Issue (assuming all the Convertible Bonds being converted and none of the Qualifying Shareholders except Shui Chak Group Limited pursuant to the Irrevocable Undertaking have taken up any entitled Rights Shares) and none of the Unsubscribed Rights Shares were subscribed for through the Underwriter		Immediately after completion of the Share Consolidation and the Rights Issue assuming all the Convertible Bonds being converted and none of the Qualifying Shareholders (except Shui Chak Group Limited pursuant to the Irrevocable Undertaking) have taken up any entitled Rights Shares and all the Unsubscribed Rights Shares were subscribed for through the Underwriter	
	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %
Controlling Shareholder										
Shui Chak Group Limited (Note)	3,231,666,250	50.36	161,583,312	50.36	323,166,624	50.36	323,166,624	66.99	323,166,624	50.36
Director										
So Kam Chuen	59,619,500	0.93	2,980,975	0.93	5,961,950	0.93	2,980,975	0.62	2,980,975	0.47
Public Shareholder										
Other Shareholders	3,125,389,250	48.71	156,269,462	48.71	312,538,924	48.71	156,269,462	32.39	156,269,462	24.35
Subscribers procured by the Underwriter	—	—	—	—	—	—	—	—	159,250,437	24.82
Total	<u>6,416,675,000</u>	<u>100.00</u>	<u>320,833,749</u>	<u>100.00</u>	<u>641,667,498</u>	<u>100.00</u>	<u>482,417,061</u>	<u>100.00</u>	<u>641,667,498</u>	<u>100.00</u>

Note: Shui Chak Group Limited is a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Hung Shui Chak, the chairman of the Company and an executive Director.

As the Rights Issue is underwritten on a best effort basis, any Rights Shares not subscribed under the PAL, EAF or through the Underwriter will not be issued by the Company and the Rights Issue will be scaled down accordingly.

As illustrated in the abovementioned scenarios and pursuant to the Underwriting Agreement, given the fact that any subscribers, which may or may not be procured by the Underwriter, shall be Independent Third Parties, their respective shareholdings shall fall into public shareholdings such that there shall not be a public float issue under the Listing Rules upon completion of the Rights Issue. In addition, the Underwriter undertakes that, upon completion of the Rights Issue, the public float requirements under the Listing Rules shall be fulfilled by the Company.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience 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 Shares arising from the aggregation of fractional entitlements). If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

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Notwithstanding the potential dilution to the Independent Shareholders' proportional shareholding interests in the Company as discussed above, having taken into account that:

- (i) the Independent Shareholders can attend and vote for or against the relevant resolution(s) in relation to the Rights Issue at the EGM;
- (ii) the Qualifying Shareholders can elect to accept the Rights Issue or not;
- (iii) the Qualifying Shareholders will have the opportunities to sell their nil-paid rights to subscribe for the Rights Shares in the market, for economic benefit;
- (iv) the Rights Issue will offer the Qualifying Shareholders an opportunity to subscribe for their Rights Shares to maintain their respective pro-rata shareholding interests in the Company at a discount as compared to the adjusted historical and prevailing market price of the Consolidated Shares; and
- (v) those Qualifying Shareholders who take up their assured allotments in full under the Rights Issue will maintain their respective pro-rata shareholding interests in the Company after completion of the Rights Issue.

We are of the view that notwithstanding the cumulative dilution effect on the Shareholding interests of the Independent Shareholders, which will only result when the Qualifying Shareholders do not subscribe for their pro-rata allotments of the Rights Shares, the Rights Issue can satisfy the imminent funding need of the Company as stated above which is in the interest of the Shareholders and the Company as a whole.

4. Financial effects of the Rights Issue

Net tangible liabilities

According to the unaudited pro forma statement on adjusted consolidated net tangible liabilities of the Group as set out in Appendix II to the Circular (the "**Pro Forma Financial Information**"), the Group had unaudited consolidated net tangible liabilities attributable to owners of the Company of approximately RMB133.4 million as at 30 June 2020. As per the Pro Forma Financial Information, upon completion of the Rights Issue (based on maximum number of 318,680,121 Rights Shares to be issued and assuming no outstanding Convertible Bonds having been converted on or before the Record Date), the Group would have unaudited pro forma adjusted consolidated net tangible liabilities attributable to owners of the Company of approximately RMB93.9 million, representing a decrease of approximately 29.6%, as a result of the inflow of the estimated net proceeds from the Rights Issue.

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Upon completion of the Rights Issue (based on maximum number of 318,680,121 Rights Shares to be issued and assuming no outstanding Convertible Bonds having been converted on or before the Record Date), the unaudited pro forma adjusted consolidated net tangible liabilities per share attributable to owners of the Company after the completion of the Share Consolidation would be approximately RMB0.15, representing a decrease of approximately 64.3% as compared to the unaudited consolidated net tangible liabilities per share attributable to owners of the Company as at 30 June 2020 after the completion of the Share Consolidation of approximately RMB0.42. The net liability position of the Group would be improved upon the completion of the Rights Issue.

Liquidity

Based on the 2020 Interim Report, the cash and cash equivalents of the Group amounted to approximately HK\$1.7 million as at 30 June 2020. Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group is expected to increase by the estimated net proceeds of the Rights Issue of not less than approximately HK\$20.94 million and no more than approximately HK\$43.56 million. As such, the liquidity of the Group will be enhanced following the completion of the Rights Issue.

Working capital

The Rights Issue is expected to have a positive effect on the Group's working capital upon completion as the proceeds from the Rights Issue will bring in net proceeds of not less than approximately HK\$20.94 million and no more than approximately HK\$43.56 million. Assuming the Rights Issue is fully subscribed, part of the net proceeds of approximately HK\$13.62 million from the Rights Issue will be used for the Group's general working capital.

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RECOMMENDATION

Having taken into consideration the principal factors and reasons discussed above, we are of the opinion that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited
Cheng Chi Ming, Andrew
Managing Director

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited
Irene Ho
Vice President

Mr. Cheng Chi Ming, Andrew is the Managing Director of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheng has over 17 years of experience in the corporate finance industry in Hong Kong.

Ms. Irene Ho is the Vice President of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Ms. Ho has over 6 years of experience in the corporate finance industry in Hong Kong.

A. FINANCIAL INFORMATION OF THE COMPANY

The financial information of the Company for each of the three years ended 31 December 2017, 2018, and 2019 and the six months ended 30 June 2020 can be referred to the annual reports of the Company for the years ended 31 December 2017 (pages 52 to 119, accessible via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0406/ltn20180406953.pdf>), 2018 (pages 65 to 219, accessible via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904252083.pdf>) and 2019 (pages 67 to 207, accessible via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051500099.pdf>) and the interim report of the Company for the six months ended 30 June 2020 (pages 4 to 38, accessible via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0914/2020091400599.pdf>), which were published on 6 April 2018, 25 April 2019, 15 May 2020 and 14 September 2020 respectively. The above-mentioned financial information is available on the website of the Company at www.cre8ir.com/longhui/en/index.html and the website of the Stock Exchange at www.hkexnews.hk.

B. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following indebtedness:

Bank borrowings

Loans from commercial banks in the aggregate principal amount of RMB3,000,000 which are secured by personal guarantees from Mr. Hung Shui Chak, the controlling shareholder of the Company.

Other payables

Unsecured and unguaranteed loans from independent third parties in the aggregate principal amount of RMB22,260,000.

Lease liabilities

The Group entered into several lease agreements for leasing of restaurants, offices and warehouses located in the PRC and recognised right-of-use assets and lease liabilities for the above-mentioned leases. Such lease liabilities amounted to RMB69,037,000 as at 31 October 2020, which were classified as to RMB17,082,000 as current liabilities and RMB51,955,000 as non-current liabilities.

Convertible bonds

Unsecured and unguaranteed liability component of the convertible bonds of approximately HK\$3,527,000 (equivalent to approximately RMB3,101,000).

Contingent liabilities

The Company acquired the entire equity interest in the Longhui International Catering Management Limited (the “**Accounting Acquirer**”) on 4 July 2018 (the “**Acquisition Date**”) was accounted for in the consolidated financial statements as reverse acquisition of the Company by the Accounting Acquirer (the “**Reverse Acquisition**”). The Group recognised deemed listing expenses of approximately RMB339,670,000 upon the application of the Reverse Acquisition on the Acquisition Date (“**Deemed Listing Expenses**”).

On the Acquisition Date, the Group applied the Reverse Acquisition method of accounting and recognised the identifiable assets and liabilities of the Company as at that date, including the recorded accrued expenses and other payables of approximately RMB37,578,000.

These recorded accrued expenses and other payables do not include any of the unknown liabilities of the Company brought forward from 1 January 2018, which included the amount due to a deconsolidated subsidiary of approximately RMB882,000 (equivalent to approximately HK\$1,028,000) and unknown other payables of approximately RMB15,182,000 (equivalent to approximately HK\$17,694,000) (collectively, the “**Unknown Liabilities**”). For the details, please refer to Notes 2.1 and 32 to the consolidated financial statements in the annual report of the Company for the year ended 31 December 2019.

The Company had used its best effort to identify the nature of the Unknown Liabilities including publishing a public notice which invited any potential creditors to inform the Company of any debts or claims.

With the legal advice provided to the Company, according to Section 4(1)(a) of Cap. 347 provides that actions founded on simple contract shall not be brought after the expiration of 6 years from the date on which the cause of action accrued whereas s.4(3) states that an action upon a specialty shall not be brought after the expiration of 12 years from the date on which the cause of action accrued.

The Directors considered that the origin of the Unknown Liabilities is unlikely to be created under a deed and among other reasons, given actions founded on simple contract shall not be brought after 6 years from the date on which the cause of actions accrued pursuant to the Limitation Ordinance (Laws of Hong Kong Chapter 347), any potential creditors would be statutorily barred from taking action against another person 6 years after the date when the liabilities were due, unless such liabilities was created under deed, in which case, the limitation period shall be 12 years from the date of the liabilities were due. As the Unknown Liabilities were incurred during the year ended 31 December 2012 and 2013, the payment obligation is expired as at 31 December 2019.

Besides, the Company had entered into a debt assignment agreement with Global Courage Limited (“**Global Courage**”), pursuant to which Global Courage agrees to undertake all outstanding Unknown Liabilities.

Subject to the above matters, the possibility of outflow of economic resources in the settlement of Unknown Liabilities by the Group is not probable.

At the close of business on 31 October 2020, except as disclosed in this section, the Company did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, loans, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, finance lease obligations, mortgages or charges, guarantees or other material contingent liabilities.

C. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the present financial resources and the estimated net proceeds from the Rights Issue, the Company has sufficient working capital for at least twelve months from the date of this circular in the absence of unforeseen circumstances.

D. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim report of the Company for the six months ended 30 June 2020 which recorded a loss making position, the Directors confirm there has been no material change in the financial or trading position or outlook of the Company since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up and up to the Latest Practicable Date.

E. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The outbreak of COVID-19 coronavirus since early 2020 has materially and adversely impacted the revenue from restaurant's operations. For the six months ended 30 June 2020 (the "Period"), the Group's revenue decreased by approximately 67.5% to approximately RMB77.3 million from approximately RMB237.9 million in the last corresponding period.

The Group's foods and beverage and other materials consumables costs mainly represent the costs of food ingredients for the hotpot business. The foods and beverage and other materials consumables costs decreased by approximately 62.3% to approximately RMB34.7 million for the six months ended 30 June 2020 from approximately RMB92.1 million in the last corresponding period. Gross profit margin of the Group decreased to approximately 55.1% during the Period. Further to the closure of 41 restaurants, property rentals and related expenses decreased by approximately 32.8% to approximately RMB11.9 million for the six months ended 30 June 2020 from approximately RMB17.7 million in the last corresponding period.

The Group plans to open more restaurants in order to expand and develop the business of the Group in the coming financial years as intended. However, due to the current poor sentiment of the food and beverages market in the PRC and the uncertainty over the impact of the Sino-US trade war and the COVID-19 coronavirus outbreak, it is prudent for the Board to withhold the planned expansion.

Hotpot restaurants offering meat as their major food ingredient have a lower customer's average spending compared with those serving seafood. Therefore, more hotpot restaurants begin to offer more diversified food materials to target different customer segments. Seafood has been introduced in hotpot restaurants recently, which will attract more customers from the high-end segment. The Group will continue to target more high-end food ingredients as additional drive for the growth of revenue of its restaurants.

New food ingredients will be added to hotpot dining. As hotpot is more inclusive than other styles of cooking, new food ingredients can be easily introduced to hotpot dining. Hotpot restaurants are more willing to stay appealing to customers by offering new food ingredients in their menus rather than stick to their own understanding of hotpot stereotype.

Delivery food service is growing fast in the PRC in the past few years. The Group plans to strengthen its competitiveness in the delivery segment to fully utilize the business hours of rush hours in a day such as lunch and dinner time to improve its revenue density. The Group will closely cooperate with online ordering and delivery platforms to promote the delivery business.

**(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 owners of the Company (the “**Unaudited Pro Forma Financial Information**”) 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 Financial Information has been prepared for illustrative purpose only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Rights Issue been completed as at 30 June 2020 or at any future date.

The Unaudited Pro Forma Financial Information 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:

**(1) Assuming no outstanding Convertible Bonds having been converted on or before the
Record Date**

	Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 RMB'000 (Note 1)	Estimated net proceeds from the Rights Issue RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 immediately after completion of the Rights Issue RMB'000	Unaudited consolidated net tangible assets per share attributable to owners of the Company as at 30 June 2020 before completion of the Share Consolidation RMB (Note 3)	Unaudited consolidated net tangible assets per share attributable to owners of the Company as at 30 June 2020 after completion of the Share Consolidation RMB (Note 4)	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after completion of the Rights Issue RMB (Note 5)	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after completion of the Rights Issue HK\$ (Note 8)
Based on minimum number of 161,583,312 Rights Shares to be issued at subscription price of HK\$0.142 per Rights share	(133,405)	19,108	(114,297)	(0.02)	(0.42)	(0.24)	(0.26)
Based on maximum number of 318,680,121 Rights Shares to be issued at subscription price of HK\$0.142 per Rights share	(133,405)	39,459	(93,946)	(0.02)	(0.42)	(0.15)	(0.16)

(2) Assuming full conversion of the outstanding Convertible Bonds having been converted on or before the Record Date

	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 immediately after completion of the Rights Issue RMB'000 (Note 1)	Estimated net proceeds from the Rights Issue RMB'000 (Note 6)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 immediately after completion of the Rights Issue RMB'000 (Note 3)	Unaudited consolidated net tangible assets per share attributable to owners of the Company as at 30 June 2020 before completion of the Share Consolidation RMB (Note 3)	Unaudited consolidated net tangible assets per share attributable to owners of the Company as at 30 June 2020 after completion of the Share Consolidation RMB (Note 4)	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after completion of the Rights Issue RMB (Note 7)	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after completion of the Rights Issue HK\$ (Note 8)
Based on minimum number of 161,583,312 Rights Shares to be issued at subscription price of HK\$0.142 per Rights share	(133,405)	19,387	(114,108)	(0.02)	(0.42)	(0.24)	(0.26)
Based on maximum number of 320,833,749 Rights Shares to be issued at subscription price of HK\$0.142 per Rights share	(133,405)	39,738	(93,667)	(0.02)	(0.42)	(0.15)	(0.16)

Notes:

- (1) The unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 is based on the unaudited consolidated net liabilities of the Group attributable to owners of the Company as at 30 June 2020 of approximately RMB133,393,000 as adjusted to exclude intangible asset of approximately RMB12,000 as shown on the unaudited consolidated statement of the 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.
- (2) The estimated net proceeds from the Rights Issue of the number of Rights Shares of approximately HK\$20,945,000 (equivalent to approximately RMB19,108,000 are based on 161,583,312 Rights Shares to be issued (in the proportion of one (1) rights share for every one (1) consolidated shares) at the subscription price of HK\$0.142 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,000,000 (equivalent to RMB1,825,000), assuming that the Rights Issue had been completed on 30 June 2020.

The estimated net proceeds from the Rights Issue of the number of Rights Shares of approximately HK\$43,253,000 (equivalent to approximately RMB39,459,000 are based on 318,680,121 Rights Shares to be issued (in the proportion of one (1) rights share for every one (1) consolidated shares) at the subscription price of HK\$0.142 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,000,000 (equivalent to RMB1,825,000), assuming that the Rights Issue had been completed on 30 June 2020.

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE COMPANY**

- (3) The amount is calculated based on the unaudited consolidated net tangible liabilities of the Group attributable to the owners of the Company as at 30 June 2020 of RMB133,405,000 and 6,373,602,437 shares in issue as at 30 June 2020 (“**Existing Shares**”), without taking into account of the consolidation of every twenty (20) issued Existing Shares of HK\$0.00002 each into one consolidated Shares of HK\$0.0004 each (the “**Share Consolidation**”).
- (4) The unaudited consolidated net tangible assets per share attributable to the owners of the Company as at 30 June 2020 after the completion of the Share Consolidation is calculated based on the unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2020 of RMB133,405,000 and 318,680,121 consolidated shares (involve the consolidation of every twenty (20) Existing Shares into one (1) consolidated share) which is calculated on the Existing Shares subdivided by twenty (20).
- (5) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share as at 30 June 2020 immediately after the completion of the minimum issuance of the Rights Issue is calculated based on 480,263,433 shares which comprise 318,680,121 consolidated shares (involve the consolidation of every twenty (20) Existing Shares into one (1) consolidated share) and 161,583,312 Rights Shares expected to be issued pursuant to the Irrevocable Undertaking, assuming only Shui Chak Group Limited had taken up their Rights Shares entitlement and the Rights Issue had been completed on 30 June 2020.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share as at 30 June 2020 immediately after the completion of the maximum issuance of the Rights Issue is calculated based on 637,360,242 shares which comprise 318,680,121 consolidated shares (involve the consolidation of every twenty (20) Existing Shares into one (1) consolidated share) and 318,680,121 Rights Shares expected to be issued, assuming that all Shareholders have taken up the Rights Shares entitlement and the Rights Issue had been completed on 30 June 2020.

- (6) The estimated net proceeds from the Rights Issue of the number of Rights Shares of approximately HK\$21,251,000 (equivalent to approximately RMB19,387,000 are based on 163,736,940 Rights Shares to be issued (in the proportion of one (1) rights share for every one (1) consolidated shares) at the subscription price of HK\$0.142 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,000,000 (equivalent to RMB1,825,000), assuming that the Rights Issue had been completed on 30 June 2020.

The estimated net proceeds from the Rights Issue of the number of Rights Shares of approximately HK\$43,558,000 (equivalent to approximately RMB39,738,000 are based on 320,833,749 Rights Shares to be issued (in the proportion of one (1) rights share for every one (1) consolidated shares) at the subscription price of HK\$0.142 per Rights Share, after deduction of the estimated related expenses of approximately HK\$2,000,000 (equivalent to RMB1,825,000), assuming that the Rights Issue had been completed on 30 June 2020.

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE COMPANY**

- (7) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share as at 30 June 2020 immediately after the completion of the minimum issuance of the Rights Issue and is calculated based on 482,417,061 shares which comprise 320,833,749 consolidated shares (involve the consolidation of every twenty (20) Existing Shares into one (1) consolidated share) and 161,583,312 Rights Shares expected to be issued, assuming only Shui Chak Group Limited had taken up their Rights Shares entitlement and the Rights Issue had been completed on 30 June 2020.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share as at 30 June 2020 immediately after the completion of the Rights Issue is calculated based on 641,667,498 shares which comprise 320,833,749 consolidated shares (involve the consolidation of every twenty (20) Existing Shares into one (1) consolidated share) and 320,833,749 Rights Shares expected to be issued, assuming that all Shareholders have taken up the Rights Shares entitlement and the Rights Issue had been completed on 30 June 2020.

- (8) For the purpose of the Unaudited Pro Forma Financial Information, conversion of RMB and HK\$ is calculated at the exchange rate of RMB0.9123 to HK\$1.0. The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, may be exchanged at this or any other rate or at all.
- (9) 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 ACCOUNTANTS' ASSURANCE REPORT ON
THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The following is the text of a report received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the sole purpose of inclusion in this circular, in respect of the Unaudited Pro Forma Financial Information of the Company.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**



國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

To the Directors of Longhui International Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Longhui International 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 owners of the Company as at 30 June 2020 and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in pages II-1 to II-4 of Appendix II to the circular issued by the Company dated 24 December 2020 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in pages II-1 to II-4 of Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue (1) of 318,680,121 right issue shares (assuming no outstanding convertible bonds having been converted), (2) of 320,833,749 rights shares (assuming full conversion of the outstanding convertible bonds) on the basis of one rights share for every one consolidated share held on the record date at the subscription price of HK\$0.142 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 as 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 condensed consolidated financial statements for the six months ended 30 June 2020, on which an interim report has been published.

Directors' Responsibilities 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 Accountants' 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 accountants 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 Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled 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.

Yours faithfully

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hong Kong, 24 December 2020

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately following the Share Consolidation having become effective (assuming no other change in the number of issued Shares); and (iii) immediately after completion of the Rights Issue (assuming no other change in the number of issued Shares and full acceptance of Rights Shares by all Qualifying Shareholders) are set out as follows:

(i) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>19,000,000,000</u>	Shares	<u>380,000.00</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
<u>6,373,602,437</u>	Shares	<u>127,472.05</u>

(ii) Immediately following the Share Consolidation having become effective (assuming no change in the number of issued Shares)

<i>Authorised:</i>		<i>HK\$</i>
<u>950,000,000</u>	Consolidated Shares	<u>380,000.00</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
<u>318,680,121</u>	Consolidated Shares	<u>127,472.05</u>

(iii) Immediately after completion of the Rights Issue (assuming no change in the number of issued Shares and full acceptance of Rights Shares by all Qualifying Shareholders or through the Underwriter)

<i>Authorised:</i>		<i>HK\$</i>
<u>950,000,000</u>	Consolidated Shares	<u>380,000.00</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
<u>318,680,121</u>	Consolidated Shares immediately following the Share Consolidation having become effective	<u>127,472.05</u>
<u>318,680,121</u>	Rights Shares to be allotted and issued under the Rights Issue	<u>127,472.05</u>
<u>637,360,242</u>	Consolidated Shares in issue immediately upon completion of the Rights Issue	<u>254,944.10</u>

All the Existing Shares in issue are fully-paid and rank *pari passu* in all respects including all rights as to dividends, voting and return of capital. The Rights Shares (when allotted, fully paid or credited as fully paid) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares in their fully paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares.

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 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 are outstanding Convertible Bonds in the principal amount of HK\$4,414,937.7075 convertible into 43,072,563 Existing Shares. Save as the Convertible Bonds, the Company did not have any outstanding warrants, options or securities convertible into Shares.

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

3. DISCLOSURE OF INTERESTS

Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests or short position of the Directors and chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required (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 are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange are set out as follows:

Name of Director	Nature of interest	Number of Shares/underlying Shares held	Approximately percentage or attributable percentage of shareholding
Mr. Hung Shui Chak ("Mr. Hung")	Interest of controlled corporation	3,231,666,250 (L) (Note 1)	50.70%
Mr. So Kam Chuen ("Mr. So")	Beneficial owner	59,619,500 (L) (Note 2)	0.94%

(L): denotes long position

Notes:

- These 3,231,666,250 Shares are held by Shui Chak Group Limited. Shui Chak Group Limited is wholly-owned by Mr. Hung. Thus, Mr. Hung is deemed to be interested in the 3,231,666,250 Shares held by Shui Chak Group Limited pursuant to the SFO. Shui Chak Group Limited provided the Irrevocable Undertaking to the Company to subscribe for 161,583,312 Rights Shares at HK\$0.142 per Rights Share, i.e. its entitlement under the Rights Issue in full. Upon completion of the Rights Issue, it will hold 323,166,624 Consolidated Shares.
- These Shares include 44,714,625 Shares and underlying Shares representing a maximum of 14,904,875 new Shares to be issued to Mr. So upon full conversion of the convertible bonds issued to Mr. So on 4 July 2018.

Interests and short positions of substantial shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, the following person(s) (other than the Directors and the chief executive of the Company) has, or is deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, details of which are set out as follows:

Long positions in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	Approximately percentage or attributable percentage of shareholding
Shui Chak Group Limited	Beneficial owner	3,231,666,250 (L) <i>(Note 1)</i>	50.70%
Futec International Group Limited (“ FIGL ”)	Person having a security interest in shares	3,231,666,250 (L) <i>(Note 2)</i>	50.70%
Mr. Lau Kan Sum (“ Mr. Lau ”)	Founder of a discretionary trust who can influence how the trustee exercises his discretion	3,231,666,250 (L) <i>(Notes 2 and 3)</i>	50.70%
TMF (Cayman) Ltd.	Trustee	3,231,666,250 (L) <i>(Notes 2 and 3)</i>	50.70%
Petite Arbre Limited	Interest of controlled corporation	3,231,666,250 (L) <i>(Notes 2 and 3)</i>	50.70%
Mr. Yau Kwok Wing Tony (“ Mr. Yau ”)	Interest of controlled corporation	3,231,666,250 (L) <i>(Notes 2 and 4)</i>	50.70%

(L): denotes long position

Notes:

- These 3,231,666,250 Shares are held by Shui Chak Group Limited. Shui Chak Group Limited is wholly-owned by Mr. Hung. Thus, Mr. Hung is deemed to be interested in the 3,231,666,250 Shares held by Shui Chak Group Limited pursuant to the SFO. Shui Chak Group Limited provided the Irrevocable Undertaking to the Company to subscribe for 161,583,312 Rights Shares at HK\$0.142 per Rights Share, i.e. its entitlement under the Rights Issue in full. Upon completion of the Rights Issue, it will hold 323,166,624 Consolidated Shares.
- FIGL is a company wholly-owned by Futec International Holdings Limited, which is wholly-owned by FIH (BVI) Limited, which is owned as to 50% by XJG Capital Management Limited and 50% by Century Ally Ventures Limited.

3. XJG Capital Management Limited is wholly-owned by Petite Arbre Limited, which is in turn wholly-owned by TMF (Cayman) Ltd., a trust company interested in the 3,231,666,250 Shares in its capacity as the trustee of a private fund, the founder of which is Mr. Lau. Mr. Lau is therefore deemed to be interested in the 3,231,666,250 Shares in which FIGL had a security interest.
4. Century Ally Ventures Limited is wholly-owned by Mr. Yau. Accordingly, under the SFO, Mr. Yau was deemed to be interested in the 3,231,666,250 Shares in which FIGL had a security interest.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such Shares. As at the Latest Practicable Date, none of the Directors is a director or employee of any of the substantial shareholders of the Company.

4. DIRECTORS' INTERESTS IN CONTRACT AND ASSET

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

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Company.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into under the ordinary course of business of the Group) have been entered into by the Company within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the Underwriting Agreement; and
- (ii) the Supplemental Underwriting Agreement.

7. LITIGATION

The Company was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Company as at the Latest Practicable Date.

8. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors or any of their respective associates had any interest in business which competes with or may compete with the business of the Company or had any other conflict of interests which any person has or may have with the Company.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have been named in this circular or has given opinions, letter or advice contained in this circular:

Name	Qualification
Alpha Financial Group Limited	A corporation licensed by the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, the above experts had no shareholding, directly or indirectly, in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

As at the Latest Practicable Date, the above experts had no interest, direct or indirect, in the promotion of, or in any assets which since 31 December 2019, the date to which the latest published audited financial statements of the Company were made up, have been acquired or disposed of by or leased to, the Company, or are proposed to be acquired or disposed of by or leased to the Company.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which they are included.

10. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

Board of Directors	Mr. Hung Shui Chak (<i>Chairman</i>) Mr. So Kam Chuen Mr. Yuan Mingjie Mr. Tam Bing Chung Benson Mr. Cheung Ting Pong Mr. Johnson Wan
Head office and principal place of business	Room 1502, 15/F. Lucky Building 39 Wellington Street Central Hong Kong
Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Auditors	HLB Hodgson Impey Cheng Limited (<i>Certified Public Accountants</i>) 31/F, Gloucester Tower The Landmark, 11 Pedder Street Central Hong Kong
Principal bankers	The Bank of East Asia, Limited 10 Des Voeux Road Central Central Hong Kong China CITIC Bank International Limited 61–65 Des Voeux Road Central Hong Kong
Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai, Hong Kong

Authorised representatives

Mr. Hung Shui Chak
Room 1502, 15/F.
Lucky Building
39 Wellington Street
Central
Hong Kong

Mr. Yuan Mingjie
Room 1502, 15/F.
Lucky Building
39 Wellington Street
Central
Hong Kong

Company secretary

Mr. Wong Chun Kit

Particulars of the Directors*(a) Name and address of Directors***Name****Address***Executive Directors*

Mr. Hung Shui Chak

Room 1502, 15/F.
Lucky Building
39 Wellington Street, Central
Hong Kong

Mr. So Kam Chuen

Room 1502, 15/F.
Lucky Building
39 Wellington Street, Central
Hong Kong

Mr. Yuan Mingjie

Room 1502, 15/F.
Lucky Building
39 Wellington Street, Central
Hong Kong

*Independent Non-executive
Directors*

Mr. Tam Bing Chung Benson	Room 1502, 15/F. Lucky Building 39 Wellington Street, Central Hong Kong
Mr. Cheung Ting Pong	Room 1502, 15/F. Lucky Building 39 Wellington Street, Central Hong Kong
Mr. Johnson Wan	Room 1502, 15/F. Lucky Building 39 Wellington Street, Central Hong Kong

(b) Profiles of Directors

Executive Directors

Mr. Hung Shui Chak (“**Mr. Hung**”) (formerly known as Hung Pan), aged 51, was appointed as the chairman of the Board, an executive Director, a member of the nomination committee of the Company (the “**Nomination Committee**”) and an authorised representative of the Company in July 2018. He is also a director of various subsidiaries of the Company. Mr. Hung is primarily responsible for formulating the overall development strategies and business plan of the Group. Mr. Hung has engaged in the investment and operation of trading of raw materials in food and catering and automobile business in Hong Kong prior to 1990. He has vast experiences of investments in various businesses in the PRC and commenced in investments in the PRC. He has now accumulated over 9 years of experience in the management of food and catering industry in the PRC. Mr. Hung took the overall business development of the Group since 2012 and continues to oversee the management of the operations and business of the Group. He has guided the operations and business of the Group in adhering to quality and innovation in the operations since he took up the business development of the Group in 2009. Mr. Hung held a controlling interest in Carsone Car Detailing Service Company Limited* (上海比鄰美車堂汽車美容有限公司) (“**Carsone**”), a company which principally engaged in motor detailing business in the PRC, and Mr. Hung disposed of his interest in Carsone to an independent third party in 2012 and now retains a minority interest of approximately 5.4% in Carsone. Mr. Hung also remains as a director of a holding company of Carsone. Mr. Hung is the sole shareholder and the sole director of Shui Chak Group Limited, a company incorporated in the British Virgin Islands with limited liability, the controlling Shareholder (as defined in the Listing Rules). Mr. Hung is deemed, by virtue of his interest in Shui Chak Group

Limited, to be interested in 3,231,666,250 Shares under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), representing approximately 50.70% of the issued share capital of the Company.

Mr. So Kam Chuen (“**Mr. So**”), aged 40, was appointed as an executive Director in July 2018. He is also a director of a subsidiary of the Company and the supervisor of a subsidiary of the Company. Mr. So is responsible for overseeing the overall management, day-to-day operation and production of the Group. He joined the Group in November 2004 and is serving as the Executive Chef and Brand General Manager of Faigo (輝哥) and Xiao Faigo (小輝哥) and has over 14 years of experience in the catering industry and operations management. He joined the catering business in Hong Kong after finishing school education in Hong Kong in 1997. During his service with the Group, Mr. So is responsible for overseeing the operations of all the restaurants of the Group, developing new cuisine, controlling the quality of food and services of Faigo (輝哥) and Xiao Faigo (小輝哥) to ensure the upscale of food and services.

Mr. Yuan Mingjie (“**Mr. Yuan**”), aged 41, was appointed as an executive Director and an authorised representative of the Company in July 2018. Mr. Yuan is responsible for overseeing the overall financial management and reporting and corporate finance matters of the Group. He has over 14 years of experience in auditing and accounting in various industries. He was the Vice President and Corporate Secretary of CY Oriental Holdings Ltd., a company listed on the Toronto Stock Exchange (stock code: CYO:APH), from 2004 to 2008. He also served as an auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 2001 to 2003. Mr. Yuan served as the Executive Vice President & Chief Operating Officer of Carsone from 2012 to 2018. Mr. Yuan was awarded a Bachelor Degree in English Language and Literature from Shanghai International Studies University (上海外國語大學) in 2001 and a Master Degree in Business Administration from Shanghai Jiao Tong University (上海交通大學) in 2012.

Independent Non-executive Directors

Mr. Tam Bing Chung Benson (“**Mr. Tam**”), aged 57, was appointed as an independent non-executive Director in March 2019. He is the chairman of the remuneration committee and a member of the audit committee of the Company. Mr. Tam is a member of The Institute of Chartered Accountants in England and Wales. He holds a Master of Science degree from University of Oxford and a Bachelor of Science (Engineering) degree in civil engineering from Imperial College of University of London. Mr. Tam is the founder and chairman of Venturous Group, a China-based family investment platform. From 2002 to 2012, he was a partner of Fidelity Growth Partners Asia (formerly named Fidelity Asia Ventures), an Asian venture capital firm with a principal focus on China. Prior to joining Fidelity Growth Partners Asia, Mr. Tam was an investment banker and a private equity investor in Europe and Asia with leading financial institutions. He is currently a director of several private companies. Mr. Tam is an independent non-executive director of Yeahka Limited (stock code: 9923), the issued shares of

which are listed on the Stock Exchange. He is also an independent director of Momo Inc. (stock symbol: MOMO), the shares of which are listed on the NASDAQ Stock Exchange.

Mr. Cheung Ting Pong (“**Mr. Cheung**”), aged 41, was appointed as an independent non-executive Director in June 2020. He is the chairman of each of the audit committee and the nomination committee and a member of the remuneration committee of the Company. Mr. Cheung has over 15 years of experience in financial operations. He obtained a bachelor’s degree in business administration (accountancy) from the City University of Hong Kong in November 2002 and a master’s degree in business administration from the University of Manchester in the United Kingdom in November 2014. He has been a registered member of the Institute of Chartered Accountants in England and Wales since February 2010, a fellow member of Hong Kong Institute of Certified Public Accountants since May 2017. Mr. Cheung served as the company secretary of Munsun Capital Group Limited (now known as Bay Area Gold Group Limited), the shares of which are listed on the main board of the Stock Exchange (stock code: 1194), from November 2016 to January 2017, responsible for regulatory compliance of the company. He served as an executive director and a non-executive director of Sanbase Corporation Limited (“**Sanbase**”), the shares of which are listed on GEM of the Stock Exchange (stock code: 8501), from July 2017 to May 2018 and from May 2018 to October 2019 respectively. He was primarily responsible for strategic planning and public relations of Sanbase and its subsidiaries. Mr. Cheung served as an executive director, chief financial officer and company secretary of Modern Dental Group Limited (“**Modern Dental**”), the shares of which are listed on the main board of the Stock Exchange (stock code: 3600), from March 2011 to October 2016. He was primarily responsible for supervising and handling of day to day management of Modern Dental. Further, he was also a key member of the strategic acquisition team and the acquisition projects during his tenure included: (1) acquisition of 100% interest in Cenatory Pty Limited (traded as Slater Dental Studio, a dental laboratory based in Australia); (2) strategic acquisitions relating to certain long-term European distributors of Modern Dental’s dental prosthetic devices and their related brand name; and (3) acquisition of 100% of the outstanding shares of RTFP Dental Inc., a dental laboratory services provider of customized dental restorations and prosthetics in North America. He also served various positions in Deloitte Touche Tohmatsu LLC (“**Deloitte**”) from September 2002 to September 2009 where his last position was senior auditor of audit department. During his service in Deloitte, he was primarily responsible for advising clients on accounting and auditing issues.

Mr. Johnson Wan (“**Mr. Wan**”), aged 41, was appointed as an independent non-executive Director in August 2020. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Wan obtained a bachelor’s degree in computer science and mathematics (finance) from University of Toronto in 2002, a master’s degree in statistics from University of Michigan in 2004 and a master’s degree in business

administration from London Business School in 2008. He has more than 15 years of professional experience as an investment manager for Brilliance Capital Management, a director for Deutsche Bank managing its Asia Energy and Commodities research teams and a senior human resources consultant for Aon Hewitt. Mr. Wan is an independent non-executive director of each of New Provenance Everlasting Holdings Limited (stock code: 2326) and Kunming Dianchi Water Treatment Co., Ltd. (Stock Code: 3768). The issued shares of these two companies are listed on the Stock Exchange.

11. EXPENSES

The expenses in connection with the Rights Issue, including professional fees payable to lawyers, reporting accountants and financial printer, etc., are estimated to be approximately HK\$2 million and will be payable by the Company.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Wong Chun Kit is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

13. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours in any weekday (excluding Saturdays, Sundays and public holidays) at the office of the Company at Room 1502, 15/F., Lucky Building, 39 Wellington Street, Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019 and the interim report of the Company for the six months ended 30 June 2020;
- (c) the letter issued by the reporting accountants regarding the unaudited pro forma financial information as set out in appendix II of this circular;
- (d) the written consent referred to in the paragraph headed “Experts and Consents” in this appendix;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (f) the letter from the Board, the text of which is set out on pages 10 to 35 of this circular;

- (g) the letter from the Independent Board Committee, the text of which is set out on page 36 of this circular;
- (h) the letter from the Independent Financial Adviser, the text of which is set out on pages 37 to 63 of this circular; and
- (i) this circular.

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LONGHUI INTERNATIONAL HOLDINGS LIMITED

龍輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1007)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**EGM**”) of Longhui International Holdings Limited (the “**Company**”) will be held at Suite 604, Ocean Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 12 January 2021 for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to the satisfaction of the conditions set out in the letter from the board under the heading “Conditions of the Share Consolidation” in the circular of the Company dated 24 December 2020, with effect from the second business day immediately following the day of passing of this resolution, being a day on which the shares of the Company are traded on The Stock Exchange of Hong Kong Limited:
 - (a) every twenty (20) issued and unissued shares of HK\$0.00002 each in the share capital of the Company be consolidated into one (1) share of HK\$0.0004 (each a “**Consolidated Share**”), and such Consolidated Share(s) shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company (the “**Share Consolidation**”);
 - (b) all fractional Consolidated Shares resulting from the Share Consolidation will be disregarded and will not be issued to holders of the same but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company in such manner and on such terms as the directors (the “**Directors**”) of the Company may think fit; and

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- (c) any one of the directors (the “**Directors**”) of the Company be and is hereby authorised to do all such acts and things, as he may in his discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Share Consolidation and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Share Consolidation and the implementation of all transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in his opinion, appropriate and in the interests of the Company and its shareholders as a whole.”
2. “**THAT** conditional upon the passing of the resolution numbered 1 as set out above and subject to the conditions set out in the letter from the board under the heading “Conditions of the Rights Issue” in the circular of the Company dated 24 December 2020:
- (a) the issue by way of rights shares (the “**Rights Issue**”) of up to 320,833,749 Consolidated Shares (the “**Rights Shares**” and each a “**Rights Share**”) at a subscription price of HK\$0.0004 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the register of members of the Company on Tuesday, 26 January 2021 or such other date as may be determined by the Company for the determination of the entitlements under the Rights Issue (the “**Record Date**”) (other than those shareholders (the “**Non-Qualifying Shareholders**”) with registered addresses outside Hong Kong whom the Directors of the Company, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) on the basis of one (1) Rights Share for every one (1) Consolidated Share then held on the Record Date and pursuant to the terms and conditions as set out in the circular issued by the Company dated 24 December 2020 of which this notice convening the EGM forms part, be and is hereby approved;

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- (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 27 October 2020 and the supplemental underwriting agreement (the “**Supplemental Underwriting Agreement**”) dated 18 December 2020 and entered into among the Company and Merdeka Securities Limited (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) any one of the Directors be and is hereby authorised to allot and issue the Rights Shares (in their nil-paid form and fully-paid form) pursuant to and in connection with the Rights Issue notwithstanding the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Director be and is hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or the Non-Qualifying Shareholders as he deems necessary, desirable or expedient having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
- (d) any one of the Directors be and is hereby authorised to do all such acts and things, as he may in his discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation of the Rights Issue and the Underwriting Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Rights Issue and the Underwriting Agreement and the implementation of all transactions contemplated thereunder, including but not limited to the issue and

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allotment of Rights Shares and to agree with such variation, amendment or waiver as, in his opinion, appropriate and in the interests of the Company and its shareholders as a whole.”

By order of the Board
Longhui International Holdings Limited
Hung Shui Chak
Chairman and Executive Director

Hong Kong, 24 December 2020

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business:

Room 1502, 15/F.
Lucky Building
39 Wellington Street, Central
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and to vote on his behalf. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
- (3) In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon must be deposited with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority.

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- (4) Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.
- (5) Save for any resolution(s) approving the procedural and administrative matters, any voting of the EGM should be taken by poll.
- (6) The register of members of the Company will be closed from Wednesday, 6 January 2021 to Tuesday, 12 January 2021 both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 11:00 a.m. on Sunday, 10 January 2021.