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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Yu Tak International Holdings Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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## YU TAK INTERNATIONAL HOLDINGS LIMITED

御德國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8048)

**(1) PROPOSED RIGHTS ISSUE OF 594,230,000 RIGHTS SHARES AT HK\$0.10  
PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY  
TWO EXISTING SHARES HELD ON THE RECORD DATE  
(2) APPLICATION FOR WHITEWASH WAIVER  
AND  
(3) NOTICE OF SGM**

**Underwriter to the Rights Issue**

**Sino Eminent Limited**

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



**紅日資本有限公司**

**RED SUN CAPITAL LIMITED**

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 12 to 32 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter from Red Sun Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver is set out on pages IFA-1 to IFA-26 of this circular.

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. These certain events are set out in the paragraph headed “Termination of the Underwriting Agreement” from pages 21 to 22 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

A notice convening the SGM to be held at Room 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong at 2 p.m. on Monday, 12 February 2018 is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

19 January 2018

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## CONTENTS

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	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>CHARACTERISTICS OF GEM</b> .....	6
<b>EXPECTED TIMETABLE</b> .....	7
<b>SUMMARY OF THE RIGHTS ISSUE</b> .....	10
<b>LETTER FROM THE BOARD</b> .....	12
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	33
<b>LETTER FROM RED SUN CAPITAL LIMITED</b> .....	IFA-1
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP</b> .....	I-1
<b>APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP</b> .....	II-1
<b>APPENDIX III – GENERAL INFORMATION</b> .....	III-1
<b>NOTICE OF SGM</b> .....	SGM-1

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 20 December 2017 in relation to, among other matters, the Rights Issue, the Underwriting Agreement and the application for Whitewash Waiver
“Board”	the board of Directors
“Business Day”	for the purpose of the Underwriting Agreement, a day (excluding Saturdays) on which banks are generally open for business in Hong Kong; and for all other purposes, a day on which the Stock Exchange is open for transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company”	Yu Tak International Holdings Limited (stock code: 8048), a company incorporated under the laws of Bermuda and the shares of which are listed on the GEM Board
“Concert Group”	Sino Eminent and parties acting in concert with it (including Shenzhen Yihua, OEIL, Mr. Chong Yu Ping, Ms. Li Xia, Ms. Zhuang Rushan, Mr. Zhuang Yuyi, Mr. Zhuang Weizhong, Ms. Li Yanmin, Mr. Wang Qian, Mr. Zhuang Yuxiao and Ms. Zhuang Ruling)
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder”	shall have the meaning as ascribed to it under the GEM Listing Rules
“Directors”	directors of the Company
“EAF(s)”	the form(s) of application for excess Rights Shares to be issued in connection with the Rights Issue
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)

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## DEFINITIONS

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“Final Acceptance Date”	the last date for acceptance and payment in respect of provisional allotments under the Rights Issue and for application and payment for excess Rights Shares, which is currently scheduled to be on Wednesday, 14 March 2018 or such later date as the Company and the Underwriter may agree
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	an independent committee of the Board (comprising Mr. Lam Tin Faat, Ms. Lu Haina and Ms. Na Xin, being the independent non-executive Directors) established to advise the Independent Shareholders on the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than the Concert Group and those who are involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver
“Last Closing Price”	the closing price of HK\$0.0950 per Share as quoted on the Stock Exchange on the Last Trading Day
“Last Day for Transfer”	Tuesday, 20 February 2018, being the last date for lodging transfer of Shares prior to the closure of register of members of the Company
“Last Trading Day”	Wednesday, 20 December 2017, being the last full trading day for the Shares before the release of the Announcement
“Latest Practicable Date”	Tuesday, 16 January 2018, 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”	a time which is currently expected to be 4:00 p.m. on the Final Acceptance Date

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## DEFINITIONS

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“Listing Committee”	has the meaning ascribed thereto in the GEM Listing Rules
“Non-Qualifying Shareholder(s)”	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
“OEIL”	Ocean Expert Investments Limited, a limited liability company incorporated in the British Virgin Islands, which is wholly-owned by Ms. Li Xia and owns approximately 25% of the shares in Sino Eminent
“Overseas Shareholder(s)”	Shareholder(s) whose names appear on the register of members of the Company as at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue
“Posting Date”	Wednesday, 28 February 2018, or such other date as the Underwriter may agree in writing with the Company for the despatch of the Rights Issue Documents
“PRC”	the People’s Republic of China, which for the purpose of this circular only and except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Tuesday, 27 February 2018, the record date to determine entitlements to the Rights Issue

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## DEFINITIONS

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“Red Sun” or “Independent Financial Adviser”	Red Sun Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
“Relevant Period”	the period beginning six months immediately prior to the date of the Announcement (i.e. 20 June 2017) and ending on the Latest Practicable Date
“Rights Issue”	the issue of 594,230,000 Rights Shares at the Subscription Price on the basis of one (1) Rights Share for every two (2) existing Shares held as at the close of business on the Record Date payable in full on acceptance
“Rights Issue Documents”	the Prospectus, PAL and EAF
“Rights Share(s)”	new Share(s) to be allotted and issued in respect of the Rights Issue
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Room 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong at 2 p.m. on Monday, 12 February 2018 at which resolution(s) will be proposed to consider, and, if thought fit, approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Yihua”	Shenzhen Yihua Jewelry Co., Ltd. 深圳市藝華珠寶首飾股份有限公司, a company incorporated in the PRC, which owns approximately 75% of the shares in Sino Eminent and which is controlled approximately 74.34% by Mr. Chong Yu Ping
“Sino Eminent” or “Underwriter”	Sino Eminent Limited 華成有限公司, a company established in the British Virgin Islands and a substantial shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Subscription Price”	the subscription price of HK\$0.10 per Rights Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Taken Up/take up/taking up”	those Rights Shares and/or Underwritten Shares in respect of which the relevant provisional allotment letters and/or forms of application for excess Rights Shares have been lodged and accompanied by cheques or other remittances for the full amount payable in respect thereof
“Underwriting Agreement”	the underwriting agreement dated 20 December 2017 and entered into between the Company and the Underwriter in relation to the Rights Issue
“Underwritten Shares”	means the Rights Shares underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement, and the total number of which is 594,230,000 Rights Shares
“Whitewash Waiver”	a waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of Sino Eminent to make a general offer for all the issued Shares not already owned or agreed to be acquired by Sino Eminent and the parties acting in concert with it which may otherwise arise as a result of the subscription of the Rights Shares by Sino Eminent pursuant to the Underwriting Agreement
“%”	per cent

*The English text of this circular, the notice of the SGM and accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.*

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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## EXPECTED TIMETABLE

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*Set out below is the expected timetable for the Rights Issue which is indicative only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled.*

Despatch of circular with notice of SGM . . . . .	Friday, 19 January 2018
Latest time for lodging transfer of Shares to qualify for attendance and voting at the SGM . . . . .	4:30 p.m. on Monday, 5 February 2018
Closure of register of members for determination of entitlements to attend and vote at the SGM (both days inclusive) . . . . .	Tuesday, 6 February 2018 to Monday, 12 February 2018
Latest time for return of proxy form for the SGM . . . . .	2:00 p.m. on Saturday, 10 February 2018
Record date for determination of entitlements to attend and vote at the SGM . . . . .	Monday, 12 February 2018
Expected date and time of the SGM . . . . .	2:00 p.m. on Monday, 12 February 2018
Announcement of poll results of the SGM . . . . .	Monday, 12 February 2018
Last day of dealings in the Shares on a cum-rights basis . . . . .	Tuesday, 13 February 2018
Commencement of dealings in the Shares on an ex-rights basis . . . . .	Wednesday, 14 February 2018
Latest time for lodging transfer of the Shares in order to be qualified for the Rights Issue. . . . .	4:30 p.m. on Tuesday, 20 February 2018
Closure of register of members for determination of entitlements under the Rights Issue (both days inclusive) . . . . .	Wednesday, 21 February 2018 to Tuesday, 27 February 2018
Record Date for determining entitlements under the Rights Issue . . . . .	Tuesday, 27 February 2018
Despatch of Rights Issue Documents . . . . .	Wednesday, 28 February 2018
First day of dealings in nil-paid Rights Shares . . . . .	Friday, 2 March 2018
Latest time for splitting nil-paid Rights Shares . . . . .	4:30 p.m. on Tuesday, 6 March 2018
Last day of dealings in nil-paid Rights Shares . . . . .	Friday, 9 March 2018

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## EXPECTED TIMETABLE

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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, 14 March 2018

Latest time and date for terminating the  
Underwriting Agreement . . . . . 5:00 p.m. on Thursday, 15 March 2018

Rights Issue expected to become unconditional . . . . . 5:00 p.m. on Thursday, 15 March 2018

Announcement of results of the Rights Issue to be  
published in the respective websites of the  
Stock Exchange and the Company on or before . . . . . Wednesday, 21 March 2018

Refund cheques in respect of wholly or partially  
unsuccessful applications for excess Rights Shares  
expected to be posted on or before . . . . . Thursday, 22 March 2018

Certificates for the Rights Shares expected to be  
despatched on or before . . . . . Thursday, 22 March 2018

Dealings in fully-paid Rights Shares commence . . . . . 9:00 a.m. Friday, 23 March 2018

Designated broker starts to stand in the market  
to provide matching services for odd lots of shares . . . . . Friday, 23 March 2018

The last day for the designated broker to provide  
matching services for odd lots of Shares . . . . . Tuesday, 17 April 2018

*Note:* All times and dates in this circular refer to Hong Kong times and dates or deadlines specified in this circular are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders and the Stock Exchange appropriately.

### **EFFECT OF BAD WEATHER ON 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 the Rights Shares and for application and payment for excess Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning issued by the Hong Kong Observatory:

- (1) in force in Hong Kong at any time before 12:00 noon and no longer in force after 12:00 noon on the Final Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or

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## EXPECTED TIMETABLE

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- (2) in force in Hong Kong at any time between 12:00 noon and 4:00 p.m. on the Final Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess 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 and for application and payment for excess Rights Shares does not take place on the currently scheduled date for the Final Acceptance Date, the dates mentioned above may be affected. The Company will notify the Shareholders by way of announcements of any change to the expected timetable as soon as practicable in this regard.

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## SUMMARY OF THE RIGHTS ISSUE

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If at any time between the date of the Underwriting Agreement and 5:00 p.m. on the third Business Day following the Final Acceptance Date one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:

- (a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties given by the Company under the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or
- (b)
  - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, Bermuda or elsewhere;
  - (ii) there is any change in local, national or international financial, political, industrial or economic conditions;
  - (iii) there is any change of an exceptional nature in local, national or international equity securities or currency markets;
  - (iv) there is any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
  - (v) there is any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
  - (vi) there is any suspension in the trading of the Shares on the Stock Exchange for a continuous period of ten (10) Business Days;
  - (vii) there is any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such,

which event or events is or are in the reasonable opinion of the Underwriter:

- (1) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group taken as a whole; or
- (2) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be Taken Up; or
- (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue; or
- (4) there is a breach by the Company of the Underwriting Agreement,

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## SUMMARY OF THE RIGHTS ISSUE

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then the Underwriter may, in addition to and without prejudice to any other remedies to which the Underwriter may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith.

**If the Underwriter exercises such right of termination, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.**

*The following information is derived from, and should be read in conjunction with, the full text of this circular.*

Basis of the Rights Issue	:	one (1) Rights Share for every two (2) existing Shares held on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of existing Shares in issue as at the Latest Practicable Date	:	1,188,460,000 Shares
Number of Rights Shares	:	594,230,000 Rights Shares
Amount to be raised before expenses	:	approximately HK\$59 million before expenses (based on the number of existing Shares in issue as at the Latest Practicable Date, and assuming no Shares have been allotted and issued on or before the Record Date)
Underwriter	:	Sino Eminent
Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue	:	1,782,690,000 Shares
Aggregate nominal value of the Rights Shares to be issued	:	HK\$59,423,000

Assuming no new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue, the aggregate number of Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represents 50% of the Company's total number of issued Shares as at the Latest Practicable Date and will represent approximately 33.33% of the Company's total number of issued Shares as enlarged by the issue of the Rights Shares immediately after completion of the Rights Issue.

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

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LETTER FROM THE BOARD

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**YU TAK INTERNATIONAL HOLDINGS LIMITED**  
**御德國際控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8048)**

*Executive Directors:*

Chong Yu Ping

Li Xia

Chen Yin

*Registered Office*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Independent non-executive Directors:*

Lam Tin Faat

Lu Haina

Na Xin

19 January 2018

*To the Shareholders*

Dear Sir/Madam

**(1) PROPOSED RIGHTS ISSUE OF 594,230,000 RIGHTS SHARES AT HK\$0.10  
PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARES FOR EVERY  
TWO EXISTING SHARES HELD ON THE RECORD DATE**

**(2) APPLICATION FOR WHITEWASH WAIVER**

**AND**

**(3) NOTICE OF SGM**

**I. INTRODUCTION**

Reference is made to the Announcement in relation to, among other matters, the Rights Issue and the Whitewash Waiver.

The purpose of this circular is to provide you with further information in relation to, among others, (i) the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, (ii) a letter from the Independent Board Committee setting out their advice in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, (iii) a letter of advice from Red Sun Capital Limited to the Independent Board

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## LETTER FROM THE BOARD

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Committee and the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, (iv) other information as required under the GEM Listing Rules and the Takeovers Code, and (v) the notice of the SGM.

### II. PROPOSED RIGHTS ISSUE

Subject to, among other conditions, the grant of the Whitewash Waiver and the approval by the Independent Shareholders at the SGM, the Board proposes to implement the Rights Issue, details of which are summarised below:

#### Issue Statistics

Basis of the Rights Issue	:	one (1) Rights Share for every two (2) existing Shares held on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of existing Shares in issue as at the Latest Practicable Date	:	1,188,460,000 Shares
Number of Rights Shares	:	594,230,000 Rights Shares
Amount to be raised before expenses	:	approximately HK\$59 million before expenses (based on the number of existing Shares in issue as at the Latest Practicable Date, and assuming no Shares have been allotted and issued on or before the Record Date)
Underwriter	:	Sino Eminent
Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue	:	1,782,690,000 Shares
Aggregate nominal value of the Rights Shares to be issued	:	HK\$59,423,000

Assuming no new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue, the aggregate number of Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represents 50% of the Company's total number of issued Shares as at the Latest Practicable Date and represented approximately 33.33% of the Company's total number of issued Shares as enlarged by the issue of the Rights Shares immediately after completion of the Rights Issue.

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## LETTER FROM THE BOARD

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

### **Qualifying Shareholders**

To qualify for the Rights Issue, a Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be Tuesday, 27 February 2018 and such Shareholder must not be a Non-Qualifying Shareholder. In order to be registered as a member of the Company on the Record Date, any transfer of Shares (together with the relevant share certificate(s)) must be lodged with the share registrar of the Company for registration by 4:30 p.m. on the Last Day for Transfer. The register of members of the Company will be closed from Wednesday, 21 February 2018 to Tuesday, 27 February 2018, both days inclusive.

The share registrar of the Company is Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. The last day of dealings in the Shares on a cum-rights basis is Tuesday, 13 February 2018. The Shares will be dealt with on an ex-rights basis from Wednesday, 14 February 2018.

The Latest Time for Acceptance is expected to be 4:00 p.m. on the Final Acceptance Date.

Qualifying Shareholders who take up their pro rata entitlement in full will not suffer any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights 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.

The Company expects to send the Rights Issue Documents to the Qualifying Shareholders on or before the Posting Date. Subject to the advice of the Company's legal advisers in the relevant jurisdiction(s) and to the extent reasonably practicable, the Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL or EAF to them. A copy of the Prospectus will also be made available on the respective websites of the Company (<http://www.hkjewelry.net/>) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

### **Closure of Register of Members**

For the purpose of determining entitlements to the Rights Issue, the register of members of the Company will be closed from Wednesday, 21 February 2018 to Tuesday, 27 February 2018, both days inclusive. No transfer of Shares will be registered during this period.

### **Non-Qualifying Shareholders**

The Rights Issue Documents are not intended to be registered or filed under the applicable securities legislation or equivalent legislation of any jurisdictions other than Hong Kong.

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## LETTER FROM THE BOARD

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The Company is in the process of making enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. The Company notes the requirements specified in Rule 17.41(1) of the GEM Listing Rules and will only exclude from the Rights Issue the Overseas Shareholders whom the Directors, after making enquiries, consider it necessary or expedient to exclude on account of either the legal restrictions under the laws of the relevant jurisdictions or any requirements of the relevant regulatory bodies or stock exchanges in such jurisdictions. The basis of exclusion of the Non-Qualifying Shareholders from the Rights Issue, if any, will be disclosed in the Prospectus. The Company will not offer the Rights Shares to the Non-Qualifying Shareholders. Accordingly, no provisional allotment of Rights Shares will be sent to the Non-Qualifying Shareholders. The Company will, subject to the advice of the Company's legal advisers in the relevant jurisdiction(s) where the Non-Qualifying Shareholders are located and to the extent reasonably practicable, send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but the Company will not send any PAL and EAF to them.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders had they been 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 in any event before dealings in the nil-paid Rights Shares end, if a premium in excess of all expenses of sale can be obtained. The aggregate net proceeds of such sale will be distributed by the Company to the Non-Qualifying Shareholders (pro-rata to their respective shareholdings on the Record Date) in Hong Kong dollars, provided that if any of such Non-Qualifying Shareholders would be entitled to a sum not exceeding HK\$100, such sum will be retained by the Company for its own benefit. Any unsold nil-paid Rights Shares to which such Non-Qualifying Shareholders would otherwise have been entitled will be made available for excess application by the Qualifying Shareholders under the EAFs.

Overseas Shareholders and beneficial owners of the Shares who are residing outside Hong Kong should note that they may or may not be entitled to the Rights Issue pursuant to Rule 17.41(1) of the GEM Listing Rules subject to the results of the enquiries made by the Board. 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 and beneficial owners of the Shares who are residing outside Hong Kong should exercise caution when dealing in the Shares.

### **Odd Lot Arrangement**

In order to facilitate the trading of odd lots of the Shares arising from the Rights Issue, a designated broker will be appointed to match the purchase and sale of odd lots of the Shares at the relevant market price per Share for the period from Friday, 23 March 2018 to Tuesday, 17 April 2018 (both dates inclusive). Holders of odd lots of Shares should note that successful matching of the sale and purchase of odd lots of Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers. Details of the odd lot arrangement will be provided in the Prospectus.

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## LETTER FROM THE BOARD

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### Terms of the Rights Issue

#### *Subscription Price*

The Subscription Price of HK\$0.10 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) a premium of approximately 5.26% to the Last Closing Price;
- (ii) premium of approximately 13.12%, 21.07%, 25.47%, 23.94% and 13.36% to the average of the closing prices of approximately HK\$0.0884, HK\$0.0826, HK\$0.0797, HK\$0.0807 and HK\$0.0882 per Share as quoted on the Stock Exchange for the 5, 10, 30, 60 and 90 consecutive trading days ending on and including the Last Trading Day respectively;
- (iii) a premium of approximately 3.45% to the theoretical ex-right price of approximately HK\$0.0967 per Share, based on the Last Closing Price;
- (iv) a premium of approximately 2.04% to the closing price of HK\$0.0980 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 57.48% to the audited consolidated net asset value per Share attributable to equity holders of the Company of approximately HK\$0.0635 as at 31 December 2016; and
- (vi) a premium of approximately 49.25% to the unaudited consolidated net asset value per Share attributable to equity holders of the Company of approximately HK\$0.0670 as at 30 June 2017.

Each Rights Share has a par value of HK\$0.10. The net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares (assuming no new Shares are allotted and issued on or before completion of the Rights Issue) will be approximately HK\$0.0958.

The Subscription Price was determined by the Directors with reference to the market price of the Shares prior to and including the Last Trading Day, and the prevailing market conditions. After taking into consideration the reasons for the Rights Issue as stated in the section headed “Reasons for the Rights Issue and Use of Proceeds” below, the Directors (including the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular) consider the terms of the Rights Issue, including the Subscription Price and in the context of the Company’s long-term business strategy to develop the Group’s sales of gold and jewellery products business in the PRC to strengthen the Group’s income stream and maximise return to the Shareholders, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Basis of Provisional Allotments*

The basis of the provisional allotment shall be one (1) Rights Share for every two (2) existing Shares held by the Qualifying Shareholders on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the share registrar of the Company on or before the Latest Time for Acceptance.

### *Fractional Entitlements to the Rights Shares*

The Company will not provisionally allot and issue and will not accept application for any fraction of the Rights Shares and the entitlements of the Qualifying Shareholders will be rounded down to the nearest whole number. All fractions of Rights Shares will be aggregated (rounded down to the nearest whole number). All nil-paid Rights Shares arising from such aggregation will be provisionally allotted (in nil-paid form) to the Company or its nominee/agent, and the Company or its nominee/agent will use reasonable endeavours to sell or procure the sale of those aggregated nil-paid Rights Shares in the market for the benefit of the Company if a premium (net of expenses) can be obtained, and the Company will retain the proceeds from such sale. Any unsold fractions of Rights Shares will be made available for excess application by the Qualifying Shareholders under the EAFs.

### *Status of the Rights Shares*

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

### *Application for Excess Rights Shares*

Qualifying Shareholders may apply, by way of excess application, for:

- (i) any unsold entitlements to the Rights Shares of the Non-Qualifying Shareholders had they been Qualifying Shareholders;
- (ii) any unsold Rights Shares created by adding together fractions of the Rights Shares; and
- (iii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renounees or transferees of nil-paid Rights Shares.

Applications for excess Rights Shares can be made only by Qualifying Shareholders and only by completing 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. The Directors will allocate the excess Rights Shares (if any) on a pro rata basis in proportion to the number of excess Rights Shares

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## LETTER FROM THE BOARD

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being applied for under each application. No reference will be made to the Rights Shares subscribed through applications by a PAL or the existing number of Shares held by Qualifying Shareholders. No preference will be given to top up odd lots to whole board lots.

Investors whose Shares are held by a nominee (or which are held in CCASS) should note that the Board will regard the nominee (including HKSCC Nominees Limited) whose name appears on the register of members of the Company (“Registered Nominee”) as a single Shareholder under the aforesaid arrangement in relation to the allocation of excess Rights Shares. Beneficial owners who hold Shares through a Registered Nominee are advised to consider whether they would like to arrange for the registration of their Shares in their own names prior to 4:30 p.m. on the Last Day for Transfer.

Investors whose Shares are held by a Registered Nominee and who would like to have their names registered on the register of members of the Company, must lodge all necessary documents with the share registrar of the Company for completion of the relevant registration by 4:30 p.m. on the Last Day for Transfer. The register of members of the Company will be closed from Wednesday, 21 February 2018 to Tuesday, 27 February 2018, both dates inclusive.

Qualifying Shareholders who wish to apply for excess Rights Shares in addition to their provisional allotment must complete and sign an EAF and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the share registrar of the Company on or before the Latest Time for Acceptance.

### ***Share Certificates and Refund Cheques for the Rights Issue***

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for fully paid Rights Shares are expected to be posted to those who have accepted and (where applicable) applied for, and paid for, the Rights Shares by ordinary post at their own risk on or before Thursday, 22 March 2018. Each Shareholder will receive one share certificate for all allotted Rights Shares. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted to the applicants by ordinary post at their own risk on or before Thursday, 22 March 2018.

### ***Application for Listing***

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. No part of the securities of the issuer is listed, or dealt in, or for which listing or permission to deal is being or is proposed to be sought, on any other stock exchange. Nil-paid Rights Shares are expected to be traded in board lots of 2,000 (as the Shares are currently traded on the Stock Exchange in board lots of 2,000).

### ***Rights Shares will be Eligible for Admission into CCASS***

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 requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will

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## LETTER FROM THE BOARD

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

### **Stamp Duty and Other Applicable Fees and Charges**

Dealings in the Rights Shares (in both nil-paid and fully-paid forms), which are registered in the register of members of the Company in Hong Kong, will be subject to the payment of stamp duty, Stock Exchange trading fee, the SFC transaction levy and other applicable fees and charges in Hong Kong.

### **Underwriting Arrangements**

#### *Principal Terms of the Underwriting Agreement*

Date	:	20 December 2017
Issuer	:	The Company
Underwriter	:	Sino Eminent, a substantial shareholder of the Company and an investment holding company
Total number of Underwritten Shares	:	594,230,000 Rights Shares
Commission	:	No underwriting commission is payable to the Underwriter

As at Latest Practicable Date, Sino Eminent was interested in 312,606,140 Shares, representing approximately 26.30% of the entire issued Shares of the Company. Shenzhen Yihua and OEIL held 40 shares and 13 shares in Sino Eminent, representing approximately 75% and 25% of the shares in Sino Eminent respectively. OEIL was wholly owned by Ms. Li Xia. As at Latest Practicable Date, Mr. Chong Yu Ping, directly and indirectly through his controlled corporation (being Shenzhen Guojin Investment Development Company Limited\*, which was held by Mr. Chong Yu Ping and Mr. Zhuang Weizhong as to 90% and 10% respectively as at Latest Practicable Date) controlled approximately 70.80% and 3.54% respectively of the shares in Shenzhen Yihua. Ms. Li Xia owned approximately 0.04% of the shares in Shenzhen Yihua. The relatives of Mr. Chong Yu Ping, being Ms. Zhuang Rushan, Mr. Zhuang Yuyi, Mr. Zhuang Yuxiao, Ms. Zhuang Ruling, Mr. Zhuang Wei and Mr. Zhuang Jian respectively held approximately 0.09%, 0.93%, 0.09%, 0.71%, 1.66% and 1.69% of the shares in Shenzhen Yihua. Shenzhen Huaji Tai Investment Development Company

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## LETTER FROM THE BOARD

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Limited\* which was owned as to 10% and 90% by Mr. Chong Yu Ping and his brother, Mr. Zhuang Yuyi, holds approximately 11.50% of the shares in Shenzhen Yihua. The remaining shareholders, being Shenzhen Yihua Investment Development Company Limited\*, Liu Deying, Zhang Mingyang, Chen Jianming, Dou Guizhen, Zheng Zhenying, Zhao Jiangrong, Huang Qiuping, Li Yanmin, Wang Xizhong, Huang Lihong, Chen Xiaojun, Zhuang Weizhong, Huang Shixuan, Shi Jingang, Yang Yingxuan, Huang Hai, Zhang Shangfeng and Tan Guohui respectively held approximately 3%, 1.77%, 0.89%, 0.71%, 0.44%, 0.44%, 0.44%, 0.27%, 0.27%, 0.27%, 0.18%, 0.09%, 0.05%, 0.05%, 0.03%, 0.03%, 0.02%, 0.02% and 0.01% of the shares in Shenzhen Yihua. To the best knowledge of the Directors having made all reasonable enquiries, Shenzhen Yihua Investment Development Company Limited\* was owned as to approximately 90.31% by Xi Tai Industrial Company Limited\*, through its wholly-owned subsidiary, Xi Taida Corporate Management Advisory (Shenzhen) Company Limited\*, and as to approximately 9.69% by Shenzhen Yixin Jewellery Company Limited\*. Shenzhen Yixin Jewellery Company Limited\* was owned as to 5% by Li Yanmin and 95% by Tong Gangda Corporate Management Advisory (Shenzhen) Company Limited\*, which in turn was wholly owned by Qu Haiping through Kong Shum Toys Limited. Therefore, Sino Eminent was a substantial shareholder and a connected person of the Company as defined under the GEM Listing Rules. Accordingly, the transactions between the Company and Sino Eminent as contemplated under the Underwriting Agreement constitute a connected transaction of the Company. Pursuant to Rule 20.90(2)(b) of the GEM Listing Rules, as arrangements have been made in relation to excess applications in compliance with Rule 10.31 of the GEM Listing Rules and given that no underwriting commission is payable to Sino Eminent, the Underwriting Agreement is exempted from all reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. It is not in the ordinary course of business of Sino Eminent to underwrite shares.

### *Conditions of the Underwriting Agreement*

The obligations of the Underwriter under the Underwriting Agreement are conditional on the following, none of which can be waived, whether in whole or in part:

- (a) the passing at the SGM of necessary resolution(s) by the Independent Shareholders to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder, at which the voting shall be taken on a poll and in accordance with the GEM Listing Rules and the Takeovers Code;
- (b) the granting of the Whitewash Waiver to Sino Eminent by the Executive and the fulfillment of all conditions (if any) attached to it;
- (c) the registration of the Rights Issue Documents (with all the documents required to be attached thereto by Section 342C of the Companies (WUMP) Ordinance) by the Registrar of Companies in Hong Kong in compliance with the Companies (WUMP) Ordinance by no later than the Posting Date;
- (d) the posting of the Rights Issue Documents to the Qualifying Shareholders on or before the Posting Date;

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## LETTER FROM THE BOARD

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- (e) all necessary approvals, permits, waivers, consents and authorisations having been obtained for the provisional allotment and allotment of the Rights Shares from the Stock Exchange as well as for the Rights Issue generally;
- (f) the Listing Committee of the Stock Exchange having granted (subject only to provisional allotment and/or allotment of the Rights Shares, the posting of the Prospectus and despatch of certificates in respect of the Rights Shares and any other matters which are agreed between the Company and the Underwriter) the listing of and permission to deal in the Rights Shares (both nil-paid and fully-paid) on the Stock Exchange, in each case by no later than the first day of dealing thereof and such listing and permission to deal not being revoked prior to 4.00 p.m. on the third Business Day after the Final Acceptance Date;
- (g) the Underwriting Agreement not being terminated by the Underwriter pursuant to its terms prior to the latest time for termination;
- (h) none of the undertakings and obligations of the Company under the Underwriting Agreement having been breached; and
- (i) the warranties given by the Company under the Underwriting Agreement remaining true, accurate and not misleading in all material respects.

As at the Latest Practicable Date, the above conditions precedent was not fulfilled. If any of the above conditions are not fulfilled at or before 5:00 p.m. on Thursday, 15 March 2018 (or such other date as the Company and the Underwriter may agree in writing), or shall become incapable of being fulfilled on or before such time or date, the Underwriting Agreement may be terminated by the Underwriter by written notice to the Company, and no party to the Underwriting Agreement shall have any claim against any other party thereto for compensation, costs, damages or otherwise.

### *Termination of the Underwriting Agreement*

If at any time between the date of the Underwriting Agreement and 5:00 p.m. on the third Business Day following the Final Acceptance Date one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:

- (a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties given by the Company under the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or
- (b) (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, Bermuda or elsewhere;

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## LETTER FROM THE BOARD

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- (ii) there is any change in local, national or international financial, political, industrial or economic conditions;
- (iii) there is any change of an exceptional nature in local, national or international equity securities or currency markets;
- (iv) there is any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (v) there is any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
- (vi) there is any suspension in the trading of the Shares on the Stock Exchange for a continuous period of ten (10) Business Days;
- (vii) there is any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such,

which event or events is or are in the reasonable opinion of the Underwriter:

- (1) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group taken as a whole; or
- (2) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be Taken Up; or
- (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue; or
- (4) there is a breach by the Company of the Underwriting Agreement,

then the Underwriter may, in addition to and without prejudice to any other remedies to which the Underwriter may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith.

**If the Underwriter exercises such right of termination, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.**

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## LETTER FROM THE BOARD

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### **Warning of the Risks of Dealing in Shares and Rights Shares in Nil-Paid Form**

The last day for dealing in the Shares on a cum-rights basis is expected to be Tuesday, 13 February 2018. The Shares are expected to be dealt in on an ex-rights basis from Wednesday, 14 February 2018. The Rights Shares are expected to be dealt with in their nil-paid form from Friday, 2 March 2018 to Friday, 9 March 2018 (both days inclusive).

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. It should also be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate their obligations on the occurrence of certain events including force majeure. If the Underwriting Agreement does not become unconditional or is terminated, the Rights Issue will not proceed.

Any Shareholder or other person dealing in Shares of the Company up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any person dealing in the nil-paid Rights Shares during the period from Friday, 2 March 2018 to Friday, 9 March 2018 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. If in any doubt, Shareholders, and other persons contemplating dealing in securities of the Company and potential investors are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

### **Changes in the Shareholding Structure**

Assuming no Shares (other than the Rights Shares) are allotted and issued on or before the completion of the Rights Issue, the changes in the shareholding structure of the Company arising from the Rights Issue are as follows:

## LETTER FROM THE BOARD

	Shareholding upon completion of the Rights Issue					
	As at Latest Practicable Date		Assuming all Rights Shares are taken up by the Qualifying Shareholders		Assuming no Rights Shares are taken up by the Qualifying Shareholders and the Underwriter is required to underwrite the Underwritten Shares	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
<b>Concert Group</b>						
Sino Eminent (Note 1)	312,606,140	26.30	468,909,210	26.30	906,836,140	50.87
Zhuang Rushan (Note 2)	50,136,000	4.22	75,204,000	4.22	50,136,000	2.81
Subtotal	362,742,140	30.52	544,113,210	30.52	956,972,140	53.68
<b>Substantial Shareholder</b>						
CK Hutchison Holdings Limited (Note 3)	143,233,151	12.05	214,849,726	12.05	143,233,151	8.03
<b>Director</b>						
Chen Yin (Note 4)	110,303,827	9.28	165,455,740	9.28	110,303,827	6.19
<b>Public Shareholders</b>	<u>572,180,882</u>	<u>48.15</u>	<u>858,271,324</u>	<u>48.15</u>	<u>572,180,882</u>	<u>32.10</u>
<b>Total</b>	<u>1,188,460,000</u>	<u>100</u>	<u>1,782,690,000</u>	<u>100</u>	<u>1,782,690,000</u>	<u>100</u>

*Notes:*

- OEIL and Shenzhen Yihua hold 13 shares and 40 shares in Sino Eminent, representing approximately 25% and 75% of the shares in Sino Eminent. OEIL is wholly owned by Ms. Li Xia. As at Latest Practicable Date, Mr. Chong Yu Ping, directly and indirectly through his controlled corporation (being Shenzhen Guojin Investment Development Company Limited\*, which was held by Mr. Chong Yu Ping and Mr. Zhuang Weizhong as to 90% and 10% respectively as at Latest Practicable Date) controlled approximately 70.80% and 3.54% respectively of the shares in Shenzhen Yihua. Ms. Li Xia owns approximately 0.04% of the shares in Shenzhen Yihua. The relatives of Mr. Chong Yu Ping, being Ms. Zhuang Rushan, Mr. Zhuang Yuyi, Mr. Zhuang Yuxiao, Ms. Zhuang Ruling, Mr. Zhuang Wei and Mr. Zhuang Jian respectively held approximately 0.09%, 0.93%, 0.09%, 0.71%, 1.66% and 1.69% of the shares in Shenzhen Yihua. Shenzhen Huaji Tai Investment Development Company Limited\* was owned as to 10% and 90% by Mr. Chong Yu Ping and his brother, Mr. Zhuang Yuyi. The remaining shareholders, being Shenzhen Yihua Investment Development Company Limited\*, Liu Deying, Zhang Mingyang, Chen Jianming, Dou Guizhen, Zheng Zhenying, Zhao Jiangrong, Huang Qiuping, Li Yanmin, Wang Xizhong, Huang Lihong, Chen Xiaojun, Zhuang Weizhong, Huang Shixuan, Shi Jingang, Yang Yingxuan, Huang Hai, Zhang Shangfeng and Tan Guohui respectively held approximately 3%, 1.77%, 0.89%, 0.71%, 0.44%, 0.44%, 0.44%, 0.27%, 0.27%, 0.27%, 0.18%, 0.09%, 0.05%, 0.05%, 0.03%, 0.03%, 0.02%, 0.02% and 0.01% of the shares in Shenzhen Yihua. Accordingly, Mr. Chong Yu Ping was deemed to be interested in 312,606,140 Shares held by Sino Eminent by virtue of Sino Eminent being controlled by Mr. Chong Yu Ping through his shareholding in Shenzhen Yihua. OEIL was wholly owned by Ms. Li Xia. Ms. Li Xia was deemed to be interested in 312,606,140 Shares held by Sino Eminent as Sino Eminent is owned as to 25% by OEIL, which in turn was wholly owned by Ms. Li Xia, the sole director of Sino Eminent. Sino Eminent

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## LETTER FROM THE BOARD

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is a member of the Concert Group and shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.

2. As at Latest Practicable Date, Ms. Zhuang Rushan, sister of Mr. Chong Yu Ping, owned 50,136,000 Shares. Ms. Zhuang Rushan is a member of the Concert Group and shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.
3. CK Hutchison Holdings Limited (“CK Hutchison”) is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Alps Mountain Agent Limited (“Alps”) and iBusiness Corporation Limited (“iBusiness”) being Shareholders holding 71,969,151 and 67,264,000 Shares respectively, representing approximately 6.06% and 5.66% of the Shares as at the Latest Practicable respectively. Accordingly, CK Hutchison is deemed to be interested in 143,233,151 Shares of the Company of which 71,969,151 Shares are held by Alps and 67,264,000 Shares are held by iBusiness under the SFO. CK Hutchison Holdings Limited is an Independent Third Party and is not acting in concert with the Concert Group.
4. These shares were held by Flourish Zone Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Chen Yin. Mr. Chen Yin was not involved in the negotiations about the Rights Issue, Underwriting Agreement or the Whitewash Waiver. In accordance with Rule 10.29(1) of the GEM Listing Rules, Mr. Chen Yin, being an executive Director of the Company, and Flourish Zone Limited (an associate of Mr. Chen Yin) shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.
5. Certain figures and percentage figures included in the above table have been subject to rounding adjustments.

### **Reasons for the Rights Issue and Use of Proceeds**

The Group is principally engaged in the designing and sales of gold and jewellery products, the development, sales and implementation of enterprise software and the provision of systems integration, professional services, application service provider services and investment holding.

The net proceeds from the Rights Issue after deducting all relevant expenses are estimated to be approximately HK\$56.9 million (assuming there is no change in the number of issued Shares on or before the Record Date).

The Board is considering to implement its growth strategy to develop the Group’s sales of gold and jewellery products business in the PRC in order to strengthen the Group’s income stream and maximise return to the Shareholders. In view of the improving consumer sentiment in the PRC, the Board has been actively exploring business opportunities in the PRC to fulfil its growth strategy. The Board intends to apply the net proceeds from the Rights Issue in the following manner:

- approximately HK\$15 million (representing 26% of the estimated net proceeds from the Rights Issue) will be applied for staff recruitment;
- approximately HK\$20 million (representing 35% of the estimated net proceeds from the Rights Issue) will be applied for strengthening gold and jewellery product design and brand marketing;

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## LETTER FROM THE BOARD

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- approximately HK\$5 million (representing 9% of the estimated net proceeds from the Rights Issue) will be applied for launching an e-commerce sales platform to increase the sales channel of gold and jewellery products;
- approximately HK\$4 million (representing 7% of the estimated net proceeds from the Rights Issue) will be applied for establishing new representative office in Shanghai to facilitate marketing of gold and jewellery products and business development; and
- the remaining proceeds of approximately HK\$12.9 million (representing 23% of the estimated net proceeds from the Rights Issue) will be applied for upgrading the Group's supply chain management system and other working capital purpose.

The Directors consider that the Rights Issue offers all Qualifying Shareholders the opportunity to participate and grasp the benefit of the future development of the Group. The Directors are of the view that the Rights Issue not only provides greater financial flexibility for the Company, but also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company. Unlike borrowings or issuance of debt securities, the Directors (including the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that the rights issue would be a preferred means for the Company to raise long-term funds to finance long-term investments and new business potentials without subjecting itself to interest burden or additional debt. The net proceeds from the Rights Issue will be used as funds for staff recruitment, designing and marketing new products, launching e-commerce platform, establishing new representative office, upgrading supply chain management system and as the general working capital of the Group. The Group also intends to continue to focus on the development of the existing jewellery business, and look for other potential good investment opportunities in the existing business fields of the Group to achieve sustainable growth and create value for its Shareholders. As at Latest Practicable Date, the Company did not identify any suitable acquisition targets.

Furthermore, the capital base of the Company will be strengthened after completion of the Rights Issue and the improved financial position provided sufficient internal resources and financing capacity for the Company to meet its future expansion needs.

The Directors (including the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) believe that the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

### **RISK FACTORS**

In compliance with the GEM Listing Rules, the Company sets out below the risk factors of the Group for the Shareholders' attention. The Directors believe that there are certain risks involved in the operations of the Group, which includes but are not limited to, the following:

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## LETTER FROM THE BOARD

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### **Risk relating to sales of gold and jewellery products**

Gold and jewellery products are discretionary products and the demand of which are highly sensitive to general economic conditions and discretionary income level. Changes in customer preferences, tastes and discretionary spending priorities may affect sales of the gold and jewellery products. The Group will closely monitor the market trend based on its internal risk management strategies.

### **Risk relating to IT products and services**

The Group's IT products and services business is subject to rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. The Group will remain focuses on the market condition of its IT products and services business and will take appropriate actions to respond to the market changes.

### **Financial risks relating to the Group**

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group actively and regularly reviews and manages its financial risk and takes actions to mitigate such risk. The Group adopts conservative strategies on its risk management and seeks to limit the Group's exposure to these risks to a minimum.

### **Risks related to politics, economics and regulations**

The business operations of the Group are primarily based in the PRC and Taiwan, Hong Kong and South East Asia. Accordingly, the Group's operating results, financial position and prospects could be adversely affected by economic, political and legal developments in these areas. If there is any significant change in the general economic, political and legal developments in the areas which the Group operates, the Group's operations and financial position may be adversely affected.

### **Equity Fund Raising Activities of the Company**

Save for the Rights Issue, there has been no funds raised on any issue of equity securities during the past 12 months immediately before the date of the Announcement. The Group did not intend to conduct any other fund raising activities in the next 12 months from the date of the Announcement.

### **Taxation**

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

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## LETTER FROM THE BOARD

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### **Takeovers Code Implications and Application for Whitewash Waiver**

As at Latest Practicable Date, the Concert Group was interested in 362,742,140 Shares, representing approximately 30.52% of the entire issued Shares of the Company.

Pursuant to the Underwriting Agreement, Sino Eminent has undertaken to the Company that it will fully underwrite the Underwritten Shares.

Assuming no acceptance by the Qualifying Shareholders under the Rights Issue, Sino Eminent will be required to take up the Underwritten Shares and the total shareholding of the Concert Group upon completion of the Rights Issue would amount to approximately 53.68% of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares. Under Rule 26 of the Takeovers Code, if Sino Eminent acquires all the Underwritten Shares or if it acquires such number of Underwritten Shares resulting in increasing the Concert Group's holding of voting rights of the Company by more than 2% from their lowest collective percentage holding in the 12 month period ending on and inclusive of the date of the relevant acquisition, Sino Eminent would be required to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders at the SGM by way of poll, in which the Concert Group shall abstain from voting on the relevant resolution(s). Save for the Concert Group, no Shareholder is involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution(s) at the SGM. If the Whitewash Waiver is not granted or not approved by the Independent Shareholders, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed.

If the Whitewash Waiver is approved by the Independent Shareholders, the shareholding of the Concert Group may exceed 50%, in which event the Underwriter may further increase its shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company did not believe that the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transaction contemplated thereunder gave rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this circular, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue and the transaction contemplated thereunder does not comply with other applicable rules and regulations.

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## LETTER FROM THE BOARD

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### **Information on Shenzhen Yihua, OEIL, Sino Eminent and the Concert Group**

Sino Eminent was incorporated in the British Virgin Islands and is principally engaged in investment holding. Sino Eminent is not engaged in the business of underwriting. As at Latest Practicable Date, OEIL and Shenzhen Yihua held 13 shares and 40 shares in Sino Eminent, representing approximately 25% and 75% of the shares in Sino Eminent respectively. As at Latest Practicable Date, Sino Eminent held 312,606,140 Shares, representing approximately 26.30% of the entire issued Shares of the Company.

Shenzhen Yihua was incorporated in the PRC and is principally engaged in the sale of jewellery. As at Latest Practicable Date, Shenzhen Yihua held approximately 75% of the issued shares in Sino Eminent. As at Latest Practicable Date, Mr. Chong Yu Ping, the Director, directly and indirectly through his controlled company, being Shenzhen Guojin Investment Development Company Limited\* in which Mr. Chong Yu Ping and Mr. Zhuang Weizhong own 90% and 10% of the shares in this company respectively as at Latest Practicable Date, controlled approximately 70.80% and 3.54% respectively of the shares in Shenzhen Yihua.

OEIL was incorporated in the British Virgins Islands and is principally engaged in investment holding. As at Latest Practicable Date, OEIL held approximately 25% of the issued shares in Sino Eminent. OEIL was a wholly-owned by Ms. Li Xia, the Director of the Company.

As at the Latest Practicable Date, Ms. Zhuang Rushan, sister of Mr. Chong Yu Ping, owned 50,136,000 Shares, representing approximately 4.22% of the entire issued Shares. It is the intention of Sino Eminent to continue to carry on the businesses of the Group and to continue the employment of the employees of the Group. Sino Eminent has no intention to introduce any changes to the businesses of the Group including redeployment of the fixed assets of the Group. As at Latest Practicable Date, the members of the Concert Group did not receive any irrevocable commitment to vote for or against the proposed resolution approving the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder at the SGM. Save for the transactions contemplated under the Underwriting Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares entered into by any member of the Concert Group and which might be material to the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver.

At the Latest Practicable Date, other than approximately 30.52% interests in the issued share capital of the Company owned by the Concert Group, the Concert Group did not hold or has control or direction over any other shares, rights over shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

None of the members of the Concert Group has any dealings in any securities of the Company during the Relevant Period.

As at Latest Practicable Date, save for the Underwriting Agreement, there was no arrangement or agreement to which members of the Concert Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Rights Issue,

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## LETTER FROM THE BOARD

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the Underwriting Agreement and/or the Whitewash Waiver. There is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Concert Group borrowed or lent as at Latest Practicable Date.

### **Information on the Group**

The Group is principally engaged in the designing and sales of gold and jewellery products, the development, sales and implementation of enterprise software and the provision of systems integration, professional services, application service provider services and investment holding.

### **Independent Board Committee**

The Independent Board Committee (comprising Mr. Lam Tin Faat, Ms. Lu Haina and Ms. Na Xin, the independent non-executive Directors) has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned and to advise the Independent Shareholders on how to vote at the SGM.

### **Independent Financial Adviser**

With the approval of the Independent Board Committee, Red Sun has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

### **GEM Listing Rules Implications**

As the Rights Issue would increase the market capitalisation of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 10.29(1) of the GEM Listing Rules and any controlling Shareholder and their respective associates or where there is no controlling Shareholder, the Directors (including the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolutions relating to the Rights Issue.

As at the Latest Practicable Date, since there is no controlling Shareholder, the Directors (including the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) and the chief executive of the Company and their respective associates shall abstain from voting at the SGM in respect of the resolutions to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder. Accordingly, (i) Mr. Chong Yu Ping and Ms. Li Xia, being both executive Directors of the Company and are interested in 312,606,140 Shares held by Sino Eminent; and (ii) Mr. Chen Yin, being an executive Director of the Company and is interested in 110,303,827 Shares through Flourish Zone Limited as at the Latest Practicable Date, shall abstain

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## **LETTER FROM THE BOARD**

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from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder. For details of the shareholdings held by Mr. Chong Yu Ping, Ms. Li Xia and Mr. Chen Yin, please refer to the paragraph headed “Changes in the Shareholding Structure” in this circular. Further, any Shareholders that have a material interest in the Rights Issue shall abstain from voting on the resolutions approving the Rights Issue. In other words, only the Independent Shareholders are allowed to vote at the aforesaid SGM. The Concert Group is interested in the Whitewash Waiver and shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder. Save for the Concert Group, no Shareholder is involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolutions at the SGM. An Independent Board Committee has been established by the Company to give recommendation to the Independent Shareholders in respect of the Rights Issue. The Independent Financial Adviser has been appointed to advise the Independent Board Committee of the Company regarding the Rights Issue.

### **III. SGM**

A notice convening the SGM at Room 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong on Monday, 12 February 2018 at 2:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company’s share registrar, Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof (as the case may be) should you so wish.

### **IV. RECOMMENDATION**

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 33 to 34 of this circular. Your attention is also drawn to the letter of advice from Red Sun Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder set out on pages IFA-1 to IFA-26 in this circular.

The Directors (including the members of the Independent Board Committee whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular) consider that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder. You are advised to read the letter from the Independent Board Committee and the letter from Red Sun Capital Limited mentioned above before deciding how to vote on the resolutions to be proposed at the SGM.

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## LETTER FROM THE BOARD

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### V. ADDITIONAL INFORMATION

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

By Order of the Board of  
**Yu Tak International Holdings Limited**  
**Chong Yu Ping**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.*



### YU TAK INTERNATIONAL HOLDINGS LIMITED

御德國際控股有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8048)**

19 January 2018

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) PROPOSED RIGHTS ISSUE OF 594,230,000 RIGHTS SHARES AT HK\$0.10  
PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY  
TWO EXISTING SHARES HELD ON THE RECORD DATE  
AND  
(2) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 19 January 2018 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders are concerned and to recommend whether or not the Independent Shareholders should vote for the resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder. The appointment of Red Sun Capital Limited as the Independent Financial Adviser to advise you and us in this regard has been approved by us. Details of its advice, together with the principal factors and reasons it has taken into consideration in arriving at such advice, are set out on pages IFA-1 to IFA-26 of the Circular.

Your attention is also drawn to the “Letter from the Board” in this Circular and the additional information set out in the appendices thereto.

Having taken into account the principal factors and reasons considered by, and the advice and recommendation of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages IFA-1 to IFA-26 of the Circular, we are of the opinion that the terms of the Rights Issue and the

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Underwriting Agreement are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and are of the view that the Whitewash Waiver, which is to facilitate the implementation of the Rights Issue, is fair and reasonable and in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**the Independent Board Committee**

**Lam Tin Faat**  
*Independent non-executive  
Director*

**Lu Haina**  
*Independent non-executive  
Director*

**Na Xin**  
*Independent non-executive  
Director*

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## LETTER FROM RED SUN CAPITAL LIMITED

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*Set out below is the text of a letter received from Red Sun Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver for the purpose of inclusion in this circular.*



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

19 January 2018

Dear Sirs,

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

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 19 January 2018 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the Circular in relation to, among others, the Rights Issue, the Underwriting Agreement and the application for the Whitewash Waiver, the Board proposed to raise net proceeds of approximately HK\$56.9 million by way of conducting the Rights Issue on the basis of one (1) Rights Share for every two (2) existing Shares held by the Qualifying Shareholders on the Record Date (assuming that there is no change in the number of issued Shares on or before the Record Date), the Company will allot and issue 594,230,000 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share.

On 20 December 2017, the Company (as the issuer) and Sino Eminent (as the Underwriter) entered into the Underwriting Agreement, pursuant to which the Underwriter has conditionally agreed to underwrite the Underwritten Shares on a fully underwritten basis and subject to the terms and conditions thereof. The obligations of the Underwriter to underwrite the Underwritten Shares are conditional on the satisfaction of the conditions referred to under the paragraph headed “Conditions of the Underwriting Agreement” in the Letter from the Board. If the conditions of the Underwriting Agreement are not satisfied and/or waived in whole or in part by the Underwriter, the Rights Issue will not proceed. Further details of the Underwriting Agreement are set out under the section headed “Underwriting Arrangements” in the Letter from the Board.

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## LETTER FROM RED SUN CAPITAL LIMITED

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As set out in the Letter from the Board, as the Rights Issue would increase the market capitalisation of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 10.29(1) of the GEM Listing Rules and any controlling Shareholder and their respective associates or where there is no controlling Shareholder, the Directors, the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolutions relating to the Rights Issue. As at the Latest Practicable Date, since there is no controlling Shareholder, the Directors and the chief executive of the Company and their respective associates shall abstain from voting at the SGM in respect of the resolutions to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder. Accordingly, (i) Mr. Chong Yu Ping and Ms. Li Xia, being both executive Directors of the Company and were interested in 312,606,140 Shares held by Sino Eminent; and (ii) Mr. Chen Yin, being an executive Director and was interested in 110,303,827 Shares through Flourish Zone Limited, as at the Latest Practicable Date, shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder. The Concert Group is interested in the Whitewash Waiver and shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder. In other words, only the Independent Shareholders are allowed to vote at the SGM. Save for the Concert Group, no Shareholder is involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolutions at the SGM.

Sino Eminent is a substantial shareholder of the Company and a connected person of the Company as defined under the GEM Listing Rules. Accordingly, the Underwriting Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the taking up of entitlements to the Rights Issue by Sino Eminent as a Qualifying Shareholder is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the Listing Rules.

Pursuant to Rule 20.90(2)(b) of the GEM Listing Rules, the underwriting of the Rights Issue by Sino Eminent as the Underwriter contemplated under the Underwriting Agreement is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules as arrangements have been made in relation to excess applications in compliance with Rule 10.31 of the GEM Listing Rules and no underwriting commission is payable to Sino Eminent.

Pursuant to the Underwriting Agreement, Sino Eminent has conditionally agreed to fully underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders under the Rights Issue, Sino Eminent will be required to take up the Underwritten Shares in full and the total shareholding of the Concert Group upon completion of the Rights Issue would increase from approximately 30.52% (i.e. the shareholding interest as at the Latest Practicable Date) to approximately 53.68% of the then issued shares capital of the Company as enlarged by the allotment and issue of the Rights Shares (assuming that there is no other change in the number of issued Shares on or before the Record Date).

Under Rule 26 of the Takeovers Code, if Sino Eminent acquires all the Underwritten Shares or if it acquires such number of Underwritten Shares resulting in increasing the Concert Group's holding of voting rights of the Company by more than 2% from their lowest collective percentage holding in the 12 month period ending on and inclusive of the date of the relevant acquisition, Sino Eminent would be required to

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## LETTER FROM RED SUN CAPITAL LIMITED

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make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive. In this regard, Sino Eminent has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded, subject to the approval of the Independent Shareholders at the SGM by way of poll in accordance with the requirements of the Takeovers Code and such other condition(s) as may be imposed by the Executive, to grant the Whitewash Waiver. If the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not become unconditional and the Rights Issue will not proceed.

As at the Latest Practicable Date, the Concert Group was interested in 362,742,140 Shares, representing approximately 30.52% of the existing issued Shares of the Company. For avoidance of doubt, only the Independent Shareholders are allowed to vote at the SGM. Save for the Concert Group, no Shareholder is involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolutions at the SGM.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising three independent non-executive Directors, namely Mr. Lam Tin Faat, Ms. Lu Haina and Ms. Na Xin, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder, are fair and reasonable and in the interests of the Company and Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM.

We have been appointed as the Independent Financial Adviser and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in these regards.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company and the Concert Group or any other parties that could reasonably be regarded as relevant to our independence.

Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent under Rule 17.96 of the GEM Listing Rules and under the Takeovers Code to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

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## LETTER FROM RED SUN CAPITAL LIMITED

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### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Group, its advisers, its management team (the “Management”) and/or the Directors. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Group, its advisers, the Management and/or the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have 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 Group, its advisers, the Management and/or the Directors, which have been provided to us. Our opinion is based on the Directors’ representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Rights Issue, the Underwriting Agreement and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules and Rule 2 of the Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Group, its advisers, the Management and/or the Directors, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Company and Sino Eminent, and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us at the Latest Practicable Date. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely for their consideration of the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder.

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# LETTER FROM RED SUN CAPITAL LIMITED

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

### 1. Background of the Group

#### 1.1 Business and financial overview of the Group

As set out in the Letter from the Board, the Group is principally engaged in the designing and sales of gold and jewellery products, the development, sales and implementation of enterprise software and the provision of systems integration, professional services, application service provider services and investment holding.

Set out below are (i) the audited consolidated financial results and positions of the Group for each of the two years ended 31 December 2015 and 2016 as extracted from the Company's annual report for the year ended 31 December 2016 (the "2016 Annual Report"); (ii) the unaudited consolidated financial position of the Group for the six months ended 30 June 2017 as extracted from the interim report of the Group for the six months ended 30 June 2017 (the "2017 Half Year Report"); and (iii) the unaudited consolidated financial results of the Group for the nine months ended 30 September 2016 and 2017 as extracted from the third quarter report of the Group for the nine months ended 30 September 2016 and 2017 (the "2017 Third Quarter Report"):

**Table 1: Consolidated statement of profit or loss**

	For the year ended 31 December		Year-on- year change	For the nine months ended 30 September		Period-on- period change
	2016 (audited) HK\$'000	2015 (audited) HK\$'000		2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	
Revenue	104,367	174,741	(40.3)	73,533	76,465	(3.8)
(Loss)/Profit for the year/period	(46,255)	(34,557)	33.9	3,802	(31,348)	N/A

#### *Financial performance for the nine months ended 30 September 2017*

As set out in the 2017 Third Quarter Report, the Group recorded revenue of approximately HK\$73.5 million for the nine months ended 30 September 2017, representing a slight decrease of approximately 3.8% as compared to approximately HK\$76.5 million recorded for the nine months ended 30 September 2016. Such decrease was mainly attributable to the reduction in revenue derived from the sales of enterprise software products, which was partially offset by the increase in revenue derived from the provision of professional services.

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## LETTER FROM RED SUN CAPITAL LIMITED

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For the nine months ended 30 September 2017, the Group recorded a net profit of approximately HK\$3.8 million compared to a net loss of approximately HK\$31.3 million recorded for the nine months ended 30 September 2016. Based on the 2017 Third Quarter Report, the improvement in the financial performance of the Group for the nine months ended 30 September 2017 was mainly attributable to the slight decrease in revenue of the Group as a result of a decrease of revenue derived from the sales of enterprise software products which partially offset by the increase in revenue derived from the provision of professional services as mentioned in the preceding paragraph as well as (i) the gain on disposal of a subsidiary of approximately HK\$7.4 million (the “One-off Disposal Gain”); and (ii) the decrease in employee benefits expense of approximately HK\$13.4 million. It was noted that should the One-off Disposal Gain be excluded, the Group would have recorded a loss of approximately HK\$3.6 million for the nine months ended 30 September 2017.

### *Financial performance for the year ended 31 December 2016*

As stated in the 2016 Annual Report, for the year ended 31 December 2016, the Group recorded revenue of approximately HK\$104.4 million, representing a decrease of approximately 40.3% as compared to approximately HK\$174.7 million recorded for the year ended 31 December 2015. Such decrease was mainly due to the reduction in revenue generated from the sales of gold and jewellery products, enterprise software products and professional services.

For the year ended 31 December 2016, the Group recorded a net loss of approximately HK\$46.3 million, representing an increase of approximately 33.9% as compared to the net loss of approximately HK\$34.6 million recorded for the year ended 31 December 2015. Based on the 2016 Annual Report, the increase in net loss of the Group for the year ended 31 December 2016 was mainly attributable to the decrease in revenue from the sales of gold and jewellery products, enterprise software products and professional services as mentioned in the above paragraph offset by (i) the decrease in purchases of goods of approximately HK\$48.0 million; and (ii) the decrease in employee benefits expense of approximately HK\$25.9 million.

**Table 2: Consolidated statement of financial position**

	<b>As at 30 June 2017</b>	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>	<b>Year-on- year change</b>
	(unaudited)	(audited)	(audited)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Total assets	120,604	149,790	196,023	(23.6)
– Cash and bank balances	22,784	24,507	33,563	(27.0)
Total liabilities	(41,009)	(74,339)	(71,966)	3.3
– Amounts due to directors	(17,223)	(15,046)	(9,552)	57.5
<b>Net assets</b>	<b>79,595</b>	<b>75,451</b>	<b>124,057</b>	<b>(39.2)</b>

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## LETTER FROM RED SUN CAPITAL LIMITED

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### *Financial position as at 30 June 2017*

As at 30 June 2017, the Group's (i) total assets amounted to approximately HK\$120.6 million, representing a decrease of approximately 19.5% as compared to approximately HK\$149.8 million as at 31 December 2016; (ii) net assets amounted to approximately HK\$79.6 million, representing an increase of approximately 5.5% as compared to approximately HK\$75.5 million as at 31 December 2016; (iii) amounts due to directors amounted to approximately HK\$17.2 million, representing an increase of approximately 14.5% as compared to approximately HK\$15.0 million as at 31 December 2016; and (iv) cash and bank balances amounted to approximately HK\$22.8 million, representing a decrease of approximately 7.0% as compared to approximately HK\$24.5 million as at 31 December 2016. The Group had no external debt financing as at 30 June 2017, it was in a net cash position of approximately HK\$22.8 million. However, if the amounts due to directors were to be netted off when calculating the net cash position (the "Adjusted Net Cash Position"), the Adjusted Net Cash Position would be approximately HK\$5.6 million as at 30 June 2017.

### *Financial position as at 31 December 2016*

As at 31 December 2016, the Group's (i) total assets amounted to approximately HK\$149.8 million, representing a decrease of approximately 23.6% as compared to approximately HK\$196.0 million as at 31 December 2015; (ii) net assets amounted to approximately HK\$75.5 million, representing a decrease of approximately 39.2% as compared to approximately HK\$124.1 million as at 31 December 2015; (iii) amounts due to directors amounted to approximately HK\$15.0 million, representing an increase of approximately 57.5% as compared to approximately HK\$9.6 million as at 31 December 2015; and (iv) cash and bank balances amounted to approximately HK\$24.5 million, representing a decrease of approximately 27.0% as compared to approximately HK\$33.6 million as at 31 December 2015. Given the Group has no external debt financing as at 31 December 2016, it was in a net cash position of approximately HK\$24.5 million. Amounts due to directors amounted to approximately HK\$15.0 million, as such the Adjusted Net Cash Position was approximately HK\$9.5 million as at 31 December 2016.

### *Our Analysis*

Having considered the historical financial information of the Group, in particular, (i) the Group has recorded losses for each of the year ended 31 December 2015 and 31 December 2016, which ranged from approximately HK\$34.6 million to HK\$46.3 million, as well as each of the nine months ended 30 September 2016 and 30 September 2017 (should the One-off Disposal Gain be excluded), which ranged from approximately HK\$3.6 million to HK\$31.3 million; (ii) if the Group continues to record losses, such will exert pressure on the working capital position of the Group; and (iii) the Adjusted Net Cash Position of approximately HK\$5.6 million as at 30 June 2016 is only slightly larger than the loss for the nine months ended 30 September 2017 (should the One-off Disposal Gain be excluded) of approximately HK\$3.6 million, thus the Group needs to maintain a sufficient cash level for its ongoing

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## LETTER FROM RED SUN CAPITAL LIMITED

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operations as well as its expansion plans. In this connection, the Company has considered different financing methods as further set out under section headed “2.2 Other financing alternatives available to the Group” in this letter.

### 2. Rights Issue

#### 2.1 *Reasons for the Rights Issue and Use of Proceeds*

As stated in the Letter from the Board, the net proceeds from the Rights Issue is estimated to be approximately HK\$56.9 million (assuming that there is no change in the number of issued Shares on or before the Record Date), which are intended to be used in the following manner:

- (i) approximately HK\$15 million (representing 26% of the estimated net proceeds from the Rights Issue) will be applied for staff recruitment;
- (ii) approximately HK\$20 million (representing 35% of the estimated net proceeds from the Rights Issue) will be applied for strengthening gold and jewellery product design and brand marketing;
- (iii) approximately HK\$5 million (representing 9% of the estimated net proceeds from the Rights Issue) will be applied for launching an e-commerce sales platform to increase the sales channel of gold and jewellery products;
- (iv) approximately HK\$4 million (representing 7% of the estimated net proceeds from the Rights Issue) will be applied for establishing new representative office in Shanghai to facilitate marketing of gold and jewellery products and business development; and
- (v) the remaining proceeds of approximately HK\$12.9 million (representing 23% of the estimated net proceeds from the Rights Issue) will be applied for upgrading the Group’s supply chain management system and other working capital purpose.

Based on the 2016 Annual Report, the Group recorded losses for the past four completed financial years, namely from the year ended 31 December 2013 through to the year ended 31 December 2016, losses for the year ranged from approximately HK\$16.2 million to HK\$46.3 million. During the aforesaid financial years, revenue of the Group also decreased from approximately HK\$579.4 million for the year ended 31 December 2013 to approximately HK\$104.4 million for the year ended 31 December 2016.

However, as set out in the 2017 Third Quarter Report, the Group recorded a profit of approximately HK\$3.8 million for the nine months ended 30 September 2017 (inclusive of a gain on disposal of a subsidiary of approximately HK\$7.4 million) compared to a loss of approximately HK\$31.3 million for the corresponding prior period. If the aforesaid gain on disposal was excluded, the Group would have recorded a loss of approximately HK\$3.6 million. In addition, it was also noted that as at 30 June 2017, the Group had bank balances and cash of approximately HK\$22.8 million and an Adjusted Net Cash Position of approximately HK\$5.6 million (after taken into account the amounts due to directors balance).

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## LETTER FROM RED SUN CAPITAL LIMITED

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As set out in the 2017 Third Quarter Report, the Group's jewellery business has recorded higher revenue for the nine months ended 30 September 2017 as compared to the corresponding prior period, representing an increase of approximately HK\$1.6 million. The Management believes that the revenue attributable to the Group's jewellery business will be at a similar level to that of the last year with a slight increase, and based on information provided by the Management, we concur with their view. For the IT products and services segment, effective cost controls and market exploration remained to be the primary focus of the Management. Following the disposal of a continued loss-making subsidiary earlier in 2017, operations and performance of this segment has been enhanced.

Given the recent financial performance of the Group, the Management recognised the importance of the continued improvement to its operations as well as to implement its growth strategy to develop the Group's sales of gold and jewellery products business in the PRC in order to strengthen the Group's income streams with a view to maximise return to the Shareholders.

As set out in the Letter from the Board, over 60% of the net proceeds from the Rights Issue shall be applied towards the Group's business development, namely (i) strengthening gold and jewellery product design and brand marketing, being approximately 35% of the net proceeds; and (ii) staff recruitment, being approximately 26% of the net proceeds. Having reviewed the information provided by the Management, including its relevant business plan to expand its franchising network as well as its sales channels, such as e-commerce platforms and the relevant estimates thereunder, and discussed with the Management its plans related to the strengthening gold and jewellery product design and brand marketing, staff recruitment as well as cashflow requirements for its operations, including its principal assumptions, we concur with the Management's view that the aforesaid business development shall be able to expand the Group's income stream in the relevant businesses and improve the financial performance of the Group in the medium-to-long term if the Group successfully implements its business plan.

The remaining net proceeds from the Rights Issue shall primarily be utilised for the upgrade of the Group's supply chain management system and other working capital purpose, being approximately 23% of the net proceeds, which the Management considered to be necessary for the ongoing development and operations of the Group's existing businesses. It is also noted from the Letter from the Board that a number of risk factors of the Group have been set out for the Shareholders' attention under section headed "Risk Factors".

In view of the above, in particular, the Group's recent financial performance, the Adjusted Net Cash Position as at 30 June 2017 and its growth strategy to develop the Group's sales of gold and jewellery products business in the PRC, the information provided by the Management and reviewed by us, we concur with the Management that the Group needs to maintain a sufficient cash level for its ongoing operations as well as its expansion plans.

### ***2.2 Other financing alternatives available to the Group***

As set out in the Letter from the Board, the Directors consider that the Rights Issue offers all Qualifying Shareholders the opportunity to participate in the future development of the Group. We concur with the Directors' view that the Rights Issue provides greater financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing its net asset position

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## LETTER FROM RED SUN CAPITAL LIMITED

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without the ongoing burden of interest expenses, and also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid dilution for those Shareholders who take up their entitlement under the Rights Issue in full. Unlike borrowings or issuance of debt securities, the Directors consider that the rights issue would be a preferred means for the Company to raise long-term funds to finance long-term investments and new business potentials without subjecting itself to interest burden or additional debt. Furthermore, the capital base of the Company will be strengthened after completion of the Rights Issue and its improved financial position shall provide sufficient internal resources and financing capacity for the Company to meet its future expansion needs.

The Management has advised that the Company has considered various fundraising alternatives including but not limited to borrowings, issuance of debt securities and equity financing such as placement of new Shares, when compared to the Rights Issue.

The Management has contacted several financial institutions regarding the possibilities of debt financing. However, based on the relevant feedback, the Management is of the view that there are uncertainties (in terms of the timing for negotiation, duration of the debt financing, financial covenant, interest rate, and the amount to be raised, etc.) around obtaining new credit lines/facilities and the possible increase in the interest rates in the foreseeable future. Debt financing will increase the Group's gearing ratio and financial burden due to potential increase in the finance costs. In this connection, the Directors considered that debt financing is a less preferable option for fund raising currently.

With respect to equity financing, such as placement of new Shares, it is a common market practice to conduct such activity on a best-effort basis and accordingly the amount to be raised would be uncertain and subject to the then market conditions.

Such was evidenced by the proposed placement of new Shares under the general mandate, details of which were set out in the announcement of the Company dated 7 September 2017. The then proposed placing price was HK\$0.085, which represented a discount of approximately 18.27% to the closing price of HK\$0.104 per Share as quoted on the date of the placing agreement (the "Placing Agreement"). However, based on the announcement of the Company dated 22 September 2017, condition precedent stipulated in the Placing Agreement was not fulfilled on or before the long stop date and in light of the then market circumstances, the Placing Agreement lapsed on 22 September 2017.

In addition, placement of new Shares would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, whereas the Rights Issue is advantageous in the sense that it provides all Qualifying Shareholders with the option, but not an obligation, to maintain their respective pro-rata shareholdings in the Company and continue to participate in the future development of the Group.

Having taken the above into account, including, (i) despite the potential dilution effect of the Rights Issue on the shareholding interests of the Shareholders (as discussed under the paragraph headed "2.7 Possible dilution of the shareholding interests of the existing public Shareholders" in this

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## LETTER FROM RED SUN CAPITAL LIMITED

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letter below) if such Shareholder(s) does not take up their provisional allotments under the Rights Issue; (ii) the Rights Issue is the preferred option over the other alternatives since it would strengthen the capital base of the Company, enhance its net asset position without the ongoing burden of interest expenses and allows the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholdings in the Company and therefore avoid dilution for those Shareholders who take up their entitlement under the Rights Issue in full; and (iii) the reasons for the Rights Issue as discussed above, we concur with the Directors that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. Furthermore, when we assess the fairness and reasonableness of the terms of the Rights Issue, in addition to the above factors, we have also considered the principal terms of the Rights Issue as further set out below in this letter.

### *2.3 Principal terms of the Rights Issue*

Major terms of the Rights Issue are summarised as below:

Basis of the Rights Issue	:	one (1) Rights Share for every two (2) existing Shares held on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	1,188,460,000 Shares
Number of Rights Shares	:	594,230,000 Rights Shares (assuming that there is no change in the number of issued Shares on or before the Record Date)
Amount to be raised before expenses	:	approximately HK\$59 million before expenses (based on the number of existing Shares in issue as at the Latest Practicable Date, and assuming no Shares have been allotted and issued on or before the Record Date)
Underwriter	:	Sino Eminent
Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue	:	1,782,690,000 Shares
Aggregate nominal value of the Rights Shares to be issued	:	HK\$59,423,000

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

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## LETTER FROM RED SUN CAPITAL LIMITED

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Assuming that there is no change in the number of issued Shares on or before the Record Date, the 594,230,000 Rights Shares to be issued pursuant to the Rights Issue represent:

- (a) 50.00% of the existing issued Shares; and
- (b) approximately 33.33% of the enlarged issued Shares immediately after completion of the Rights Issue.

### **2.4 The Subscription Price**

As set out in the Letter from the Board, the Subscription Price of HK\$0.10 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (a) a premium of approximately 5.26% to the Last Closing Price;
- (b) a premium of approximately 13.12%, 21.07%, 25.47%, 23.94% and 13.36% to the average of the closing prices of approximately HK\$0.0884, HK\$0.0826, HK\$0.0797, HK\$0.0807 and HK\$0.0882 per Share as quoted on the Stock Exchange for the 5, 10, 30, 60 and 90 consecutive trading days ending on and including the Last Trading Day respectively;
- (c) a premium of approximately 3.45% to the theoretical ex-right price of approximately HK\$0.0967 per Share, based on the Last Closing Price;
- (d) a premium of approximately 2.04% to the closing price of HK\$0.0980 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (e) a premium of approximately 57.48% to the audited consolidated net asset value per Share attributable to equity holders of the Company of approximately HK\$0.0635 as at 31 December 2016;
- (f) a premium of approximately 49.25% to the unaudited consolidated net asset value per Share attributable to equity holders of the Company of approximately HK\$0.0670 as at 30 June 2017.

As stated in the Letter from the Board, the Subscription Price was determined by the Directors with reference to the market price of the Shares prior to and including the Last Trading Day, and the prevailing market conditions. After taking into consideration the reasons for the Rights Issue as stated under the section headed “Reasons for the Rights Issue and Use of Proceeds” in the Letter from the Board, the Directors consider the terms of the Rights Issue, including the Subscription Price and in the context of the Company’s long-term business strategy to develop the Group’s sales of gold and

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## LETTER FROM RED SUN CAPITAL LIMITED

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jewellery products business in the PRC to strengthen the Group's income stream and maximise return to the Shareholders, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

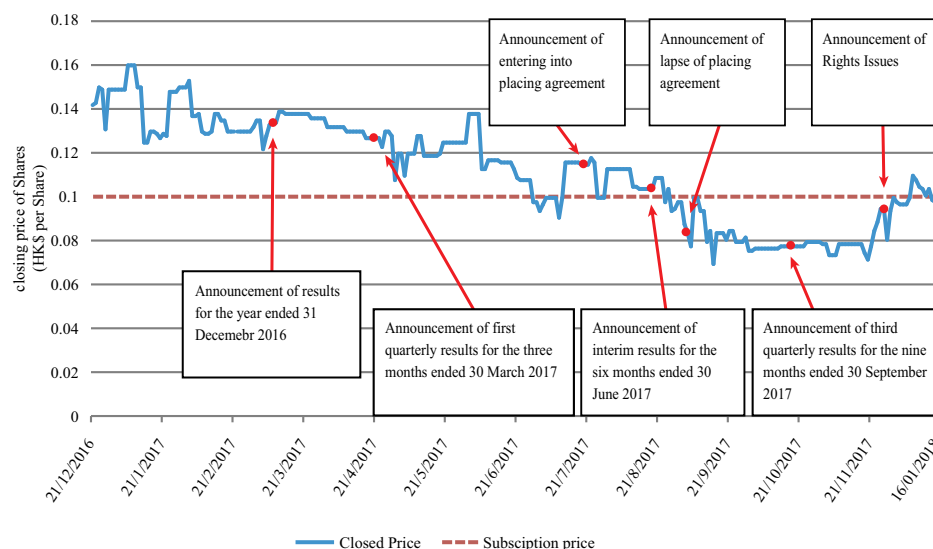
### 2.5 Analysis on the Subscription Price

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

#### *Historical Share price performance*

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 21 December 2016 (being the trading day of the 12-month period prior to the Last Trading Day) to the Last Trading Day (the "Pre-Announcement Period") up to and including the Latest Practicable Date (the "Review Period"). We consider that the Review Period which covers a full year prior to the Underwriting Agreement, represents a reasonable period to provide a general overview of the recent price performance of the Shares for the purpose of our analysis on the historical closing prices of the Shares and the Subscription Price.

**Chart 1: Share price performance against the Subscription Price during the Review Period**



Source: Announcements of the Company and information from the website of the Stock Exchange

#### *The Pre-Announcement Period*

Based on our analysis of the closing Share price during the Pre-Announcement Period, since the commencement of the Pre-Announcement Period up to and including 17 March 2017, being the date of the announcement of the Group's financial results for the year ended 31

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## LETTER FROM RED SUN CAPITAL LIMITED

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December 2016 (the “2016 Annual Results Announcement”), the closing Share price was generally in a declining trend as the closing Share price ranged between HK\$0.160 on 10 January 2017 and HK\$0.122 on 13 March 2017. The closing Share price on the trading day immediately following the publication of the 2016 Annual Results Announcement was HK\$0.125 and was further decreased to HK\$0.118 on 10 August 2017, being the trading day immediately after the date of announcement of the Group’s interim results for the six months ended 30 June 2017, despite recording a profit for the period of approximately HK\$1.3 million for the six months ended 30 June 2017 compared to a loss for the period of approximately HK\$20.7 million for the six months ended 30 June 2016. The general downward trend of the closing Share price continued into the third quarter of 2017 with the announcement of the Placing Agreement on 7 September 2017 and the announcement of the lapse of the Placing Agreement dated 22 September 2017. On the following trading day, being 25 September 2017, the closing Share Price was at HK\$0.078. Subsequently, since 28 September 2017 up to and including the Last Trading Day, the closing Share price was below the Subscription Price of HK\$0.100.

During the Pre-Announcement Period, the daily closing price of the Shares ranged from the lowest of HK\$0.070 per Share on 6 October 2017 to the highest of HK\$0.160 per Share on 10 January 2017, 11 January 2017 and 12 January 2017, respectively. The average closing price of Shares during the Pre-Announcement Period was approximately HK\$0.11 per Share<sup>1</sup>, and the Subscription Price represented a discount of approximately 9.1% to the average closing price of Shares during the Pre-Announcement Period. For information purposes only, the Subscription Price represented a premium of approximately 13.12%, 21.07%, 25.47%, 23.94% and 13.36% to the average of the closing prices of approximately HK\$0.0884, HK\$0.0826, HK\$0.0797, HK\$0.0807 and HK\$0.0882 per Share as quoted on the Stock Exchange for the 5, 10, 30, 60 and 90 consecutive trading days ending on and including the Last Trading Day, respectively.

Based on our analysis of the closing Share price above, for a large majority of the time during the three months immediately prior the Last Trading Day, the closing Share prices have been at a level below the Subscription Price.

### *The Post-Announcement Period*

Following the publication of the Announcement on 20 December 2017 and up to and including the Latest Practicable Date (the “Post-Announcement Period”), the daily closing price of the Shares during the Post-Announcement Period ranged from the lowest of HK\$0.081 per Share on 21 December 2017 to the highest of HK\$0.110 per Share on 5 January 2018, with the average of the closing price of the Shares of approximately HK\$0.0996 per Share. The Subscription Price represents a discount of approximately 0.40% to the average closing price of Shares during the Post-Announcement Period. Based on our analysis of the closing Share price above, during the Post-Announcement Period, the closing Share prices, as a whole, have been at a level relatively closer to the Subscription Price as compared to the Pre-

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<sup>1</sup> The average was calculated based on number of trading days during the said period regardless of whether any Shares were traded on such trading day(s)

## LETTER FROM RED SUN CAPITAL LIMITED

Announcement Period and in the range of HK\$0.081 and HK\$0.110. We have enquired about the possible reasons for the fluctuations in the Share price after the publication of the Announcement and the Management advised that save for the information as set out in the Announcement and other information published by the Company at the relevant time, they were not aware of any other matters which might have impact on the Share price. On this basis, the fluctuations in the closing prices of the Shares since the release of the Announcement may partly be attributable to the market reaction to the publication of the Announcement.

### *Comparison with other rights issue exercise*

For comparison purposes, we have based on the information available from the Stock Exchange's website, identified rights issue conducted by other companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange for the six-month period immediately before the date of the Last Trading Day, i.e. 21 June 2017 up to the Last Trading Day, an exhaustive list of 23 of the rights issues (the "Reference Transactions"), details of which are set out in the table below. Despite that the industry, sector, business model, financial status and reasons for the respective rights issue of the listed companies are unique and may differ from that of the Group, we consider that the Reference Transactions can serve as a reference for recent market trend in relation to subscription price under the respective rights issues as compared to the relevant prevailing market share price, theoretical ex-rights price, consolidated net asset value per share, and provides an insight into the prevailing market practice.

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/	Premium/	Maximum dilution	Underwriting commission	Application of Whitewash Waiver	
				(Discount) of the subscription price over/to the closing price on the last trading day	(Discount) of the subscription price over/to the theoretical ex-rights price, based on the Last Trading Day				(Discount) of the subscription price over/to the consolidated net asset value per share
				Approximately %	Approximately %	Approximately %	Approximately %		
29/6/2017	Focus Media Network Limited	8112	4 for 1	(17.86)	(4.17)	(74.14)	80.00	2.00 (for one underwriter) 2.50 (for an other underwriter)	No
19/7/2017	Beautiful China Holdings Company Limited	706	3 for 4	(29.50)	(19.28)	(19.28)	42.86	1.50	Yes
19/7/2017	V.S. International Group Limited	1002	1 for 4	(17.86)	(14.81)	(10.72)	20.00	0.00	No
21/7/2017	Digital China Holdings Limited	861	1 for 4	(29.58)	(25.09)	(25.13)	20.00	0.00	No
28/7/2017	Mega Medical Technology Limited	876	1 for 3	21.25	15.94	67.04	25.00	0.00	Yes

## LETTER FROM RED SUN CAPITAL LIMITED

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the closing price on the last trading day <i>Approximately</i> %	Premium/ (Discount) of the subscription price over/to the theoretical ex-rights price, based on the Last Trading Day <i>Approximately</i> %	Premium/ (Discount) of the subscription price over/to the consolidated net asset value per share <i>Approximately</i> %	Maximum dilution <i>Approximately</i> %	Underwriting commission <i>Approximately</i> %	Application of Whitewash Waiver
14/8/2017	Roma Group Limited <i>(Note 3)</i>	8072	3 for 2	(34.21)	(17.13)	(60.63)	60.00	7.00	No
15/8/2017	Carnival Group International Holdings Limited	996	1 for 4	(39.39)	(34.21)	(2.55)	20.00	3.50	No
18/8/2017	China Polymetallic Mining Limited	2133	1 for 2	(50.82)	(40.89)	(83.40)	33.33	1.50	No
22/8/2017	China State Construction International Holdings Limited. ("CSCIHL")	3311	1 for 8	(9.36)	(8.41)	80.13	11.11	2.00	No
31/8/2017	China HKBridge Holdings Limited	2323	1 for 2	(21.43)	(15.38)	171.60 <i>(Note 5)</i>	33.33	1.00	Yes
4/9/2017	CircuTech International Holdings Limited	8051	2 for 5	(9.64)	(6.83)	337.58 <i>(Note 5)</i>	28.57	2.00	No
18/9/2017	The Sincere Company, Limited	244	3 for 5	(28.00)	(19.64)	60.71	37.50	0.00	Yes
21/9/2017	eForce Holdings Limited	943	4 for 1	(15.38)	(3.51)	(86.25)	80.00	0.00	Yes
22/9/2017	TC Orient Lighting Holdings Limited	515	1 for 1	(48.00)	(31.58)	(45.83)	50.00	1.50	No
29/9/2017	China Child Care Corporation Limited	1259	1 for 1	(23.08)	(13.15)	(73.26)	50.00	1.50	No
4/10/2017	China Agri-Products Exchange Limited	149	5 for 1	(30.16)	(6.38)	(85.01)	83.33	2.50	No
20/10/2017	The 13 Holdings Limited <i>(Note 3)</i>	577	10 for 1	(87.91)	(39.89)	(98.22)	90.91	3.00	No
7/11/2017	China Overseas Grand Oceans Group Limited	81	1 for 2	(7.90)	(5.34)	(22.73)	33.33	1.50	Yes
8/11/2017	China Power International Development Limited	2380	1 for 3	(27.49)	(22.14)	(55.30)	25.00	2.00	No
19/11/2017	REXLot Holdings Limited	555	1 for 2	(12.07)	(8.38)	(90.55)	33.33	1.00	No
21/11/2017	National Investments Fund Limited	1227	1 for 2	(41.67)	(32.26)	438.46 <i>(Note 5)</i>	33.33	3.00	No
28/11/2017	TCL Multimedia Technology Holdings Limited	1070	1 for 3	(25.75)	(20.64)	(10.63)	25.00	2.15 <i>(Note 6)</i>	No

## LETTER FROM RED SUN CAPITAL LIMITED

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/	Premium/	Premium/	Maximum dilution	Underwriting commission	Application of Whitewash Waiver
				(Discount) of the subscription price over/to the closing price on the last trading day	(Discount) of the subscription price over/to the theoretical ex-rights price, based on the Last Trading Day	(Discount) of the subscription price over/to the consolidated net asset value per share			
				Approximately %	Approximately %	Approximately %	Approximately %	Approximately %	
18/12/2017	China Oceanwide International Financial Limited	952	8 for 3	6.80	1.85	19.57	72.73	1.50	Yes
	Minimum			(87.91)	(40.89)	(98.22)	11.11	0.00	
	Maximum			21.25	15.94	80.13	90.91	7.00	
For Rights Issue with Whitewash Waiver	Minimum			(29.50)	(19.64)	(86.25)	25.00	0.00	
Company	Maximum		1 for 2	21.25	15.94	67.04	80.00	1.50	Yes
				5.26	3.45	49.25	33.33	0.00	

*Source: The Stock Exchange of Hong Kong Limited and the rights issue announcement/circular issued by the respective listed issuers*

*Note:*

- For each of the Reference Transactions, the net consolidated net asset value per share was extracted or computed from financial information from the relevant announcement, circular or prospectus of the underlying rights issue, where such information is not available from the above published sources, computed based on the latest reported consolidated net asset value as shown in the latest interim report or annual report and the number of shares in issue as at the date of the relevant announcement of the underlying proposed rights issue.
- Maximum dilution effect of each rights issue is calculated as: ((number of rights shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the rights shares under the basis of entitlement + number of rights shares to be issued under the basis of entitlement) x 100%), e.g. for a rights issue with basis of 1 rights share for every two (2) existing shares, the maximum dilution effect is calculated as ((1)/(1+2))\*100% = approximately 33.33%.
- Roma Group Limited (stock code: 8072) has conducted share consolidation prior to its underlying rights issue and The 13 Holdings Limited (stock code: 577) proposed to conducted share consolidation, capital reduction and share subdivision prior to its underlying rights issue.
- The underwriting commission is fixed at HK\$100,000 and for the purpose of our analysis, the commission is expressed in percentage of the aggregate subscription price in respect of the maximum number of the underwritten shares.

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## LETTER FROM RED SUN CAPITAL LIMITED

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5. The net asset value attributable to owners of the company per shares of CircuTech International Holdings Limited (stock code: 8051), China HKBridge Holdings Limited (stock code: 2323 (“China HKBridge”)) and National Investments Fund Limited (stock code: 1227) are excluded from the calculations as they appear to be extreme outlier as the relevant ratio of these outliers significantly deviated from the majority of the Reference Transactions, thus does not provide a meaningful analysis. For illustrative purposes, the premium of the subscription price over the consolidated net asset value per share in relation to the China HKBridge rights issue is approximately 171.60%. Such premium of approximately 171.60% is over two times larger than the next highest premium of the subscription price over the consolidated net asset value per share of the Reference Transactions, which was related the CSCIHL rights issue at approximately 80.13%.
6. The underwriting commission is fixed at US\$1,432,395, being approximately HK\$11.1 million and for the purpose of our analysis, the commission is expressed in percentage of the aggregate subscription price in respect of the maximum number of the underwritten shares.
7. As extracted from the Letter from the Board, the premium was calculated based on the Subscription Price and the unaudited consolidated net asset value per Share attributable to equity holders of the Company as at 30 June 2017.
8. For the purpose of our analysis, the exchange rate between the Renminbi and Hong Kong dollar is assumed to be 1.00 to 1.13.

As set out in the table above, (i) the subscription price to the closing price on the respective last trading day prior to the rights issue announcement of the Reference Transactions ranged from a premium of approximately 21.25% to a discount of approximately 87.91% (the “LTD Market Range”). The premium of approximately 5.26% over the closing price per Share on the Last Trading Day as represented by the Subscription Price (the “LTD Premium”) falls within the LTD Market Range; (ii) the subscription prices to the theoretical ex-entitlement prices per share based on the last trading day prior to the respective rights issue announcement of the Reference Transactions ranged from a premium of approximately 15.94% to a discount of approximately 40.89% (the “TERP Market Range”). The premium of the Subscription Price over the theoretical ex-entitlement price per Share of approximately 3.45% (the “TERP Premium”), falls within the TERP Market Range; and (iii) the subscription prices to the consolidated net asset value (the “NAV”) per share ranged from a premium of approximately 80.13% to a discount of approximately 98.22% (the “Price-to-NAV Market Range”). Based on the Letter from the Board, the Subscription Price as compared to the NAV per Share is at a premium of approximately 49.25%, which falls within the Price-to-NAV Market Range.

Furthermore, we noted that 7 out of 23 Reference Transactions also involved application for whitewash waiver (the “Whitewash Waiver Reference Transactions”), and that out of the Whitewash Waiver Reference Transactions, (i) the subscription price to the closing price on the respective last trading day prior to the respective rights issue announcement of the Whitewash Waiver Reference Transactions ranged from a premium of approximately 21.25% to a discount of approximately 29.50% (the “Whitewash LTD Market Range”). The LTD Premium falls within the Whitewash LTD Market Range; (ii) the subscription prices to the theoretical ex-entitlement prices per share based on the respective last trading day prior to the rights issue announcement of the Whitewash Waiver Reference Transactions ranged from a premium of approximately 15.94% to a discount of approximately 19.64% (the “Whitewash

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## LETTER FROM RED SUN CAPITAL LIMITED

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TERP Market Range”), as such the TERP Discount falls within the Whitewash TERP Market Range; and (iii) the subscription prices to the NAV per share of the Whitewash Waiver Reference Transactions ranged from a premium of approximately 67.04% to a discount of approximately 86.25% (the “Whitewash Price-to-NAV Market Range”). The Subscription Price as compared to the NAV per Share is at a premium of approximately 49.25%, which falls within the Whitewash Price-to-NAV Market Range.

Notwithstanding the differences in reasons behind the Reference Transactions as well as the uniqueness of each of the respective listed companies which conducted the Reference Transactions, our analysis on the Reference Transactions and the Rights Issue, including the historical closing prices of the Shares, the various ratios related to the Reference Transactions, such as the LTD Market Range, the TERP Market Range and the Price-to-NAV Market Range as discussed above, indicated that the Subscription Price to the closing price on the last trading day, theoretical ex-entitlement price per Share, the NAV per Share are in line with common market practice as evidenced by the Reference Transactions. In addition, we also considered the fact that each Rights Share has a par value of HK\$0.10. On this basis, we are of the view that the Subscription Price is fair and reasonable.

### **2.6 Underwriting Agreement**

The principal terms of the Underwriting Agreement are set out as follows:

Date	:	20 December 2017
Issuer	:	The Company
Underwriter	:	Sino Eminent, a substantial shareholder of the Company, is principally engaged in investment holding
Total number of Underwritten Shares	:	594,230,000 Rights Shares
Commission	:	No underwriting commission is payable to the Underwriter

The Underwriter has conditionally agreed to fully underwrite the difference between the total number of Rights Shares and the aggregate of 594,230,000 Rights Shares undertaken to be subscribed by Sino Eminent. The number of Rights Shares to be underwritten by the Underwriter will be 594,230,000 Rights Shares, representing approximately 33.33% of the issued share capital of the Company as enlarged by the issue of the said Rights Shares.

Pursuant to the Underwriting Agreement, there is no commission for the aggregate Subscription Price in respect of the 594,230,000 Rights Shares being underwritten.

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## LETTER FROM RED SUN CAPITAL LIMITED

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As set out under the section headed “Comparison with other rights issue exercise” above, for the six-month period immediately before the Last Trading Day, the underwriting commission of the Reference Transactions received by the respective underwriters range from nil to approximately 7%.

Furthermore, as advised by the Management, the Company has discussed with certain financial institutions in relation to possible underwriting options, after their assessments of the Company's financial performance and recent market performance, they found themselves unable to act as the underwriter for the Rights Issue if the Shares are issued at premium to the average historical market price. As further analysed under section headed “2.5 Analysis on the Subscription Price”, the Subscription Price represented a premium of approximately 13.12%, 21.07%, 25.47%, 23.94% and 13.36% to the average of the closing prices of approximately HK\$0.0884, HK\$0.0826, HK\$0.0797, HK\$0.0807 and HK\$0.0882 per Share as quoted on the Stock Exchange for the 5, 10, 30, 60 and 90 consecutive trading days ending on and including the Last Trading Day, respectively.

Given no underwriting commission is to be charged by the Underwriter pursuant to the Underwriting Agreement, we are of the view that the Underwriter not charging any underwriting commission is fair and reasonable and in the interests of the Company and the Shareholders.

We have obtained a copy of the Underwriting Agreement from the Company and reviewed other major terms of the Underwriting Agreement including, (i) the number of underwritten Shares, being 594,230,000 Rights Shares, compared to the total issued share capital prior to the Rights Issue; (ii) the termination of the Underwriting Agreement, including (a) the Underwriter became aware of the fact that, or shall have reasonable cause to believe that, any of the warranties given by the Company under the Underwriting Agreement was untrue, inaccurate, misleading or breached; and (b) events as detailed under section headed “Termination of the Underwriting Agreement” in the Letter from the Board having taken place prior to 5:00 p.m. on the third Business Day following the Final Acceptance Date; and (iii) conditions of the Underwriting Agreement, including the passing of the necessary resolution(s) in the SGM by the Independent Shareholders, the granting of the Whitewash Waiver by the Executive, the Listing Committee of the Stock Exchange having granted the listing of and the permission to deal in the Rights Shares, the Underwriting Agreement not being terminated by the Underwriter pursuant to its terms prior to the latest time for termination, further details of which are set out in the Letter from the Board and having reviewed the relevant underwriting agreement (where available publicly) and/or the relevant announcement(s) and circular in connection with the Whitewash Waiver Reference Transactions, we considered that the principal terms of the Underwriting Agreement are in line with market practice. As such, we are of the view that the terms of the Underwriting Agreement, including the absence of the underwriting commission, are fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM RED SUN CAPITAL LIMITED

### 2.7 Possible dilution of the shareholding interests of the existing public Shareholders

For illustration purpose only, assuming no Shares (other than the Rights Shares) are allotted and issued on or before the completion of the Rights Issue (i) the shareholding structure of the Company as at the Latest Practicable Date, and (ii) the effect on the shareholding structure of the Company arising from the Rights Issue upon Completion are set out below:

	As at the Latest Practicable Date		Shareholding upon completion of the Rights Issue			
			Assuming all Rights Shares are taken up by the Qualifying Shareholders		Assuming no Rights Shares are taken up by the Qualifying Shareholders and the Underwriter is required to underwrite the Underwritten Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
<b>Concert Group</b>						
Sino Eminent (Note 1)	312,606,140	26.30	468,909,210	26.30	906,836,140	50.87
Zhuang Rushan (Note 2)	50,136,000	4.22	75,204,000	4.22	50,136,000	2.81
Subtotal	362,742,140	30.52	544,113,210	30.52	956,972,140	53.68
<b>Substantial Shareholder</b>						
CK Hutchison Holdings Limited (Note 3)	143,233,151	12.05	214,849,726	12.05	143,233,151	8.03
<b>Other Directors</b>						
Chen Yin (Note 4)	110,303,82	9.28	165,455,740	9.28	110,303,827	6.19
<b>Public shareholders</b>	<u>572,180,882</u>	<u>48.15</u>	<u>858,271,324</u>	<u>48.15</u>	<u>572,180,882</u>	<u>32.10</u>
<b>Total</b>	<u>1,188,460,000</u>	<u>100.00</u>	<u>1,782,690,000</u>	<u>100.00</u>	<u>1,782,690,000</u>	<u>100.00</u>

Note:

- OEIL and Shenzhen Yihua hold 13 shares and 40 shares in Sino Eminent, representing approximately 25% and 75% of the shares in Sino Eminent. OEIL is wholly owned by Ms. Li Xia. As at Latest Practicable Date, Mr. Chong Yu Ping, directly and indirectly through his controlled corporation (being Shenzhen Guojin Investment Development Company Limited\*, which was held by Mr. Chong Yu Ping and Mr. Zhuang Weizhong as to 90% and 10% respectively as at Latest Practicable Date) controlled approximately 70.80% and 3.54% respectively of the shares in Shenzhen Yihua. Ms. Li Xia owns approximately 0.04% of the shares in Shenzhen Yihua. The relatives of Mr. Chong Yu Ping, being Ms. Zhuang Rushan, Mr. Zhuang Yuyi, Mr. Zhuang Yuxiao, Ms. Zhuang Ruling, Mr. Zhuang Wei and Mr. Zhuang Jian respectively held approximately 0.09%, 0.93%, 0.09%, 0.71%, 1.66% and 1.69% of the shares in Shenzhen Yihua. Shenzhen Huaji Tai Investment Development Company Limited\* was owned as to 10% and 90% by Mr. Chong Yu Ping and his brother, Mr. Zhuang Yuyi. The remaining shareholders, being Shenzhen Yihua Investment Development Company Limited\*, Liu Deying, Zhang Mingyang, Chen Jianming, Dou Guizhen, Zheng Zhenying, Zhao Jiangrong, Huang Qiuping, Li

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## LETTER FROM RED SUN CAPITAL LIMITED

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Yanmin, Wang Xizhong, Huang Lihong, Chen Xiaojun, Zhuang Weizhong, Huang Shixuan, Shi Jingang, Yang Yingxuan, Huang Hai, Zhang Shangfeng and Tan Guohui respectively held approximately 3%, 1.77%, 0.89%, 0.71%, 0.44%, 0.44%, 0.44%, 0.27%, 0.27%, 0.27%, 0.18%, 0.09%, 0.05%, 0.05%, 0.03%, 0.03%, 0.02%, 0.02% and 0.01% of the shares in Shenzhen Yihua. Accordingly, Mr. Chong Yu Ping was deemed to be interested in 312,606,140 Shares held by Sino Eminent by virtue of Sino Eminent being controlled by Mr. Chong Yu Ping through his shareholding in Shenzhen Yihua. OEIL was wholly owned by Ms. Li Xia. Ms. Li Xia was deemed to be interested in 312,606,140 Shares held by Sino Eminent as Sino Eminent is owned as to 25% by OEIL, which in turn was wholly owned by Ms. Li Xia, the sole director of Sino Eminent. Sino Eminent is a member of the Concert Group and shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.

2. As at the Latest Practicable Date, Ms. Zhuang Rushan, sister of Mr. Chong Yu Ping, owns 50,136,000 Shares. Ms. Zhuang Rushan is a member of the Concert Group and the Whitewash Waiver and shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.
3. CK Hutchison is entitled to exercise or control the exercise of onethird or more of the voting power at the general meetings of Alps Mountain Agent Limited and iBusiness Corporation Limited, being Shareholders holding 71,969,151 and 67,264,000 Shares, respectively, representing approximately 6.06% and 5.66% of the Shares as at Latest Practicable Date, respectively. Accordingly, CK Hutchison is deemed to be interested in 143,233,151 Shares of the Company of which 71,969,151 Shares are held by Alps and 67,264,000 Shares are held by iBusiness under the SFO. CK Hutchison Holdings Limited is an Independent Third Party and is not acting in concert with the Concert Group.
4. These shares were held by Flourish Zone Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Chen Yin. Mr. Chen Yin was not involved in the negotiations about the Rights Issue, Underwriting Agreement or the Whitewash Waiver. In accordance with Rule 10.29(1) of the GEM Listing Rules, Mr. Chen Yin, being an executive Director of the Company shall abstain from voting on the resolutions to be proposed at the SGM in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.
5. Certain figures and percentage figures included in the above table have been subject to rounding adjustments.

The shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the Rights Shares in full will not suffer any dilution, while the shareholding interests of those who decide not to take up any of their provisional allotments of the Rights Shares will be diluted to a maximum extent of approximately 33.33% (which is calculated by dividing the number of Rights Shares to be issued by the summation of the number of existing Shares in issue as at the Latest Practicable Date and the number of Rights Shares to be issued).

### **2.8 Application for excess Rights Shares**

With reference to the Letter from the Board, Qualifying Shareholders may apply, by way of excess application, for (i) any unsold entitlements to the Rights Shares of the Non-Qualifying Shareholders had they been Qualifying Shareholders; (ii) any unsold Rights Shares created by adding together fractions of the Rights Shares; and (iii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renounees or

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## LETTER FROM RED SUN CAPITAL LIMITED

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transferees of nil-paid Rights Shares. The Directors will allocate the excess Rights Shares (if any) at their discretion on a pro rata basis in proportion to the number of excess Rights Shares being applied for under each application. No reference will be made to the Rights Shares subscribed through applications by a PAL or the existing number of Shares held by Qualifying Shareholders. No preference will be given to top up odd lots to whole board lots.

Taking into account the above principal terms of the Rights Issue, including the Subscription Price, basis of the Rights Issue (i.e. one (1) Rights Share for every two (2) existing Shares held on the Record Date), the potential maximum dilution to the Shareholders, and the Underwriting Agreement including the absence of the underwriting commission, having considered factors including (i) the Subscription Price and the respective premiums it represents are in line with market practice based on our analysis; (ii) the maximum possible dilution effect to the Qualifying Shareholders as a result of the Rights Issue, whom do not take up its entitlement under the Rights Issue in full, is justifiable; (iii) the expected financial effects attributable to the Rights Issue as set out under the paragraph headed “2.9 Possible financial effects of the Rights Issue” in this letter; and (iv) the proposed use of proceeds from the Rights Issue by the Company as set out in the Letter from the Board and under paragraph headed “2.1 Reasons for the Rights Issue and Use of Proceeds” in this letter, we are of the view that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### **2.9 Possible financial effects of the Rights Issue**

#### *Effect on net tangible assets*

The unaudited pro forma statement of adjusted consolidated net tangible assets value of the Group attributable to owners of the Company (the “NTAV”) as if the Rights Issue had taken place on 30 June 2017 is set out in Appendix II to the Circular (the “Statement”).

Based on the Statement, the unaudited consolidated NTAV of the Group attributable to owners of the Company was approximately HK\$81.8 million and approximately HK\$0.07 per Share as at 30 June 2017. Upon Completion, the unaudited pro forma adjusted consolidated NTAV of the Group attributable to owners of the Company would increase to approximately HK\$138.7 million, representing a NTAV per Share of approximately HK\$0.08 based on the Statement.

#### *Effect on working capital*

As advised by the Management, as part of the net proceeds from the Rights Issue will be used as working capital of the Group. On this basis, as a result of the Rights Issue and without taking into account other factors, the working capital position of the Group would be improved upon completion of the Rights Issue.

#### *Effect on net gearing ratio*

As the Group was in a net cash position as at 30 June 2017, its gearing ratio was zero.

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## LETTER FROM RED SUN CAPITAL LIMITED

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The estimated net proceeds from the Rights Issue will increase both the cash and bank balance and equity attributable to owners of the Company by approximately HK\$56.9 million. For illustration purposes only, and assuming other balances remained the same, based on the financial information as at 30 June 2017 and adjusted for additional estimated net proceeds of HK\$56.9 million on bank and cash balances and equity attributable to owners of the Company, the resultant net gearing ratio of the Group would remain to be zero upon completion of the Rights Issue.

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

Taking into account that the aforesaid possible financial effects, including the increase in NTAV and NTAV per Share, the improvement in working capital and that the Group shall remained to be in a net cash position as a result of the Rights Issue (assuming all other factors remained the same), we are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

### **THE WHITEWASH WAIVER**

Pursuant to the Underwriting Agreement, Sino Eminent has conditionally agreed to fully underwrite the Underwritten Shares. Assuming that no Qualifying Shareholders applied for their provisional allotments of the Rights Shares and excess Rights Shares, Sino Eminent will be called upon to take up the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement and the aggregate shareholding interest of the Concert Group would increase from approximately 30.52% (i.e. the shareholding interest as at the Latest Practicable Date) to approximately 53.68% of the issued Shares as enlarged by the allotment and issue of the Rights Shares immediately after Completion (assuming that there is no other change in the number of issued Shares on or before the Record Date). Under Rule 26 of the Takeovers Code, if Sino Eminent acquires all the Underwritten Shares or if it acquires such number of Underwritten Shares resulting in increasing the Concert Group's holding of voting rights of the Company by more than 2% from their lowest collective percentage holding in the 12 month period ending on and inclusive of the date of the relevant acquisition, the Concert Group would also be required to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the issued Shares (other than those already owned or agreed to be acquired by the Concert Group) unless the Whitewash Waiver is granted by the Executive.

Sino Eminent has applied for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Concert Group will abstain from voting at the SGM to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder. Save for the above, none of the Shareholders are required to abstain from voting at the SGM to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver.

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## LETTER FROM RED SUN CAPITAL LIMITED

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Completion of the Rights Issue is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Independent Shareholders of relevant resolution by way of poll at the SGM. Accordingly, the Rights Issue may or may not become unconditional and may or may not proceed. Shareholders and potential investors are therefore reminded to exercise caution when dealings in the Shares.

As set out in the Letter from the Board, the Executive has indicated that it is minded, subject to the approval of the Independent Shareholders at the SGM, to grant the Whitewash Waiver. If the Whitewash Waiver is approved by the Independent Shareholders, then the obligation by the Underwriter to make a mandatory general offer under Rule 26 of the Takeovers Code will be waived.

In light of (i) the reasons for and the possible benefits of the Rights Issue to the Company as set forth under the section headed “2.1 Reasons for the Rights Issue and Use of Proceeds” in this letter; (ii) having considered factors including (a) the Subscription Price and the respective premiums it represents are in line with market practice based on our analysis; (b) the maximum possible dilution effect to the Qualifying Shareholders as a result of the Rights Issue, whom do not take up its entitlement under the Rights Issue in full, is justifiable; (c) the expected financial effects attributable to the Rights Issue as set out under the paragraph headed “2.9 Possible financial effects of the Rights Issue” in this letter; and (d) the proposed use of proceeds from the Rights Issue by the Company as set out in the Letter from the Board and under section headed “2.1 Reasons for the Rights Issue and Use of Proceeds” in this letter, we are of the view that the terms of the Rights Issue and the Underwriting Agreement being fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the underwriting arrangement by Sino Eminent is a demonstration of its commitment to the Company as well as its confidence in the future and growth prospects of the Company, we are of the opinion that the approval for the Whitewash Waiver, which is a condition of the Underwriting Agreement, is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue.

### RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, having considered the above principal factors and reasons, in particular, the following:

- (i) the Subscription Price and the respective premiums it represents are in line with market practice based on our comparable analysis;
- (ii) the maximum possible dilution effect to the Qualifying Shareholders as a result of the Rights Issue is justifiable which the Rights Issue enables the Qualifying Shareholders to participate in the future growth of the Company and the shareholding dilution is inherent in rights issue in general as discussed under the section headed “2.7 Possible dilution of the shareholding interests of the existing public Shareholders” above;
- (iii) the expected financial effects attributable to the Rights Issue, including the increase in NTAV and NTAV per Share, the improvement in working capital and that the Group shall remain to be in a net cash position as a result of the Rights Issue (assuming all other factors remained the same); and

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## LETTER FROM RED SUN CAPITAL LIMITED

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- (iv) the net proceeds from the Rights Issue will primarily be applied towards the operations and/or expansion of the Group's business with a view to expand the Group's income streams. Based on information provided by the Company, we concur with the Management that should the Group successfully implement its business plan, barring circumstances unforeseen by the Management, the Group's financial performance should be improved in the medium-to-long term,

we are of the view that the terms of the Rights Issue, including the Subscription Price, basis of the Rights Issue (i.e. one (1) Rights Share for every two (2) existing Shares held on the Record Date), the potential maximum dilution to the Shareholders, and the Underwriting Agreement, including the absence of the underwriting commission, are in the interests of the Company and the Shareholders as a whole, although the entering into of the Underwriting Agreement and the Rights Issue are not in the ordinary and usual course of business of the Company, but such are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

Having also taken into consideration the reasons for and possible benefits of the Rights Issue and that the Rights Issue is conditional upon the grant of the Whitewash Waiver, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the underlying transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**  
**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has been active in the field of corporate finance advisory for over 10 years, and has been involved in and completed various corporate finance advisory transactions.*

**1. SUMMARY OF FINANCIAL INFORMATION**

The financial information of the Group for each of the financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 and the nine months ended 30 September 2017 respectively had been set out in the annual reports, interim report and/or third quarterly report of the Company for these three financial years and the periods ended 30 June 2017 and 30 September 2017 respectively and are available on the website of the Stock Exchange as specifically set out below:

<b>Period ended</b>	<b>Website</b>
31 December 2014	<a href="http://www.hkexnews.hk/listedco/listconews/GEM/2015/0327/GLN20150327083.pdf">http://www.hkexnews.hk/listedco/listconews/GEM/2015/0327/GLN20150327083.pdf</a>
31 December 2015	<a href="http://www.hkexnews.hk/listedco/listconews/GEM/2016/0330/GLN20160330479.pdf">http://www.hkexnews.hk/listedco/listconews/GEM/2016/0330/GLN20160330479.pdf</a>
31 December 2016	<a href="http://www.hkexnews.hk/listedco/listconews/GEM/2017/0330/GLN20170330119.pdf">http://www.hkexnews.hk/listedco/listconews/GEM/2017/0330/GLN20170330119.pdf</a>
30 June 2017	<a href="http://www.hkexnews.hk/listedco/listconews/GEM/2017/0815/GLN20170815003.pdf">http://www.hkexnews.hk/listedco/listconews/GEM/2017/0815/GLN20170815003.pdf</a>
30 September 2017	<a href="http://www.hkexnews.hk/listedco/listconews/GEM/2017/1115/GLN20171115055.pdf">http://www.hkexnews.hk/listedco/listconews/GEM/2017/1115/GLN20171115055.pdf</a>

The above financial information of the Group are also available at the website of the Company at <http://www.hkjewelry.net/>.

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

The following is the summary of the consolidated financial information of the Group for the each of the three years ended 31 December 2014, 2015, 2016, the six months ended 30 June 2017 and the nine months ended 30 September 2017, which were extracted from the Company's 2014, 2015 and 2016 annual reports, the 2017 interim report and the third quarterly report respectively.

	For the year ended 31 December			For the six months ended 30 June	For the nine months ended 30 September
	2014	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
<b>Results</b>					
Total revenues	499,375	174,741	104,367	44,268	73,533
Profit/(Loss) before taxation	(26,611)	(32,991)	(45,865)	1,620	4,251
Income tax expense	(559)	(1,566)	(390)	(353)	(449)
Profit/(Loss) for the year	<u>(27,170)</u>	<u>(34,557)</u>	<u>(46,255)</u>	<u>1,267</u>	<u>3,802</u>
Profit/(Loss) for the year attributable to:					
Owners of the Company	(27,109)	(28,467)	(42,763)	1,720	4,230
Non-controlling interests	<u>(151)</u>	<u>(6,090)</u>	<u>(3,492)</u>	<u>(453)</u>	<u>(428)</u>
	<u>(27,170)</u>	<u>(34,557)</u>	<u>(46,255)</u>	<u>1,267</u>	<u>3,802</u>
	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>
(Loss)/Profit per share for the (loss)/profit attributable to the owners of the Company during the period					
– Basic and diluted	<u>(2.27)</u>	<u>(2.40)</u>	<u>(3.60)</u>	<u>0.14</u>	<u>0.36</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Dividend	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>
Dividend per Share	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

	As at 31 December			As at 30
	2014	2015	2016	June
	HK\$'000	HK\$'000	HK\$'000	2017
	(Audited)	(Audited)	(Audited)	(Unaudited)
<b>Assets and Liabilities</b>				
Total assets	274,874	196,023	149,790	120,604
Total liabilities	<u>(111,082)</u>	<u>(71,966)</u>	<u>(74,339)</u>	<u>(41,009)</u>
Net assets	<u>163,792</u>	<u>124,057</u>	<u>75,451</u>	<u>79,595</u>
Equity attributable to owners of the Company	159,181	125,622	80,099	81,791
Non-controlling interests	<u>4,611</u>	<u>(1,565)</u>	<u>(4,648)</u>	<u>(2,196)</u>
Total equity	<u>163,792</u>	<u>124,057</u>	<u>75,451</u>	<u>79,595</u>

*Note:*

1. The auditor of the Group has not issued qualified opinion on the audited financial statements of the Group for each of the three year ended 31 December 2014, 2015 and 2016.
2. No exceptional items because of their size, nature or incidence were recognised in the above accounts for each of the three year ended 31 December 2014, 2015 and 2016, the six months ended 30 June 2017 and the nine months ended 30 September 2017.

## 2. AUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the year ended 31 December 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>Revenue</b>	5	104,367	174,741
Other income	7	2,280	5,353
Change in inventories		(5,912)	15,571
Purchase of goods		(13,656)	(61,668)
Professional fee		(17,723)	(19,239)
Employee benefits expense	12	(85,520)	(111,456)
Depreciation and amortisation		(2,312)	(3,675)
Impairment loss on property, plant and equipment	14	(2,891)	–
Other expenses		(22,671)	(30,760)
Finance costs	8	(176)	(368)
Share of result of an associate	16	(1,651)	(1,490)
<b>Loss before income tax</b>	9	(45,865)	(32,991)
Income tax expense	10	(390)	(1,566)
<b>Loss for the year</b>		<u>(46,255)</u>	<u>(34,557)</u>
<b>Other comprehensive expense for the year, after tax*</b>			
Items that will be reclassified subsequently to profit or loss:			
Exchange loss on translation of financial statements of foreign operations		<u>(2,351)</u>	<u>(5,178)</u>
<b>Total comprehensive expense for the year</b>		<u>(48,606)</u>	<u>(39,735)</u>
<b>Loss for the year attributable to:</b>			
Owners of the Company		(42,763)	(28,467)
Non-controlling interests		<u>(3,492)</u>	<u>(6,090)</u>
		<u>(46,255)</u>	<u>(34,557)</u>
<b>Total comprehensive expense attributable to:</b>			
Owners of the Company		(45,247)	(33,559)
Non-controlling interests		<u>(3,359)</u>	<u>(6,176)</u>
		<u>(48,606)</u>	<u>(39,735)</u>
<b>Loss per share for loss attributable to owners of the Company during the year</b>			
– Basic and diluted	11	<u>(HK3.60 cents)</u>	<u>(HK2.40 cents)</u>

\* There is no tax effect on the component of other comprehensive expense for the years ended 31 December 2016 and 2015.

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>14</i>	913	6,562
Interest in an associate	<i>16</i>	17,494	40,051
Available-for-sale financial assets	<i>17</i>	–	–
Goodwill	<i>18</i>	–	–
Development costs	<i>19</i>	–	–
Deferred tax assets	<i>30</i>	–	–
		<u>18,407</u>	<u>46,613</u>
<b>Current assets</b>			
Inventories	<i>20</i>	37,994	43,906
Amounts due from customers for contract work	<i>21</i>	4,767	25,842
Trade receivables	<i>22</i>	14,016	23,686
Other receivables, deposits and prepayments	<i>23</i>	17,072	22,413
Cash and cash equivalents	<i>25</i>	24,507	33,563
		<u>98,356</u>	<u>149,410</u>
Assets of a disposal company classified as held for sale	<i>26(a)</i>	<u>33,027</u>	<u>–</u>
		<u>131,383</u>	<u>149,410</u>
<b>Current liabilities</b>			
Trade payables	<i>27</i>	566	24,404
Other payables and accrued charges	<i>28</i>	25,311	29,885
Borrowings	<i>29</i>	–	4,098
Amounts due to customers for contract work	<i>21</i>	3,015	3,277
Amounts due to directors	<i>31</i>	15,046	9,552
Tax payables		–	750
		<u>43,938</u>	<u>71,966</u>
Liabilities of a disposal company classified as held for sale	<i>26(b)</i>	<u>30,401</u>	<u>–</u>
		<u>74,339</u>	<u>71,966</u>
<b>Net current assets</b>		<u>57,044</u>	<u>77,444</u>
<b>Total assets less current liabilities</b>		<u>75,451</u>	<u>124,057</u>
<b>Net assets</b>		<u><u>75,451</u></u>	<u><u>124,057</u></u>

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**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

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	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>EQUITY</b>			
Share capital	32	118,846	118,846
Reserves	33	<u>(38,747)</u>	<u>6,776</u>
<b>Equity attributable to owners of the Company</b>		80,099	125,622
<b>Non-controlling interests</b>		<u>(4,648)</u>	<u>(1,565)</u>
<b>Total equity</b>		<u><u>75,451</u></u>	<u><u>124,057</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

*for the year ended 31 December 2016*

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>Cash flows from operating activities</b>			
Loss before income tax		(45,865)	(32,991)
Adjustments for:			
Depreciation		2,312	3,675
Net loss/(gain) on disposal/written off of property, plant and equipment		4	(2)
Impairment loss on property, plant and equipment	<i>14</i>	2,891	–
Fair value gain on financial assets at fair value through profit or loss		–	(1,477)
Interest expenses		176	368
Provision for and write down of inventories to net realisable value		1,312	647
Dividend income		–	(507)
Interest income		(786)	(1,184)
Loss on disposal of a subsidiary	<i>36</i>	–	258
Reversal of provision for and write down of inventories		(2,117)	–
Share of result of an associate		1,651	1,490
Currency translation adjustment		2,168	(2,524)
Operating loss before working capital changes		(38,254)	(32,247)
Decrease/(Increase) in inventories		4,394	(17,567)
Decrease in amounts due from customers for contract work		3,576	13,081
(Increase)/Decrease in trade receivables		(1,350)	17,113
(Increase)/Decrease in other receivables, deposits and prepayments		(1,169)	2,100
Decrease in financial assets at fair value through profit or loss		–	131
Decrease in trade payables		(2,304)	(5,710)
Increase/(Decrease) in other payables and accrued charges		6,636	(3,205)
Increase/(Decrease) in amounts due to customers for contract work		187	(2,912)
Cash used in operations		(28,284)	(29,216)
Interest paid		(1,306)	–
Income tax paid		(1,234)	(501)
<i>Net cash used in operating activities</i>		<u>(30,824)</u>	<u>(29,717)</u>

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>Cash flows from investing activities</b>			
Repayment from/(Advance to) an associate		20,906	(3,195)
Purchase of property, plant and equipment		(773)	(889)
Repayment of loans to an investee company		2,896	–
Proceeds from disposal of property, plant and equipment		7	7
Net cash outflow on disposal of a subsidiary	36	–	(22,508)
Dividend received		–	507
Interest received		3,031	220
		<u>26,067</u>	<u>(25,858)</u>
<b>Cash flows from financing activities</b>			
Repayment of other borrowings		(2,896)	–
Increase in amounts due to directors		5,494	4,197
		<u>2,598</u>	<u>4,197</u>
<b>Net decrease in cash and cash equivalents</b>			
		(2,159)	(51,378)
Cash and cash equivalents at 1 January		33,563	86,872
Effect on foreign exchange rate changes, on cash held		(1,363)	(1,931)
		<u>30,041</u>	<u>33,563</u>
<b>Cash and cash equivalents at 31 December, represented by cash and bank balances</b>			
<b>Analysis of balances of cash and cash equivalents:</b>			
Cash and bank balances		24,507	33,563
Cash and cash balances classified as assets of a disposal company classified as held for sale ( <i>note 26(a)</i> )		5,534	–
		<u>30,041</u>	<u>33,563</u>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Equity attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Share premium*	Exchange reserve*	Capital reserve*	Accumulated losses*			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
<b>Balance at 1 January 2015</b>	118,846	220,438	6,418	-	(186,521)	159,181	4,611	163,792
Loss for the year	-	-	-	-	(28,467)	(28,467)	(6,090)	(34,557)
Other comprehensive expense								
Exchange loss on translation of financial statements of foreign operations	-	-	(5,092)	-	-	(5,092)	(86)	(5,178)
<b>Total comprehensive expense for the year</b>	-	-	(5,092)	-	(28,467)	(33,559)	(6,176)	(39,735)
<b>Balance at 31 December 2015 and 1 January 2016</b>	118,846	220,438	1,326	-	(214,988)	125,622	(1,565)	124,057
Acquisition of additional interests in a subsidiary (note 15(a))	-	-	-	(276)	-	(276)	276	-
<b>Transactions with owners</b>	-	-	-	(276)	-	(276)	276	-
Loss for the year	-	-	-	-	(42,763)	(42,763)	(3,492)	(46,255)
Other comprehensive expense								
Exchange loss on translation of financial statements of foreign operations	-	-	(2,484)	-	-	(2,484)	133	(2,351)
<b>Total comprehensive expense for the year</b>	-	-	(2,484)	-	(42,763)	(45,247)	(3,359)	(48,606)
<b>Balance at 31 December 2016</b>	118,846	220,438	(1,158)	(276)	(257,751)	80,099	(4,648)	75,451

\* These reserves accounts comprise the Group's deficit of HK\$38,747,000 (2015: Group's reserves of HK\$6,776,000) in the consolidated statement of financial position.

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*for the year ended 31 December 2016*

**1. GENERAL INFORMATION**

Yu Tak International Holdings Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is Hong Kong. The Company’s shares are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited.

The Company, an investment holding company, and its subsidiaries (together the “Group”) are principally engaged in the development, sale and implementation of enterprise software and the provision of systems integration and professional services, design and sales of gold and jewellery products and investment holding. The Group’s operations are based in Hong Kong and the People’s Republic of China (the “PRC”).

The financial statements for the year ended 31 December 2016 were approved for issue by the board of directors on 17 March 2017.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1 Basis of preparation**

These annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the accounting principles generally accepted in Hong Kong.

The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM Listing Rules”).

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and their impact on the Group’s financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as available-for-sale financial assets which are stated at fair values. A disposal company held for sale is stated at the lower of carrying amount and fair value less costs to sell. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

**2.2 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are all entities (including special purpose entities) controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

### 2.3 Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

### 2.4 Associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In the consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate. If the retained interest in that former associate is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between (i) the fair value of any retained interest and any proceeds from disposing of a partial interest in the associate; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in the profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

## 2.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and retranslation of monetary assets and liabilities at the end of the reporting period are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK\$. Assets and liabilities have been translated into HK\$ at the closing rates at the reporting date. Income and expenses have been converted into HK\$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK\$ at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or joint ventures not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20 to 33 $\frac{1}{3}$ %
Computer and office equipment	10 to 50%
Furniture and fixtures	20 to 25%
Motor vehicles	25 to 30%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

## 2.7 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 2.20).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

## 2.8 Development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is an intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

After initial recognition of the development costs, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Capitalised development costs	3 years
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The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are tested for impairment as described below in note 2.20.

## 2.9 Financial assets

The Group's accounting policies for financial assets other than interest in subsidiaries are set out below.

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Subsequent to initial recognition, the financial assets are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions. The fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.18 to these consolidated financial statements.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Interest is recognised in profit or loss.

*(iii) Available-for-sale financial assets*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the investment revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

#### *Impairment of financial assets*

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

#### *(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the profit or loss of the period in which the impairment occurs.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) *Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income.

(iii) *Financial assets carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of the impairment losses is recognised in profit or loss of the period in which the impairment occurs and are not reversed in subsequent periods.

Impairment losses of financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivables are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

## **2.10 Inventories**

Inventories, which comprise merchandise held for resale, raw materials and finished goods, are carried at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is determined using the first in, first out method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

## **2.11 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand and demand deposits with banks.

## **2.12 Financial liabilities**

The Group's financial liabilities mainly include trade and other payables, amounts due to directors and other borrowings. They are included in line items in the consolidated statement of financial position as trade payables, other payables and accrued charges, amounts due to directors and borrowings under current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.22).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

### ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### ***Trade, other payables and amount due to directors***

Trade, other payables and amount due to directors are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

## **2.13 Financial guarantees issued**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, i.e. the amount initially recognised less accumulated amortisation, where appropriate.

## **2.14 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) *Operating lease charges as the lessee*

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals, if any, are charged to profit or loss in the accounting period in which they are incurred.

## 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

## 2.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

## 2.17 Non-current assets, or disposal groups held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are highly probable to be recovered principally through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

## 2.18 Revenue recognition

Revenue comprises the fair value for the consideration received or receivable for the sales of goods, rendering of services and the use by others of the Group's assets yielding interest, royalties and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

***Jewellery Products***

Sales of gold and jewellery products are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Franchise income in respect of the use of the Group's brand is recognised on an accrual basis over the terms of the relevant franchise agreements.

***IT Products and Services***

In circumstances where the contract price can be allocated on a reasonable basis to the elements of resale of hardware and software products, sales of software licences and development of customised software, revenue is recognised as described below:

- (a) Revenue from resale of complementary hardware and software products is recognised when the goods are delivered and title has been passed;
- (b) Revenue from sales of software licences is recognised upon delivery of the software products to the customer when there are no post-delivery obligations;
- (c) Revenue from the development of customised software is recognised by reference to the stage of completion of the customisation work (including post-delivery service support) at the end of the reporting period, as measured by reference to services performed to date as a percentage of total services to be performed in relation to the design and prescribed services as agreed with customers to be rendered in different phases.

Where the contract price cannot be allocated into individual elements of the sales of enterprise software products and custom development, revenue from sales of enterprise software products and custom development is recognised by reference to the stage of completion of the sales of enterprise software products and custom development (including post-delivery service support) at the end of the reporting period, as measured by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Maintenance service income is recognised on a straight-line basis over the terms of the relevant maintenance service contracts. Where maintenance service income is not separately invoiced, it is unbundled from licence fees and deferred and recognised on a straight-line basis over the period of the relevant maintenance service contracts.

Systems integration income and professional services income are recognised when the services are provided.

***Other income***

Consultancy and management fee income in respect of technical support, consultancy services and management services are recognised in the period when services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

**2.19 Contract for services**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the estimated stage of completion (see note 2.18).

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where estimated value of work performed exceeds progress billings, the surplus is treated as an amount due from contract customers for contract work.

Where progress billings exceed estimated value of work performed, the surplus is treated as an amount due to contract customers for contract work.

## **2.20 Impairment of non-financial assets**

The following assets are subject to impairment testing:

- Goodwill arising on acquisition of a subsidiary;
- Development costs;
- Property, plant and equipment; and
- The Company's interests in subsidiaries

Goodwill and development costs with indefinite useful lives or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

**2.21 Employee benefits***Retirement benefits*

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries.

The employees of the Group’s subsidiaries which operate in the PRC, Malaysia and Singapore are required to participate in the central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees rendered services during the year. The Group’s obligations under these plans are limited to the fixed percentage contributions payable.

*Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

**2.22 Borrowing costs**

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

**2.23 Accounting for income taxes**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all

deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## **2.24 Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

- Jewellery Products: design and sales of gold and jewellery products
- IT Products and Services: provision of information technology services and sales of products, including enterprise software products, systems integration and professional services

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 Operating Segments are the same as those used in its financial statements prepared under HKFRSs, except that corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but corporate assets which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

No asymmetrical allocations have been applied to reportable segments.

### **2.25 Related parties**

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party is a person, or a close member of that person's family and if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) the party is an entity and if any of the following conditions applies:
  - (i) the entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3. ADOPTION OF NEW OR AMENDED HKFRSs

#### **New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2016**

In the current year, the Group has applied for the first time the following amendments to HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2016:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

#### ***Amendments to HKAS 1: Disclosure Initiative***

The Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the Amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

Specifically, the Amendments clarify (i) the materiality requirements in HKAS 1, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information; (ii) clarify that HKAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated; (iii) add requirements for how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position; (iv) clarify that entities have flexibility as to the order in which they present the notes, but also emphasis that understandability and comparability should be considered by an entity when deciding that order; and (v) remove potentially unhelpful guidance in HKAS 1 for identifying a significant accounting policy.

The Amendments also clarify that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The Amendments have had no material impact on these consolidated financial statements.

#### ***Amendments to HKAS 16 and HKAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments introduce a rebuttable presumption to HKAS 38 that the use of revenue-based methods to calculate the amortisation of an intangible asset is not appropriate. This presumption can only be rebutted in the limited circumstances in which the intangible asset is expressed as a measure of revenue or when revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments also prohibit the use of revenue-based methods to calculate the depreciation of property, plant and machinery under HKAS 16.

The amendments have no material impact on these consolidated financial statements as the Group has not used revenue-based methods to calculate the amortisation for its intangible assets and depreciation for its property, plant and equipment.

*Annual Improvements to HKFRSs 2012-2014 Cycle*

The amendments contained in this cycle of annual improvements are detailed below:

- (i) HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”: provides guidance when an entity reclassifies either an asset or a disposal group from held for sale to held for distribution (or vice versa), or when held for distribution accounting is discontinued; and clarifies that these types of changes in plans do not result in a new classification but instead lead to the same classification, presentation and measurement requirements for each type of disposal in HKFRS 5. The amendments do not have any impact on the Group.
- (ii) HKFRS 7 “Financial Instruments”: provides additional guidance in identifying the circumstances under which a servicing contract is considered to be “continuing involvement” for the purposes of applying the disclosure requirements for transferred assets. The amendments also clarifies that the additional disclosure required by the amendments to HKFRS 7 on offsetting financial assets and financial liabilities is not specifically required for all interim periods, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included. The amendments do not have any impact on the Group.
- (iii) HKAS 19 “Employee Benefits”: requires that the currency and term of the corporate or government bonds used to determine the discount rate for post-employment benefit obligations must be consistent with the currency and estimated term of the obligations. The amendments clarify that the assessment of the depth of the corporate bond market shall be made at the currency-level rather than the country-level. The amendments do not have any impact on the Group.

*Issued but not yet effective HKFRSs*

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group’s accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the impact of these HKFRSs but are not yet in the position to state whether they would have any material impact on the Group’s financial statements.

Information on these new pronouncements that are expected to be relevant to the Group’s financial statements is provided below:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 7 Disclosure Initiative	1 January 2017
Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15 Clarifications to HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16 Leases	1 January 2019

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *Impairment of property, plant and equipment*

If circumstances indicate that the net book value of a long lived asset may not be recoverable, the asset may be considered “impaired” and an impairment loss may be recognised in accordance with HKAS 36 Impairment of Assets. The carrying amounts of long lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for the Group’s assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant estimation relating to the level of sales volume, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs. As at 31 December 2016, the carrying amount of property, plant and equipment was HK\$913,000 (2015: HK\$6,562,000).

##### *Provision for impairment of receivables*

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and ageing analysis of trade and other receivables. A considerable amount of estimation and judgement is required in assessing the ultimate realisation of these receivables, including their current creditworthiness, past collection history and financial condition. If the financial conditions of these parties were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. As at 31 December 2016, the carrying amount of trade receivables was HK\$14,016,000 (2015: HK\$23,686,000).

##### *Net realisable value of inventories*

Net realisable value of inventories of jewellery products is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Reversal of provision for and write down of inventories, net amounted to HK\$805,000 (2015: Provision for and write down of inventories, net amounted to HK\$647,000) was recognised for the year ended 31 December 2016. Management reassesses these estimates at the end of each reporting period. As at 31 December 2016, the carrying amount of inventories was HK\$37,994,000 (2015: HK\$43,906,000).

##### *Deferred tax*

At 31 December 2016 and 2015, no deferred tax assets in relation to unused tax losses of HK\$88,447,000 (2015: HK\$87,397,000) have been recognised in the Group’s consolidated statement of financial position due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the

future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal or further recognition takes place.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. At 31 December 2016, temporary differences relating to the undistributed profits of a subsidiary amounted to HK\$Nil (2015: HK\$1,899,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future. As at 31 December 2016 and 2015, the carrying amount of deferred tax assets was HK\$Nil (see note 30).

#### 4.2 Critical judgements in applying the entity's accounting policies

##### *Development activities*

Careful judgment by the Company's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at the end of each reporting period. In addition, all internal activities related to the development of new software, products or knowhow are continuously monitored by the Company's management.

## 5. REVENUE AND TURNOVER

The Group's principal activities are disclosed in note 1 to these consolidated financial statements. Turnover of the Group is the revenue from these activities.

Revenue from external customers from the Group's principal activities recognised during the year is as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Sales of gold and jewellery products	19,011	34,700
Franchise income	461	540
Enterprise software products	39,799	74,203
Systems integration	6,386	13,633
Professional services	<u>38,710</u>	<u>51,665</u>
<b>Total revenue</b>	<u><u>104,367</u></u>	<u><u>174,741</u></u>

## 6. SEGMENT INFORMATION

The executive directors, being the chief operating decision maker, have identified the Group's two products and service lines as operating segments as further described in note 2.24.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	<b>Jewellery Products</b> <i>HK\$'000</i>	<b>2016 IT Products and Services</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Revenue			
– From external customers	19,472	84,895	104,367
<b>Reportable segment revenue</b>	<b>19,472</b>	<b>84,895</b>	<b>104,367</b>
<b>Reportable segment loss before income tax</b>	(13,974)	(31,891)	(45,865)
Interest income	3	783	786
Depreciation	(1,386)	(926)	(2,312)
Net loss on disposal of property, plant and equipment	–	(4)	(4)
Finance costs	–	(176)	(176)
Provision for and write down of inventories to net realisable value	(1,312)	–	(1,312)
Impairment loss on property, plant and equipment	(1,657)	(1,234)	(2,891)
Reversal of provision for and write down of inventories	2,117	–	2,117
Share of result of an associate	–	(1,651)	(1,651)
<b>Reportable segment assets</b>	279,086	62,631	341,717
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the year	150	623	773
<b>Reportable segment liabilities</b>	<b>22,415</b>	<b>246,477</b>	<b>268,892</b>

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

	<b>Jewellery Products</b>	<b>2015 IT Products and Services</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue			
– From external customers	35,240	139,501	174,741
<b>Reportable segment revenue</b>	<b>35,240</b>	<b>139,501</b>	<b>174,741</b>
<b>Reportable segment loss before income tax</b>	<b>(12,269)</b>	<b>(20,722)</b>	<b>(32,991)</b>
Interest income	21	1,163	1,184
Depreciation	(1,583)	(2,092)	(3,675)
Net gain on disposal of property, plant and equipment	–	2	2
Fair value gain on financial assets at fair value through profit or loss	–	1,477	1,477
Finance costs	–	(368)	(368)
Provision for and write down of inventories to net realisable value	(647)	–	(647)
Share of result of an associate	–	(1,490)	(1,490)
<b>Reportable segment assets</b>	<b>292,045</b>	<b>128,932</b>	<b>420,977</b>
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the year	77	812	889
<b>Reportable segment liabilities</b>	<b>18,267</b>	<b>278,653</b>	<b>296,920</b>

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements are as follows:

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	341,717	420,977
Assets of a disposal company classified as held for sale ( <i>note 26(a)</i> )	33,027	–
Elimination of inter-segment receivables	(224,954)	(224,954)
<b>Group assets</b>	<b>149,790</b>	<b>196,023</b>
Reportable segment liabilities	268,892	296,920
Liabilities of a disposal company classified as held for sale ( <i>note 26(b)</i> )	30,401	–
Elimination of inter-segment payables	(224,954)	(224,954)
<b>Group liabilities</b>	<b>74,339</b>	<b>71,966</b>

The Group's revenue from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

## Place of domicile of customer/location of assets

	Revenue from external customers		Non-current assets	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	6,517	56,347	17,507	40,075
PRC and Taiwan	88,520	108,211	876	6,523
South East Asia	9,330	10,183	24	15
	<u>104,367</u>	<u>174,741</u>	<u>18,407</u>	<u>46,613</u>

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the asset.

During 2016, HK\$29,063,000 or 28% of the Group's revenues depended on a single customer belonging to IT Products and Services segment and the PRC and Taiwan segment.

During 2015, none of the Group's customers contributed 10% or more of the Group's total revenue.

## 7. OTHER INCOME

	2016	2015
	HK\$'000	HK\$'000
<b>Other revenue</b>		
Interest income	786	1,184
Dividend income from listed equity securities	–	507
Consultancy and management fee income	843	1,968
Others	655	215
	<u>2,284</u>	<u>3,874</u>
<b>Other net (loss)/income</b>		
Fair value gain on financial assets at fair value through profit or loss	–	1,477
Net (loss)/gain on disposal of property, plant and equipment	(4)	2
	<u>(4)</u>	<u>1,479</u>
	<u>2,280</u>	<u>5,353</u>

## 8. FINANCE COSTS

	2016	2015
	HK\$'000	HK\$'000
Interest charges on:		
Other borrowings, wholly repayable within five years	176	368
	<u>176</u>	<u>368</u>

**9. LOSS BEFORE INCOME TAX**

Loss before income tax is arrived at after (crediting)/charging:

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	19,568	46,097
Cost of services rendered*	84,474	104,021
Depreciation	2,312	3,675
Auditors' remuneration	921	987
Provision for and write down of inventories to net realisable value	1,312	647
Impairment loss on property, plant and equipment ( <i>note 14</i> )	2,891	–
Net loss/(gain) on disposal/written off of property, plant and equipment	4	(2)
Fair value gain on financial assets at fair value through profit or loss	–	(1,477)
Reversal of provision for and write down of inventories	(2,117)	–
Loss on disposal of a subsidiary ( <i>note 36</i> )	–	258
Net exchange loss	739	362
Operating lease charges on land and buildings	5,916	7,786
	<u>5,916</u>	<u>7,786</u>

\* Cost of services rendered includes HK\$66,750,000 (2015: HK\$84,783,000) relating to staff costs, which amount is also included in the total amounts disclosed in note 12.

**10. INCOME TAX EXPENSE**

Hong Kong profits tax has not been provided for the year as the companies within the Group had no estimated assessable profit in Hong Kong (2015: HK\$Nil). Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 25% during the years ended 31 December 2016 and 2015. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates prevailing in the countries in which the Group operates.

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
– Overseas		
Current year	390	420
Deferred tax		
Current year ( <i>note 30</i> )	–	1,146
<b>Total income tax expense</b>	<u>390</u>	<u>1,566</u>

Reconciliation between tax expense and accounting loss at applicable tax rates:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Loss before income tax	<u>(45,865)</u>	<u>(32,991)</u>
Tax at the Hong Kong profits tax rate of 16.5% (2015: 16.5%)	(7,568)	(5,444)
Tax effect of non-taxable revenue	(726)	(459)
Tax effect of non-deductible expenses	4,228	2,663
Tax effect of unrecognised temporary differences	5	481
Tax effect of unrecognised tax losses	7,814	5,538
Derecognition of deferred tax assets	–	1,146
Utilisation of previously unrecognised tax losses	(217)	(435)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(3,146)</u>	<u>(1,924)</u>
Income tax expense	<u>390</u>	<u>1,566</u>

#### 11. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss attributable to owners of the Company of HK\$42,763,000 (2015: HK\$28,467,000) and the weighted average number of ordinary shares of approximately 1,188,460,000 (2015: 1,188,460,000) in issue during the year.

Diluted loss per share for the years ended 31 December 2016 and 2015 equate the basic loss per share as there is no potential dilutive ordinary share in existence during the years.

#### 12. EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Wages, salaries and other benefits	75,486	99,995
Pension costs – defined contribution plans	<u>10,034</u>	<u>11,461</u>
	<u>85,520</u>	<u>111,456</u>

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS

## 13.1 Directors' and chief executive's emoluments

Directors' and chief executive's emoluments, disclosed pursuant to the GEM Listing Rules, section 383 (1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Notes	Directors' Fees HK\$'000	Salaries and allowances HK\$'000	Contributions to defined contribution plan HK\$'000	Total HK\$'000
<b>2016</b>					
<b>Executive directors:</b>					
Mr. Chong Yu Ping	(a)	–	450	18	468
Ms. Li Xia	(b)	–	855	87	942
Mr. Chen Yin		–	530	18	548
<b>Independent non-executive directors:</b>					
Mr. Lam Tin Faat		180	–	–	180
Ms. Lu Haina		120	–	–	120
Ms. Na Xin		120	–	–	120
		<u>420</u>	<u>1,835</u>	<u>123</u>	<u>2,378</u>
<b>2015</b>					
<b>Executive directors:</b>					
Ms. Li Xia	(b)	–	600	18	618
Mr. Lin Di	(c)	–	400	15	415
Mr. Chen Yin		–	456	18	474
<b>Independent non-executive directors:</b>					
Mr. Lam Tin Faat		–	180	–	180
Ms. Lu Haina		–	120	–	120
Ms. Na Xin		–	120	–	120
		<u>–</u>	<u>1,876</u>	<u>51</u>	<u>1,927</u>

*Notes:*

- (a) Mr. Chong Yu Ping was appointed as an executive director of the Company on 17 February 2016.
- (b) Ms. Li Xia is the Chief Executive Officer of the Company since 30 March 2015 and her emoluments disclosed above include those for services rendered by her as the Chief Executive Officer.
- (c) Mr. Lin Di was also the Chief Executive Officer of the Company from 1 January 2014 to 30 March 2015 and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer. He resigned as the Chief Executive Officer on 30 March 2015 and resigned as an executive director on 30 October 2015.

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2016 and 2015.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2016 and 2015.

### 13.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2015: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2015: three) individuals during the year are as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Salaries and allowances and benefit-in-kind	1,015	1,915
Contributions to defined contribution plan	<u>36</u>	<u>23</u>
	<u><u>1,051</u></u>	<u><u>1,938</u></u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2016</b>	<b>2015</b>
Emolument band		
HK\$Nil to HK\$500,000	1	1
HK\$500,001 to HK\$1,000,000	<u>1</u>	<u>2</u>

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 January 2015</b>					
Cost	4,405	32,390	7,589	1,344	45,728
Accumulated depreciation and impairment losses	(4,283)	(26,788)	(2,928)	(934)	(34,933)
<b>Net book amount</b>	<b>122</b>	<b>5,602</b>	<b>4,661</b>	<b>410</b>	<b>10,795</b>
<b>Year ended 31 December 2015</b>					
Opening net book amount	122	5,602	4,661	410	10,795
Exchange differences	(7)	(189)	(215)	(15)	(426)
Additions	–	359	75	455	889
Disposals/written off	–	(2)	(3)	–	(5)
Disposal of a subsidiary ( <i>note 36</i> )	–	(606)	(1)	(409)	(1,016)
Depreciation	(88)	(2,209)	(1,167)	(211)	(3,675)
<b>Closing net book amount</b>	<b>27</b>	<b>2,955</b>	<b>3,350</b>	<b>230</b>	<b>6,562</b>
<b>At 31 December 2015 and 1 January 2016</b>					
Cost	2,846	27,238	6,465	766	37,315
Accumulated depreciation and impairment losses	(2,819)	(24,283)	(3,115)	(536)	(30,753)
<b>Net book amount</b>	<b>27</b>	<b>2,955</b>	<b>3,350</b>	<b>230</b>	<b>6,562</b>
<b>Year ended 31 December 2016</b>					
Opening net book amount	27	2,955	3,350	230	6,562
Exchange differences	–	(83)	(83)	4	(162)
Additions	–	423	123	227	773
Disposals/written off	–	(1)	–	(18)	(19)
Depreciation	(27)	(998)	(1,115)	(172)	(2,312)
Impairment loss recognised in profit or loss	–	(1,007)	(1,680)	(204)	(2,891)
Reclassify to assets of a disposal company classified as held for sale ( <i>note 26(a)</i> )	–	(1,036)	(2)	–	(1,038)
<b>Closing net book amount</b>	<b>–</b>	<b>253</b>	<b>593</b>	<b>67</b>	<b>913</b>
<b>At 31 December 2016</b>					
Cost	1,785	13,066	6,176	769	21,796
Accumulated depreciation and impairment losses	(1,785)	(12,813)	(5,583)	(702)	(20,883)
<b>Net book amount</b>	<b>–</b>	<b>253</b>	<b>593</b>	<b>67</b>	<b>913</b>

### Impairment assessment of property, plant and equipment

The Group carried out impairment reviews of its property, plant and equipment in 2016, having regard to the market conditions of the Group's business.

Under Jewellery Products segment, the management regards its individual retail stores as separately identifiable cash-generating units ("CGU 1"). Under IT Products and Services segment, as a result of the unfavourable performance of 志鴻軟件(深圳)有限公司 and 志鴻六維科技(杭州)有限公司, indirect wholly owned subsidiaries of the Company, of which the management regards these two subsidiaries as CGU 2 and CGU 3 individually. Property, plant and equipment is allocated to the Group's CGUs identified.

For the purpose of impairment test, the recoverable amounts of the CGUs have been determined on the basis of value-in-use calculations, which use cash flow forecasts derived from the most recent financial budgets approved by management for the remaining non-cancellable lease term of the respective retail stores of CGU 1 and the next five years of CGU 2 and CGU 3 with the residual period using the zero growth rate. At 31 December 2016, the pre-tax rates used to discount the forecast cash flows from the Group's CGU 1, CGU 2 and CGU 3 were 16.7%, 17.9% and 17.9%.

Based on the assessment, an impairment loss of HK\$2,891,000 was recognised in the profit or loss of which HK\$1,007,000 was allocated to computer and office equipment, HK\$1,680,000 was allocated to furniture and fixtures and HK\$204,000 was allocated to motor vehicles for the year ended 31 December 2016 and respective recoverable amount of aforesaid CGUs to which the impaired property, plant and equipment belong was zero.

## 15. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 are as follows:

Name of company	Place of incorporation/ registration	Place of operations	Particulars of issued and paid up capital/ registered capital	Percentage of issued and paid up capital/ registered capital held by the Company	Principal activities
Excel (BVI) Limited	British Virgin Islands*	Hong Kong	5,000 shares of US\$1 each	100%# (2015: 100%#)	Investment holding
Excel China Investment (BVI) Limited	British Virgin Islands*	Hong Kong	5,000 shares of US\$1 each	100% (2015: 100%)	Investment holding
Excel Consulting and Solutions Sdn. Bhd.	Malaysia*	Malaysia	100,000 shares of Malaysian Ringgit ("MYR") 1 each	100% (2015: 100%)	Development of computer software and provision of sale and marketing services
Excel Global IT Services Holdings Limited	British Virgin Islands*	Hong Kong	500,000 shares of US\$1 each	100% (2015: 100%)	Investment holding
Excel Global IT Services (HK) Limited	Hong Kong*	Hong Kong	10,000 shares	100% (2015: 100%)	Provision of professional services
Excel Investment China Limited	Hong Kong*	Hong Kong	1,000 shares	100% (2015: 100%)	Investment holding

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

Name of company	Place of incorporation/ registration	Place of operations	Particulars of issued and paid up capital/ registered capital	Percentage of issued and paid up capital/ registered capital held by the Company	Principal activities
Excel International Limited	Hong Kong*	Hong Kong	10,000 shares	100% (2015: 100%)	Inactive
Excel SSL Investment Limited	Hong Kong*	Hong Kong	1,000 shares	100% (2015: 100%)	Investment holding
Excel System Limited (note (b))	British Virgin Islands*	Hong Kong	100 shares of US\$1 each	Nil (2015: 65%)	Deregistered
Excel Technology International (BVI) Limited	British Virgin Islands*	Hong Kong	1 share of US\$1	100% (2015: 100%)	Investment holding
Excelink Development Corporation	British Virgin Islands*	Hong Kong	10,000 shares of US\$1 each	100% (2015: 100%)	Investment holding
Excelink Technology Pte Ltd.	Singapore*	Singapore	Singapore Dollar ("S\$") 893,022	100% (2015: 100%)	Development of computer software and provision of sale and marketing services
Hong Kong Jewellery Co., Limited	Hong Kong*	Hong Kong	1 share	100% (2015: 100%)	Investment holding
HR21 Holdings Limited	British Virgin Islands*	Hong Kong	50,000 shares of US\$1 each	93% (2015: 93%)	Investment holding
HR21 Limited	Hong Kong*	Hong Kong	2 shares	93% (2015: 93%)	Development of computer software and provision of maintenance services
i21 Limited	Hong Kong*	Hong Kong	14,000 shares	80.1% (2015: 80.1%)	Inactive
Infostar Ltd.	British Virgin Islands*	Hong Kong	1 share of US\$1	100% (2015: 100%)	Investment holding
World Sky International Limited	British Virgin Islands*	Hong Kong	1 share of US\$1	100%# (2015: 100%#)	Investment holding
Wise Success Ltd.	British Virgin Islands*	Hong Kong	5,000 shares of US\$1 each	100% (2015: 100%)	Investment holding

Name of company	Place of incorporation/ registration	Place of operations	Particulars of issued and paid up capital/ registered capital	Percentage of issued and paid up capital/ registered capital held by the Company	Principal activities
北京志鴻英華科技有限公司 (note 26)	PRC***	PRC	US\$2,200,000	65% (2015: 65%)	Systems integration, development of computer software and provision of maintenance services
金香港珠寶(深圳)有限公司	PRC**	PRC	HK\$87,000,000	100% (2015: 100%)	Design and sales of gold and jewellery products
深圳志鴻聯匯計算機系統有限公司 (note (a))	PRC**	PRC	Renminbi ("RMB") 6,000,000	100% (2015: 66%)	Development of computer software and provision of maintenance services
志鴻軟件(深圳)有限公司	PRC**	PRC	HK\$3,000,000	100% (2015: 100%)	Development of computer software and provision of maintenance services
志鴻六維軟件科技(上海)有限公司	PRC**	PRC	US\$1,700,000	100% (2015: 100%)	Provision of professional services and systems integration
志鴻六維科技(杭州)有限公司	PRC**	PRC	US\$70,000	100% (2015: 100%)	Provision of professional services
新川資訊科技股份有限公司	Taiwan*	Taiwan	New Taiwan Dollar ("NT\$") 11,913,620	100% (2015: 100%)	Provision of professional services
東莞志鴻國際金融科技孵化中心有限公司	PRC**	PRC	RMB10,000,000	100% (2015: 100%)	Development of computer software and provision of maintenance services

# Issued capital held directly by the Company

\* Limited liability company

\*\* Wholly-owned foreign enterprise

\*\*\* Sino-foreign equity joint venture enterprise

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in a list of excessive length.

The following table lists out the information relating to i21 Limited, HR21 Limited and 北京志鴻英華科技有限公司, the subsidiaries of the Group, which have material non-controlling interests (“NCI”). The summarised financial information presented below represents the amounts before any inter-company elimination.

	<b>2016</b>		
	<b>i21 Limited HK\$'000</b>	<b>HR21 Limited HK\$'000</b>	<b>北京志鴻英華 科技有限公司 HK\$'000</b>
NCI percentage	19.9%	7%	35%
Current assets	817	14,983	32,994
Non-current assets	–	14	1,038
Current liabilities	(42,996)	(15,591)	(42,333)
Net liabilities	(42,179)	(594)	(8,301)
Carrying amount of NCI	(2,150)	413	(2,905)
Revenue	–	6,399	(18,748)
(Loss)/Profit for the year	(13)	54	(12,272)
Total comprehensive (expense)/income	(13)	54	(12,272)
(Loss)/Profit allocated to NCI	(3)	4	(4,296)
Dividend paid to NCI	–	–	–
Cash flows (used in)/from operating activities	(2)	1,967	214
Cash flows used in investing activities	–	–	(26)
Cash flows used in financing activities	–	–	–
	<b>=====</b>	<b>=====</b>	<b>=====</b>
	<b>2015</b>		
	<b>i21 Limited HK\$'000</b>	<b>HR21 Limited HK\$'000</b>	<b>北京志鴻英華 科技有限公司 HK\$'000</b>
NCI percentage	19.9%	7%	35%
Current assets	819	15,925	35,646
Non-current assets	–	44	1,641
Current liabilities	(42,985)	(16,617)	(33,316)
Net (liabilities)/assets	(42,166)	(648)	3,971
Carrying amount of NCI	(2,147)	409	1,391
Revenue	–	6,898	25,208
(Loss)/Profit for the year	(10)	588	(18,046)
Total comprehensive (expense)/income	(10)	588	(18,046)
(Loss)/Profit allocated to NCI	(2)	41	(6,316)
Dividend paid to NCI	–	–	–
Cash flows from/(used in) operating activities	2	211	2,202
Cash flows used in investing activities	–	(9)	–
Cash flows used in financing activities	–	–	–
	<b>=====</b>	<b>=====</b>	<b>=====</b>

Notes:

- (a) During the year ended 31 December 2016, the Group acquired additional 34% equity interests in 深圳志鴻聯匯計算機系統有限公司 at a consideration of HK\$4. As a result of the acquisitions, the difference between the consideration paid of HK\$4 and the amount of non-controlling interests adjusted of HK\$276,000 was directly recognised in the capital reserve.
- (b) During the year ended 31 December 2016, a subsidiary of the Company, Excel System Limited was voluntarily deregistered. The net liabilities of Excel System Limited on the date of deregistration was as follows:

	<b>2016</b> <i>HK\$'000</i>
<b>Net liabilities deregistered of:</b>	
Amount due from a fellow subsidiary	2,295
Amount due to an immediate holding company	(4,911)
	(2,616)
Add: Waiver of amount due to an immediate holding company	4,911
Add: Waiver of amount due from a fellow subsidiary	(2,295)
Less: Non-controlling interests	—
	—
Gain/Loss on deregistration	—

#### 16. INTEREST IN AN ASSOCIATE

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Deemed cost ( <i>note 36</i> )	5,131	5,131
Share of post-acquisition losses and other comprehensive expense	(3,141)	(1,490)
Share of net assets	1,990	3,641
Amount due from Excel HK	15,504	36,410
	<u>17,494</u>	<u>40,051</u>

The amount due from an associate is unsecured, interest-free and is not repayable within one year.

Particulars of the Group's unlisted associate at 31 December 2016 are as follows:

Name of associate	Country/place of incorporation and operations	Percentage of nominal value of issued ordinary share capital held indirectly by the Company	Principal activities
Excel Technology International (Hong Kong) Limited	Hong Kong	50% (2015: 50%)	Development of computer software, systems integration and the provision of maintenance services

Excel Technology International (Hong Kong) Limited (“Excel HK”) is a strategic partner for the Group’s growth in the development of computer software and the provision of systems integration, professional services and maintenance services through its expertise. Excel HK was a wholly owned subsidiary of the Company’s subsidiary prior to completion of the subscription on 27 May 2015, which resulted in the Group’s shareholding in Excel HK being reduced to 50% and the Group ceased its control over Excel HK. As such, Excel HK became an associate of the Group and is accounted for using the equity method in these consolidated financial statements with effect from 27 May 2015. Details of the deemed disposal of the Group’s interest in Excel HK are set out in Note 36.

Summarised financial information of the Group’s associate, Excel HK, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	<b>2016</b> <i>HK\$’000</i>	<b>2015</b> <i>HK\$’000</i>
Non-current assets	899	1,254
Current assets	45,856	74,272
Current liabilities	<u>(42,775)</u>	<u>(68,244)</u>
Net assets	<u>3,980</u>	<u>7,282</u>
		<b>Period from 27 May 2015 (date of reclassification as an associate) to 31 December 2015</b>
	<b>2016</b> <i>HK\$’000</i>	<b>2015</b> <i>HK\$’000</i>
Revenue	110,596	71,413
Loss and total comprehensive expense	(3,301)	(2,980)
Group’s share of result of an associate for the year/period	<u>(1,651)</u>	<u>(1,490)</u>

Reconciliation of the above summarised financial information to the carrying amount of the interests in Excel HK recognised in the consolidated financial statements:

	<b>2016</b> <i>HK\$’000</i>	<b>2015</b> <i>HK\$’000</i>
Net assets of Excel HK	3,980	7,282
Proportion of the Group’s ownership interest in Excel HK	<u>50%</u>	<u>50%</u>
The Group’s ownership interest in Excel HK	1,990	3,641
Amount due from Excel HK	<u>15,504</u>	<u>36,410</u>
Carrying amount of the Group’s interest in Excel HK	<u>17,494</u>	<u>40,051</u>

The details of the financial guarantee given by the Group to Excel HK are disclosed in note 37.

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Unlisted private equity fund		
Fair value	2,543	2,543
Less: provision for impairment	<u>(2,543)</u>	<u>(2,543)</u>
	—	—
Unlisted equity investments		
Cost	3,900	3,900
Less: provision for impairment	<u>(3,900)</u>	<u>(3,900)</u>
	—	—
Total available-for-sale financial assets	<u>—</u>	<u>—</u>

## 18. GOODWILL

The net carrying amount of goodwill can be analysed as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
At the beginning and the end of year		
Gross carrying amount	15,853	15,853
Accumulated impairment	<u>(15,853)</u>	<u>(15,853)</u>
	<u>—</u>	<u>—</u>

**19. DEVELOPMENT COSTS**

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>At 1 January</b>		
Cost	7,052	37,376
Accumulated amortisation	<u>(7,052)</u>	<u>(37,376)</u>
Net book amount	<u>          -</u>	<u>          -</u>
<b>Year ended 31 December</b>		
Opening net book amount	-	-
Disposal of a subsidiary ( <i>note 36</i> )	-	-
Amortisation charge	-	-
Written off	<u>          -</u>	<u>          -</u>
Closing net book amount	<u>          -</u>	<u>          -</u>
<b>At 31 December</b>		
Cost	7,052	7,052
Accumulated amortisation	<u>(7,052)</u>	<u>(7,052)</u>
Net book amount	<u>          -</u>	<u>          -</u>

During the year ended 31 December 2015, cost of development costs amounting to HK\$30,324,000 was fully offset by the related accumulated amortisation upon disposal of a subsidiary.

The development costs represented all direct costs incurred in the development of enterprise software products and were fully amortised in prior years.

**20. INVENTORIES**

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>Jewellery Products</b>		
Raw materials	2,488	999
Work in progress	2,698	35
Finished goods	<u>32,808</u>	<u>42,872</u>
<b>Total</b>	<u>37,994</u>	<u>43,906</u>

Reversal of provision for and write down of inventories, net amounted to HK\$805,000 (2015: Provision for and write down of inventories, net amounted to HK\$647,000) was recognised for the year ended 31 December 2016.

**21. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK**

Amounts due from customers for contract work represent the excess of the value of work performed over the amount of billing issued to customers.

Amounts due to customers for contract work represents the excess of billing over the value of work performed and the amounts received from customers before the related services have been rendered.

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
<b>Contracts in progress at the end of the reporting period:</b>		
Estimated contract costs plus recognised profits less recognised losses	39,726	79,099
Less: progress billings	<u>(37,974)</u>	<u>(56,534)</u>
	<u>1,752</u>	<u>22,565</u>
<b>Analysed for reporting purposes as:</b>		
Amounts due from customers for contract work	4,767	25,842
Amounts due to customers for contract work	<u>(3,015)</u>	<u>(3,277)</u>
	<u>1,752</u>	<u>22,565</u>

All the amounts included in amounts due from/(to) are expected to be billed and recovered/(credited) to the profit or loss within one year.

## 22. TRADE RECEIVABLES

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Trade receivables		
From third parties	14,115	23,441
From a related party	<u>–</u>	<u>425</u>
	14,115	23,866
Less: provision for impairment of receivables	<u>(99)</u>	<u>(180)</u>
	<u>14,016</u>	<u>23,686</u>

Trade receivables from third parties for IT products and services are due within 0 – 90 days (2015: 14 – 60 days) from the date of billing. Trade receivable from a related party is non-interest bearing, unsecured and repayable on demand. Debtors with balances that are more than 90 days overdue are requested to settle all outstanding balances before any further credit is granted.

The Group's sales of gold and jewellery products comprised mainly cash sales and credit card sales to retail customers and credit sales to franchisees are due within 0 – 60 days from the date of billing. The directors of the Group considered that the fair values of trade receivables are not materially different from their carrying amounts because these balances have short maturity periods at their inception. All trade receivables are expected to be recovered within one year.

Based on the invoice dates (or date of revenue recognition if earlier), the ageing analysis of the trade receivables, net of provision for impairment, was as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
0 – 30 days	8,614	16,570
31 – 60 days	349	3,860
61 – 90 days	409	1,910
Over 90 days	<u>4,644</u>	<u>1,346</u>
	<u><u>14,016</u></u>	<u><u>23,686</u></u>

At the end of the reporting period, the Group reviews receivables for evidence of impairment on both an individual and collective basis. The amount of impairment loss of impaired receivables, if any, is recognised based on the credit history of the customer, whether the customer is experiencing financial difficulties and was in default or delinquency of payments, and current market conditions.

The movement in the provision for impairment of trade receivables is as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Balance at the beginning of the year	180	187
Bad debt written off	(75)	–
Exchange differences	<u>(6)</u>	<u>(7)</u>
Balance at the end of the year	<u><u>99</u></u>	<u><u>180</u></u>

The ageing analysis of the Group's trade receivables based on due date is as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Neither past due nor impaired	5,270	16,683
1 – 90 days past due	4,102	6,285
Over 90 days past due	<u>4,644</u>	<u>718</u>
	<u><u>14,016</u></u>	<u><u>23,686</u></u>

As at 31 December 2016 and 2015, trade receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

**23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables	6,113	5,969
Deposits	517	722
Amount due from an investee company	4,480	10,073
Prepayments	5,962	5,649
	<u>17,072</u>	<u>22,413</u>

The amount due from an investee company of HK\$4,480,000 (2015: HK\$7,705,000), which is unsecured, interest bearing at 12% per annum and repayable within 1 year from the end of the reporting period. At year ended 31 December 2016, interest income accrual of HK\$Nil (2015: HK\$2,368,000) was derived from the amount due from an investee company.

The directors of the Group considered that the fair values of other receivables, deposits and amount due from an investee company are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

At 31 December 2016 and 2015, the Group has not determined any other receivables as individually impaired and no provision for impairment of other receivables was recognised.

**24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The Group's investments in listed equity securities as at 31 December 2015 had been disposed of through deemed disposal of the Group's interest in Excel HK as detailed in note 36. The fair value of the Group's investments in listed equity securities as at 31 December 2015 has been determined by reference to their quoted bid prices (Level 1) as at 31 December 2015.

**25. CASH AND CASH EQUIVALENTS**

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	<u>24,507</u>	<u>33,563</u>

Included in cash and bank balances of the Group is HK\$11,914,000 (2015: HK\$17,014,000) of bank balances denominated in RMB placed with banks in the PRC and bear interest at an effective interest rate of approximately 0.28% (2015: 0.60%) per annum. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Included in cash and bank balances of the Group is HK\$2,654,000 (2015: HK\$1,543,000) of bank balances denominated in MYR placed with banks in Malaysia and bear interest at an effective interest rate of approximately 0.05% (2015: 0.07%) per annum. In Malaysia, the Group is permitted to exchange MYR into foreign currencies.

The directors of the Group considered that the fair value of the short term bank deposits is not materially different from their carrying amount because of the short maturity period at their inception.

**26. ASSETS OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE/LIABILITIES OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE**

The Group has decided to dispose of a subsidiary, 北京志鴻英華科技有限公司 (“Excel BJ”), during the year. As at 31 December 2016, the negotiation process with potential buyer is in progress, consequently assets and liabilities are classified as held for sale. Subsequently to the reporting date, on 18 January 2017, the Group has entered into a sale and purchase agreement with an independent third party to dispose of the 65% shareholding equity of Excel BJ.

Assets and liabilities of the disposal company as at 31 December 2016 are as follows:

**(a) Assets of a disposal company classified as held for sale**

	<b>2016</b> <i>HK\$'000</i>
Property, plant and equipment	1,038
Amount due from customers for contract work	17,560
Trade and other receivables	8,895
Cash and cash equivalents	5,534
	<u>33,027</u>

**(b) Liabilities of a disposal company classified as held for sale**

	<b>2016</b> <i>HK\$'000</i>
Amount due to customers for contract work	21
Trade and other payables	30,380
	<u>30,401</u>

**27. TRADE PAYABLES**

The Group was granted by its third parties suppliers credit periods ranging from 30 days to 60 days. Trade payable from a related party is unsecured, non-interest bearing and repayable on demand (details of transactions are disclosed in note 35). Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
0 – 30 days	418	11,815
31 – 60 days	–	–
61 – 90 days	–	–
Over 90 days	148	12,589
	<u>566</u>	<u>24,404</u>

All amounts are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of its fair value.

**28. OTHER PAYABLES AND ACCRUED CHARGES**

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income for maintenance services	10,540	10,405
Deposits from customers and franchisees	2,228	2,343
Other payables	8,074	5,903
Accrued charges	4,469	11,234
	<u>25,311</u>	<u>29,885</u>

All amounts are short term and hence the carrying values of other payables and accrued charges are considered to be a reasonable approximation of its fair value.

**29. BORROWINGS**

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other borrowings from a third party	<u>–</u>	<u>4,098</u>

The other borrowings from a third party were settled as at 31 December 2016.

As at 31 December 2015, the loans borrowed from a third party were unsecured, interest bearing at 12% per annum and repayable within 1 year from the end of the reporting period. The carrying amounts of the amounts due approximate their fair values.

**30. DEFERRED TAXATION**

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 16.5% (2015: 16.5%) for Hong Kong entities and 25% (2015: 25%) on the PRC entities in the Group at the end of the reporting period.

The movement during the year in the deferred tax assets recognised in the consolidated statement of financial position is as follows:

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	–	(1,307)
Exchange differences	–	67
Disposal of a subsidiary ( <i>note 36</i> )	–	94
Recognised in profit or loss ( <i>note 10</i> )	–	1,146
	<u>–</u>	<u>1,146</u>
At 31 December	<u>–</u>	<u>–</u>

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

#### Deferred tax liabilities

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>
At 1 January 2015	74
Disposal of a subsidiary	(74)
	<hr/>
At 31 December 2015 and 1 January 2016 and 31 December 2016	<hr/> <hr/> –

#### Deferred tax assets

	<b>Tax losses</b> <i>HK\$'000</i>	<b>Provisions</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2015	(168)	(1,213)	(1,381)
Exchange differences	–	67	67
Disposal of a subsidiary	168	–	168
Recognised in profit or loss	–	1,146	1,146
	<hr/>	<hr/>	<hr/>
At 31 December 2015 and 1 January 2016 and 31 December 2016	<hr/> <hr/> –	<hr/> <hr/> –	<hr/> <hr/> –

#### Unrecognised deferred tax liabilities

At 31 December 2016, temporary differences relating to the undistributed profits of a subsidiary amounted to HK\$Nil (2015: HK\$1,899,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

#### Unrecognised deferred tax assets

At 31 December 2016, the Group had unused tax losses of approximately HK\$88,447,000 (2015: HK\$87,397,000) to carry forward against future taxable income. No deferred tax asset has been recognised in respect of the tax losses at 31 December 2016 and 2015 due to the unpredictability of future profit streams.

These tax losses do not expire under current legislation except losses of approximately HK\$42,743,000 (2015: HK\$40,736,000) which will expire as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Year of expiry:		
2016	–	2,349
2017	2,608	2,771
2018	6,663	7,079
2019	6,398	6,798
2020	5,986	21,739
2021	21,088	–
	<u>42,743</u>	<u>40,736</u>

As at 31 December 2016, no tax losses was related to Excel BJ, the disposal company classified as held for sale.

### 31. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand. The carrying amount of the amounts due approximates its fair value.

### 32. SHARE CAPITAL

	2016		2015	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each				
At 1 January and 31 December	<u>5,000,000,000</u>	<u>500,000</u>	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:				
At 1 January and 31 December	<u>1,188,460,000</u>	<u>118,846</u>	<u>1,188,460,000</u>	<u>118,846</u>

The holder of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### 33. RESERVES

#### (a) Nature and purpose of reserves

##### (i) Share premium

The share premium represents the difference between nominal value of the shares issued by the Group and the amount of the consideration. The application of the share premium account is governed by section 40 of the Bermuda Companies Act.

*(ii) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements that have functional currency other than HK\$. The reserve is dealt with in accordance with the accounting policies set out in note 2.5.

**(b) Distributability of reserve**

The payment of future dividends will be determined by the Group's owners. The payment of the dividends will depend upon the future earnings, capital requirement, financial conditions and general business conditions of the Group.

As of 31 December 2016 and 2015, there was no reserve available for distribution to the owners of the Group.

**(c) Capital reserve**

The capital reserve represents the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company regarding the changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries.

**34. OPERATING LEASE COMMITMENTS**

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings which are payable by the Group are as follows:

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Within one year	4,420	5,028
In the second to fifth years	<u>3,963</u>	<u>2,155</u>
	<u><u>8,383</u></u>	<u><u>7,183</u></u>

The Group leases the land and buildings under operating leases. The leases run for an initial period of one to three (2015: one to three) years, with an option to renew the lease and renegotiated the terms at the expiry dates or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

As at 31 December 2016, lease commitments of HK\$692,000 within one year was related to Excel BJ, the disposal company classified as held for sale.

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS

## 35.1 Connected and related party transactions

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and/or related parties:

Connected and/or related parties	Nature of transactions	2016 HK\$'000	2015 HK\$'000
Companies in which directors of the Company have interests			
- Hangzhou Baidi Jewellery Company Limited* (Baidi Jewellery) (notes a, e)	Sales of gold and jewellery products	217	-
- Shenzhen City Zhong Chuang Union Investment Company Limited* ("Zhong Chuang") (notes b, e)	Sales of gold and jewellery products	-	1,217
- Shenzhen Didi Jewellery Culture Development Co. Ltd.*# ("Didi Culture") (notes a, e)	Purchase of packaging materials for the brand H.K. JEWELRY	29	282
- Hangzhou Didi Commercial Showcases Company Limited* ("Didi Showcases") (notes a, e)	Purchase of showcases for the brand H.K. JEWELRY	124	326
- Shenzhen Yihua Jewellery Company Limited* ("Shenzhen Yihua") (notes c, e)	Operating lease charges on land and building	2,252	1,674
Associate			
- Excel Technology International (Hong Kong) Limited ("Excel HK") (notes d, e)	Professional fee received	29,063	16,737
	Professional fee paid	7,812	4,331
	Purchase of complementary hardware and software	1,281	1,905
	Administration expenses reimbursements (Net paid)	960	350

## Notes:

- (a) Baidi Jewellery, Didi Culture and Didi Showcases are owned as to 90%, 65% and 80% respectively by Hangzhou Didi Investment Joint Stock Company Limited\* (杭州迪迪投資股份有限公司), which in turn is owned as to 10% and 90% by Mr. Lin Di and his father, respectively. Mr. Lin Di is a shareholder of the Company at 31 December 2016 and 2015. He resigned as an executive director of the Company on 30 October 2015.
- (b) Zhong Chuang is owned as to 81% by the brother of Ms. Li Xia (a director of the Company).
- (c) Shenzhen Yihua is a shareholder of the Company as at 31 December 2016 and 2015.
- (d) Excel HK has become an associate since 27 May 2015 and is ultimately 50% owned by Ms. Zee Chan Mei Chu, Peggy, a director of the Company's subsidiaries.
- (e) The above related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

These transactions were conducted in the Group's normal course of business and at mutually agreed prices and terms.

\* The English names of the PRC companies are translation of their respective Chinese names included for information only and are not their official names.

# For the year ended 31 December 2016, the name of 深圳迪迪首飾包裝有限公司 (Shenzhen Didi Jewellery Packaging Company Limited) was changed to 深圳迪迪珠寶文化發展有限公司 (Shenzhen Didi Jewellery Culture Development Co. Ltd.)

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material outstanding balances with connected and/or related parties.

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Companies controlled by controlling shareholders		
Trade receivables	–	425
	<u>          </u>	<u>          </u>

### 35.2 Key management personnel remuneration

Key management personnel of the Group are members of the board of directors, as well as certain senior management personnel. Included in staff costs are key management personnel remuneration which includes the following expenses:

	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	2,255	3,791
Post-employment benefits	123	74
	<u>          </u>	<u>          </u>
	<u>2,378</u>	<u>3,865</u>

### 36. LOSS OF CONTROL OF A SUBSIDIARY

On 27 May 2015, the Group, Excel HK, a wholly-owned subsidiary of the Company's subsidiary and a company wholly owned by Ms. Zee Chan Mei Chu Peggy, a director of the Company's subsidiary and a connected person of the Company at the subsidiary level (the "Subscriber"), entered into a subscription agreement, pursuant to which, Excel HK agreed to allot and issue 1,000 shares and the Subscriber agreed to subscribe the shares at a price subsequently adjusted to HK\$4,872,889 and was paid by the Subscriber in July 2015.

Upon completion of the subscription on 27 May 2015, each of Excel (BVI) Limited and the Subscriber owned 50% of the issued share capital of Excel HK. The Group considered that they did not have control over Excel HK after the subscription. As such, the subscription resulted in Excel HK ceasing to be a subsidiary of the Group. Excel HK became an associate of the

Group with effect from 27 May 2015 and have accounted for in the consolidated financial statements using the equity method. The fair value of the equity interest retained by the Group on the date when the control was lost is recognized as deemed cost of acquisition of interest in an associate.

HK\$'000

**Aggregated net assets disposed of:**

Property, plant and equipment	1,016
Deferred tax assets	94
Inventories	1,349
Amounts due from customers for contract work	5,517
Trade receivables	8,795
Other receivables, deposits and prepayments	2,459
Financial assets at fair value through profit or loss	28,291
Cash and cash equivalents	22,508
Trade payables	(2,422)
Other payables and accrued charges	(25,027)
Amount due to the Group	(33,215)
Amounts due to customers for contract work	(3,976)
	5,389

**Loss on disposal of a subsidiary:**

Fair value of the equity interest retained in Excel HK	5,131
Net assets disposed of	(5,389)
	(258)

**Net cash outflow arising on disposal:**

Cash and cash equivalents disposed of	(22,508)
	(22,508)

### 37. FINANCIAL GUARANTEE CONTRACTS

At the end of reporting period, the Group had given corporate guarantee to a third party and Excel HK in respect of all monies owed by and/or the obligations and liabilities of the Excel HK due to a third party under a service contract to the extent of HK\$5,518,000 (2015: HK\$8,500,000). At the end of reporting period, no provision for the Group's obligation under the guarantee contract has been made as there was no amounts due by Excel HK to the third party at the end of the reporting period and the directors considered that it was not probable that the service obligations by Excel HK would not be met. The fair value of the guarantee at initial recognition is immaterial.

### 38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group actively and regularly reviews and manages its financial risk and takes actions to mitigate such risk. The Group adopts conservative strategies on its risk management and seeks to limit the Group's exposure to these risks to a minimum. The board of directors reviews and agrees policies for managing each of these risks.

There has been no change to the type of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

### 38.1 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Financial assets</b>		
Available-for-sale financial assets		
– Unlisted private equity fund, at fair value	–	–
Loans and receivables		
– Trade receivables	14,016	23,686
– Other receivables and deposits	7,376	12,075
– Cash and cash equivalents	24,507	33,563
	<u>45,899</u>	<u>69,324</u>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost		
– Trade payables	566	24,404
– Other payables and accrued charges	14,771	19,480
– Amounts due to directors	15,046	9,552
– Borrowings	–	4,098
	<u>30,383</u>	<u>57,534</u>

### 38.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risks. The Group's exposure to foreign currency risk arise from its overseas sales and purchases, which are primarily denominated in United State Dollar ("US\$"), Renminbi ("RMB") and Japanese Yen ("JPY"). These are not the functional currencies of certain Group entities to which these transactions relate.

The following table details the Group's exposure at the end of the reporting period to foreign currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate are shown below:

	US\$ HK\$'000	RMB HK\$'000	JPY HK\$'000
<b>At 31 December 2016</b>			
Cash and cash equivalents	<u>787</u>	<u>120</u>	<u>277</u>
<b>At 31 December 2015</b>			
Cash and cash equivalents	811	115	268
Borrowings	<u>–</u>	<u>(4,098)</u>	<u>–</u>
Overall net exposure	<u>811</u>	<u>(3,983)</u>	<u>268</u>

The Group is mainly exposed to the effects of fluctuation in RMB and JPY.

Since the HK\$ is pegged to US\$, foreign currency risk between these two currencies to the Group is considered to be insignificant.

The following table illustrates the sensitivity of the Group's loss after income tax for the year and equity in regards to an appreciation/depreciation in HK\$ against RMB and JPY. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

	Increase/ (Decrease) in foreign exchange rate %	Effect on loss after income tax HK\$'000	Effect on component of equity HK\$'000
<b>2016</b>			
RMB	3%	(4)	4
	(3%)	4	(4)
JPY	5%	(14)	14
	(5%)	14	(14)
<b>2015</b>			
RMB	3%	119	(119)
	(3%)	(119)	119
JPY	5%	(13)	13
	(5%)	13	(13)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

### 38.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's interest rate risk arises primarily from bank balances, amount due from an investee company and borrowings. Borrowings bearing fixed rates through the contractual terms of

the borrowings. The Group's amount due from an investee company is also stated at fixed rate through the contractual terms. The exposure to interest rates for the Group's short-term bank deposits is considered immaterial. The Group therefore does not have significant exposure to interest rate risk at the end of the reporting period nor in comparative periods.

#### **38.4 Other price risk**

Other price risk relates to the risk that the fair values of equity securities will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates).

During the year ended 31 December 2015, the Group's investments in listed equity securities had been disposed of through deemed disposal of the Group's interest in Excel HK as detailed in note 36. Accordingly, the Group is not exposed to significant other price risk at 31 December 2016 and 2015.

#### **38.5 Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the end of the reporting period as summarised in note 38.1.

In respect of credit risk associated with trade and other receivables, management closely monitors all outstanding debts and reviews the collectability of the receivables periodically. As at the end of the reporting period, the credit risk is considered negligible as the counterparties are reputable banks and multi-national companies with high quality external credit ratings.

The Group adopts conservative investment strategies with management monitoring the investment portfolio. Usually, investments are in liquid securities quoted on recognised stock exchanges, except where entered into for long term strategic purposes. See note 22 to these consolidated financial statements for further details of the Group's exposures to credit risk on trade receivables.

#### **38.6 Liquidity risk**

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Group's prudent policy is to regularly monitor its current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and cash equivalents to meet its liquidity requirements in the short term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. At 31 December 2016 and 2015, the Group's contractual maturity for its financial liabilities are within one year or on demand. The carrying amounts of its financial liabilities approximate their contractual undiscounted cash flows.

#### **38.7 Fair value of financial assets and liabilities carried at other than fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2016 and 2015.

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Non-current assets</b>		
Interests in subsidiaries	—	—
<b>Current assets</b>		
Prepayments	302	311
Amounts due from subsidiaries	87,124	133,826
Cash and cash equivalents	24	85
	<u>87,450</u>	<u>134,222</u>
<b>Current liabilities</b>		
Other payables and accrued charges	1,468	1,264
Amounts due to subsidiaries	64,753	64,753
Amounts due to directors	15,046	9,552
	<u>81,267</u>	<u>75,569</u>
<b>Net current assets</b>	<u>6,183</u>	<u>58,653</u>
<b>Total assets less current liabilities</b>	<u>6,183</u>	<u>58,653</u>
<b>Net assets</b>	<u>6,183</u>	<u>58,653</u>
<b>EQUITY</b>		
Share capital	118,846	118,846
Reserves ( <i>note</i> )	(112,663)	(60,193)
<b>Total equity</b>	<u>6,183</u>	<u>58,653</u>
	<b>Li Xia</b>	<b>Chong Yu Ping</b>
	<i>Director</i>	<i>Director</i>

*Note:*

The movement of the Company's reserves are as follows:

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	220,438	(275,462)	(55,024)
Loss and total comprehensive expense for the year	—	(5,169)	(5,169)
At 31 December 2015 and 1 January 2016	220,438	(280,631)	(60,193)
Loss and total comprehensive expense for the year	—	(52,470)	(52,470)
<b>At 31 December 2016</b>	<u>220,438</u>	<u>(333,101)</u>	<u>(112,663)</u>

**40. CAPITAL MANAGEMENT**

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return for shareholders by pricing goods and services commensurately with the level of risks.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions. The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015.

Consistent with industry practice, the Group monitors its capital structure using gearing ratio which is net debt divided by total equity. For this purpose, the Group defines net debt as debt, which comprises short-term borrowings, less cash and cash equivalents. Total equity comprises equity attributable to owners of the Company and non-controlling interests stated in the consolidated statement of financial position. During 2016, the Group's strategy remains unchanged from 2015, which is to maintain the gearing ratio of not more than 20% in order to support its business. The gearing ratio at 31 December 2016 and 2015 were not presented as the Group has no net debt as at 31 December 2016 and 2015.

	<b>2016</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>
Total borrowings – Borrowings	–	4,098
Less: cash and cash equivalents	<u>(24,507)</u>	<u>(33,563)</u>
Net assets	<u>(24,507)</u>	<u>(29,465)</u>
Total equity	<u>75,451</u>	<u>124,057</u>

**41. EVENTS AFTER THE REPORTING DATE**

On 18 January 2017, the Group has entered into a sale and purchase agreement with an independent third party to dispose of Excel BJ, an indirect partially owned subsidiary, at a cash consideration of HK\$2,000,000. The disposal of a subsidiary is expected to be completed within 3 months after signing of the agreement. The assets and liabilities of the disposal company are classified as held for sale in note 26. For the details of the disposal of the disposal company, please refer to the Company's announcement dated 18 January 2017.

### 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017

The following is the full text of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017 as extracted from the 2017 interim report of the Company for the six months ended 30 June 2017:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and six months ended 30 June 2017

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>	3	20,256	23,151	44,268	48,890
Other income		154	1,227	507	1,767
Change in inventories		(1,344)	(900)	(1,119)	(2,959)
Purchase of goods		(1,441)	(5,817)	(6,935)	(6,744)
Professional fees		(1,620)	(3,330)	(3,461)	(7,084)
Employee benefits expenses		(16,484)	(21,029)	(33,226)	(41,751)
Depreciation and amortisation		(15)	(686)	(123)	(978)
Other expenses		(3,752)	(1,902)	(7,928)	(11,107)
Finance costs	6	–	(88)	–	(176)
Gain on disposal of subsidiary		–	–	7,427	–
Share of post-tax result of an associate		1,461	(155)	2,210	(263)
<b>(Loss)/Profit before income tax</b>	5	(2,785)	(9,529)	1,620	(20,405)
Income tax expense	7	(288)	(182)	(353)	(269)
<b>(Loss)/Profit for the period</b>		(3,073)	(9,711)	1,267	(20,674)
<b>Other comprehensive income for the period, net of tax</b>		–	11	2,877	11
<b>Total comprehensive (expense)/income for the period</b>		(3,073)	(9,700)	4,144	(20,663)

	<i>Notes</i>	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
		<b>Three months ended</b>		<b>Six months ended</b>	
		<b>30 June</b>		<b>30 June</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(Loss)/Profit for the period attributable to:</b>					
Owners of the Company		(2,616)	(8,815)	1,720	(18,540)
Non-controlling interests		<u>(457)</u>	<u>(896)</u>	<u>(453)</u>	<u>(2,134)</u>
		<u><b>(3,073)</b></u>	<u><b>(9,711)</b></u>	<u><b>1,267</b></u>	<u><b>(20,674)</b></u>
<b>Total comprehensive (expense)/ income attributable to:</b>					
Owners of the Company		(2,616)	(8,804)	1,692	(18,529)
Non-controlling interests		<u>(457)</u>	<u>(896)</u>	<u>2,452</u>	<u>(2,134)</u>
		<u><b>(3,073)</b></u>	<u><b>(9,700)</b></u>	<u><b>4,144</b></u>	<u><b>(20,663)</b></u>
<b>(Loss)/Profit per share for the (loss)/profit attributable to the owners of the Company during the period</b>					
- Basic and diluted (in HK cents)	9	<u>(0.22)</u>	<u>(0.74)</u>	<u>0.14</u>	<u>(1.56)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		(Unaudited) 30 June 2017 HK\$'000	(Audited) 31 December 2016 HK\$'000
	<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	235	913
Interest in an associate		<u>22,748</u>	<u>17,494</u>
		<u>22,983</u>	<u>18,407</u>
<b>Current assets</b>			
Inventories		36,902	37,994
Amounts due from customers for contract work		7,150	4,767
Trade receivables	<i>11</i>	3,653	14,016
Other receivables, deposits and prepayments		27,132	17,072
Bank balances and cash		<u>22,784</u>	<u>24,507</u>
		97,621	98,356
Assets of a disposal company classified as held for sale		<u>–</u>	<u>33,027</u>
		<u>97,621</u>	<u>131,383</u>
<b>Current liabilities</b>			
Trade payables	<i>12</i>	578	566
Other payables and accrued charges		20,721	25,311
Amounts due to customers for contract work		2,487	3,015
Amounts due to directors		17,223	15,046
Tax payables		<u>–</u>	<u>–</u>
		41,009	43,938
Liabilities of a disposal company classified as held for sales		<u>–</u>	<u>30,401</u>
		<u>41,009</u>	<u>74,339</u>

		(Unaudited) 30 June 2017 HK\$'000	(Audited) 31 December 2016 HK\$'000
	<i>Notes</i>		
<b>Net current assets</b>		<u>56,612</u>	<u>57,044</u>
<b>Total assets less current liabilities</b>		<u>79,595</u>	<u>75,451</u>
<b>Net assets</b>		<u>79,595</u>	<u>75,451</u>
<b>EQUITY</b>			
Share capital	<i>13</i>	118,846	118,846
Reserves		<u>(37,055)</u>	<u>(38,747)</u>
<b>Equity attributable to owners of the Company</b>		81,791	80,099
<b>Non-controlling interests</b>		<u>(2,196)</u>	<u>(4,648)</u>
<b>Total equity</b>		<u>79,595</u>	<u>75,451</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Equity attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital	Share premium	Exchange reserve	Capital reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
<b>At 1 January 2017</b>	118,846	220,438	(1,158)	(276)	(257,751)	80,099	(4,648)	75,451
Profit for the period	-	-	-	-	1,720	1,720	(453)	1,267
Other comprehensive income								
Disposal of a subsidiary	-	-	(28)	-	-	(28)	2,905	2,877
<b>Total comprehensive income for the period</b>	-	-	(28)	-	1,720	1,692	2,452	4,144
<b>At 30 June 2017</b>	<u>118,846</u>	<u>220,438</u>	<u>(1,186)</u>	<u>(276)</u>	<u>(256,031)</u>	<u>81,791</u>	<u>(2,196)</u>	<u>79,595</u>
<b>At 1 January 2016</b>	118,846	220,438	1,326	-	(214,988)	125,622	(1,565)	124,057
Loss for the period	-	-	-	-	(18,540)	(18,540)	(2,134)	(20,674)
Other comprehensive income	-	-	11	-	-	11	-	11
<b>Total comprehensive loss for the period</b>	-	-	11	-	(18,540)	(18,529)	(2,134)	(20,663)
<b>At 30 June 2016</b>	<u>118,846</u>	<u>220,438</u>	<u>1,337</u>	<u>-</u>	<u>(233,528)</u>	<u>107,093</u>	<u>(3,699)</u>	<u>103,394</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
<b>Cash flows from operating activities</b>		
Profit/(Loss) before income tax	1,620	(20,405)
Adjustments:-		
– Share of post-tax result of an associate	(2,210)	263
– Other non-cash items and net changes in working capital	9,576	1,107
– Gain on disposal of subsidiary	(7,427)	–
<b>Net cash flows from/(used in) operating activities</b>	<u>1,559</u>	<u>(19,035)</u>
<b>Cash flows from/(used in) investing activities</b>		
Interest in an associate	(5,254)	18,672
Purchase of property, plant and equipment	(23)	(293)
Proceed from disposal of subsidiary	2,000	–
<b>Net cash from/(used in) investing activities</b>	<u>(3,277)</u>	<u>18,379</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	–	175
<b>Cash flows from financing activities</b>	<u>–</u>	<u>175</u>
<b>Net decrease in cash and cash equivalents</b>	(1,718)	(481)
<b>Cash and cash equivalents at the beginning of the period</b>	24,502	33,563
Effect on exchange rate changes	–	–
<b>Cash and cash equivalents at the end of the period</b>	<u><u>22,784</u></u>	<u><u>33,082</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 June 2017

## 1. GENERAL INFORMATION

Yu Tak International Holdings Ltd (the “Company”) is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is in Hong Kong. The Company’s shares are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the development, sale and implementation of enterprise software and the provision of systems integration, professional services and Application Service Provider (“ASP”) services, design and sales of gold and jewellery products and investment holding. The Group’s operations are based in Hong Kong and the People’s Republic of China (the “PRC”).

## 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”). The accounting policies adopted by the Group are consistent with financial statements for the year ended 31 December 2016.

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as available-for-sale financial assets and financial assets at fair value through profit or loss which are stated at fair values.

## 3. REVENUE AND TURNOVER

Revenue from external customers from the Group’s principal activities recognized during the period is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of gold and jewellery products	2,894	2,385	9,232	9,261
Enterprise software products	6,117	10,910	12,339	19,610
Systems integration	–	989	–	989
Professional services	11,245	8,867	22,697	19,030
<b>Total revenue</b>	<b>20,256</b>	<b>23,151</b>	<b>44,268</b>	<b>48,890</b>

## 4. SEGMENT INFORMATION

The executive Directors, being the chief operating decision makers, have identified the Group’s two products and service lines as operating segments. Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	<b>Six months ended 30 June 2017</b>		
	<b>Jewellery Products</b>	<b>IT Products and Services</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>			
– From external customers	9,232	35,036	44,268
<b>Reportable segment revenue</b>	<u>9,232</u>	<u>35,036</u>	<u>44,268</u>
<b>Reportable segment loss/profit before income tax</b>	(6,065)	7,685	1,620
Depreciation	(88)	(35)	(123)
Finance costs	–	–	–
Share of post-tax result of an associate	–	2,210	2,210
Gain on disposal of subsidiary	–	7,427	7,427
<b>Reportable segment assets</b>	275,737	69,820	345,557
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the period	–	23	23
<b>Reportable segment liabilities</b>	<u>25,132</u>	<u>240,829</u>	<u>265,962</u>
	<b>Six months ended 30 June 2016</b>		
	<b>Jewellery Products</b>	<b>IT Products and Services</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>			
– From external customers	9,261	39,629	48,890
<b>Reportable segment revenue</b>	<u>9,261</u>	<u>39,629</u>	<u>48,890</u>
<b>Reportable segment loss before income tax</b>	(7,876)	(12,529)	(20,405)
Depreciation	(486)	(492)	(978)
Finance costs	–	(176)	(176)
Share of post-tax result of an associate	–	(263)	(263)
<b>Reportable segment assets</b>	288,991	108,868	397,859
Additions to non-current segment assets (other than financial instruments and deferred tax assets) during the period	15	278	293
<b>Reportable segment liabilities</b>	<u>23,090</u>	<u>271,375</u>	<u>294,465</u>

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	<b>30 June 2017</b>	<b>30 June 2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	345,557	397,859
Elimination of inter-segment receivables	<u>(224,953)</u>	<u>(224,953)</u>
<b>Group assets</b>	<b><u>120,604</u></b>	<b><u>172,906</u></b>
	<b>30 June 2017</b>	<b>30 June 2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment liabilities	265,962	294,465
Elimination of inter-segment payables	<u>(224,953)</u>	<u>(224,953)</u>
<b>Group liabilities</b>	<b><u>41,009</u></b>	<b><u>69,512</u></b>

The Group's revenue from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

**Place of domicile**

	<b>Revenue from external customers</b>		<b>Non-current assets</b>	
	<b>Six months ended 30 June</b>		<b>30 June</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	3,256	2,827	22,751	21,839
PRC and Taiwan	36,789	41,055	214	5,395
South East Asia	<u>4,223</u>	<u>5,008</u>	<u>18</u>	<u>7</u>
	<b><u>44,268</u></b>	<b><u>48,890</u></b>	<b><u>22,983</u></b>	<b><u>27,241</u></b>

## 5. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging/(crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	15	686	123	978
Interest income	2	–	4	–
Fair value gain on financial assets at fair value through profit or loss	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 6. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on:				
Other interest expense, wholly repayable within five years	–	88	–	176
	<u>–</u>	<u>88</u>	<u>–</u>	<u>176</u>

## 7. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's entities either incurred tax losses for the respective periods or their estimated assessable profits for the respective periods were wholly absorbed by unrelieved tax losses brought forward from previous years.

Taxation on overseas profits has been calculated on the estimated assessable profits for the respective periods at the rates prevailing in the countries in which the Group operates.

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
– Overseas				
Tax for the period	288	182	353	269
	<u>288</u>	<u>182</u>	<u>353</u>	<u>269</u>
<b>Total income tax expense</b>	<u>288</u>	<u>182</u>	<u>353</u>	<u>269</u>

## 8. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

**9. (LOSS)/PROFIT PER SHARE**

The calculation of the basic and diluted profit per share for the six months ended 30 June 2017 is based on the profit attributable to owners of the Company of HK\$1,720,000 (2016: loss of HK\$18,540,000) and the weighted average number of ordinary shares of 1,188,460,000 (2016: 1,188,460,000) in issue during the period.

Diluted (loss)/profit per share for the six months ended 30 June 2017 and 2016 equates the basic (loss)/profit per share as there is no potential dilutive ordinary share in existence during the period.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2017, the Group spent HK\$23,000 (six months ended 30 June 2016: HK\$293,000) on acquisition of property, plant and equipment.

**11. TRADE RECEIVABLES**

	<b>30 June 2017</b>	<b>31 December 2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade receivables</b>		
From third parties	3,756	16,446
Less: provision for impairment of trade receivables	<u>(103)</u>	<u>(180)</u>
	<u><u>3,653</u></u>	<u><u>16,266</u></u>

Trade receivables from third parties for IT products and services are due within 14 days to 60 days from the date of billing. Trade receivable from a related party is repayable on demand. Debtors with balances that are more than 90 days overdue are requested to settle all outstanding balances before any further credit is granted.

The Group's sales of gold and jewellery products comprise mainly cash sales and credit card sales to retail customers and credit sales to franchisees with 0 – 60 days credit terms.

The directors of the Group considered that the fair values of trade receivables are not materially different from their carrying amounts because these balances have short maturity periods at their inception. All trade receivables are expected to be recovered within one year.

Based on the invoice dates, the ageing analysis of the trade receivables was as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	2,779	8,614
31 – 60 days	513	350
61 – 90 days	4	408
Over 90 days	<u>357</u>	<u>4,644</u>
	<u><u>3,653</u></u>	<u><u>14,016</u></u>

**12. TRADE PAYABLES**

The Group was granted by its third parties suppliers credit periods ranging from 30 – 60 days. Trade payable from a related party is repayable on demand. Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	112	418
31 – 60 days	17	–
61 – 90 days	64	–
Over 90 days	385	148
	<u>578</u>	<u>566</u>

All amounts are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of its fair value.

**13. SHARE CAPITAL**

	<b>30 June 2017 &amp; 31 December 2016</b>	
	<b>Number of shares</b>	<b>Amount <i>HK\$'000</i></b>
Authorised:		
Ordinary shares of HK\$0.10 each	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	<u>1,188,460,000</u>	<u>118,846</u>

## 14. CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with connected and/or related parties:

Connected and/or related parties	Nature of transactions	Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000
Companies in which directors of the Company have interests			
– Shenzhen City Zhong Chuang Union Investment Company Limited* (“Zhong Chuang”) (note a)	Sales of gold and jewellery products	–	–
– Shenzhen Yihua Jewellery Company Limited* (“Shenzhen Yihua”) (note b)	Operating lease charges on land and building	1,152	990
Associate			
– Excel Technology International (Hong Kong) Limited (“Excel HK”) (note c)	Professional fee received	15,676	14,341
	Professional fee paid	3,171	4,494
	Purchase of complementary hardware and software	27	928
	Administrative expense reimbursement (no paid)	480	360

## Notes:

- (a) Zhong Chuang is owned as to 81% by the brother of Ms. Li Xia, an executive Director.
- (b) Shenzhen Yihua is a shareholder of the Company as at 31 December 2016.
- (c) Excel HK has become an associate since 27 May 2015 and is ultimately 50% owned by Ms. Zee Chan Mei Chu, Peggy, a director of the Company’s subsidiaries.
- (d) The above related party transactions also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules. The disclosures required by Chapter 20 of the GEM Listing Rules are provided in the Directors’ Report contained in the Company’s annual report 2016 dated 30 March 2017.
- (e) Sales to or purchases from the connected and/or related parties stated above were conducted in the Group’s normal course of business and at mutually agreed prices and terms.

\* The English names of the PRC companies are translation of their respective Chinese names included for information only and are not their official names.

#### 4 UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

The following is the full text of the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2017 as extracted from the third quarterly report of the Company for the nine months ended 30 September 2017:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and nine months ended 30 September 2017

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>	3	29,265	27,573	73,533	76,465
Other income		1,302	928	1,809	2,695
Change in inventories		(2,099)	(1,195)	(3,218)	(4,154)
Purchase of goods		(5,699)	(5,631)	(12,634)	(11,405)
Professional fee		(2,428)	(6,793)	(5,889)	(13,877)
Employee benefits expenses		(15,596)	(20,465)	(48,822)	(62,216)
Depreciation and amortisation		(32)	(620)	(155)	(1,599)
Other expenses		(2,158)	(3,645)	(10,086)	(15,723)
Finance costs	4	–	–	–	(176)
Share of post-tax result of an associate		76	(782)	2,286	(1,045)
Gain on disposal of control of a subsidiary		–	–	7,427	–
<b>Profit/(Loss) before income tax</b>		2,631	(10,630)	4,251	(31,035)
Income tax expense	5	(96)	(44)	(449)	(313)
<b>Profit/(Loss) for the period</b>		2,535	(10,674)	3,802	(31,348)
<b>Other comprehensive income for the period, net of tax</b>					
Disposal of a subsidiary		–	–	2,877	–
Exchange gain/(loss) on translation of financial statements of foreign operations		797	(589)	797	(578)
<b>Total comprehensive profit/(loss) for the period</b>		<u>3,332</u>	<u>(11,263)</u>	<u>7,476</u>	<u>(31,926)</u>

	<i>Notes</i>	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
		<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>30 September</b>		<b>30 September</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit/(Loss) for the period</b>					
<b>attributable to:</b>					
Owners of the Company		2,510	(9,907)	4,230	(28,447)
Non-controlling interests		<u>25</u>	<u>(767)</u>	<u>(428)</u>	<u>(2,901)</u>
		<u>2,535</u>	<u>(10,674)</u>	<u>3,802</u>	<u>(31,348)</u>
<b>Total comprehensive profit/(loss)</b>					
<b>attributable to:</b>					
Owners of the Company		3,307	(10,500)	4,999	(29,029)
Non-controlling interests		<u>25</u>	<u>(763)</u>	<u>2,477</u>	<u>(2,897)</u>
		<u>3,332</u>	<u>(11,263)</u>	<u>7,476</u>	<u>(31,926)</u>
<b>Profit/(Loss) per share for the</b>					
<b>profit/(loss) attributable to the</b>					
<b>owners of the Company during</b>					
<b>the period</b>					
<b>– Basic and diluted (in HK cents)</b>	<b>6</b>	<u>0.21 cents</u>	<u>(0.83) cents</u>	<u>0.36 cents</u>	<u>(2.39) cents</u>

**NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)**

*For the three months and nine months ended 30 September 2017*

**1. GENERAL INFORMATION**

Yu Tak International Holdings Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is in Hong Kong. The Company’s shares are listed on the GEM of The Stock Exchange.

The Company is an investment holding company. Its principal subsidiaries are engaged in the development, sale and implementation of enterprise software and the provision of systems integration, professional services and Application Service Provider (“ASP”) services, design and sales of gold and jewellery products and investment holding. The Group’s operations are based in Hong Kong and the People’s Republic of China (the “PRC”).

**2. BASIS OF PREPARATION**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”). The accounting policies adopted by the Group are consistent with financial statements for the year ended 31 December 2016.

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as available-for-sale financial assets and financial assets at fair value through profit or loss which are stated at fair values.

**3. REVENUE AND TURNOVER**

Revenue from external customers from the Group’s principal activities recognized during the period is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of gold and jewellery products	4,213	2,555	13,445	11,818
Enterprise software products	8,069	11,909	20,408	31,519
Systems integration	4,225	4,106	4,225	5,095
Professional services	12,758	9,003	35,455	28,033
	<u>29,265</u>	<u>27,573</u>	<u>73,533</u>	<u>76,465</u>
<b>Total revenue</b>	<b>29,265</b>	<b>27,573</b>	<b>73,533</b>	<b>76,465</b>

## 4. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charges on:				
Other interest expense, wholly repayable within five years	—	—	—	176
	<u>—</u>	<u>—</u>	<u>—</u>	<u>176</u>

## 5. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's entities either incurred tax losses for the respective periods or their estimated assessable profits for the respective periods were wholly absorbed by unrelieved tax losses brought forward from previous years.

Taxation on overseas profits has been calculated on the estimated assessable profits for the respective periods at the rates prevailing in the countries in which the Group operates.

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
– Overseas				
Tax for the period	(96)	(44)	(449)	(313)
<b>Total income tax expense</b>	<u>(96)</u>	<u>(44)</u>	<u>(449)</u>	<u>(313)</u>

## 6. PROFIT/(LOSS) PER SHARE

The calculation of the basic and diluted profit per share for the nine months ended 30 September 2017 is based on the profit attributable to owners of the Company of HK\$4,230,000 (2016: Loss of HK\$28,447,000) and the weighted average number of ordinary shares of 1,188,460,000 (2016: 1,188,460,000) in issue during the period.

Diluted profit/(loss) per share for the nine months ended 30 September 2017 and 2016 equates the basic loss per share as there is no potential dilutive ordinary share in existence during the period.

**5. STATEMENT OF INDEBTEDNESS**

As at the close of business on 30 November 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the indebtedness of the Group was as follows:

**(a) Borrowings**

The Group had outstanding borrowings of approximately HK\$20,550,000, representing amounts due to directors which are unsecured, interest-free and repayable on demand.

**(b) Guarantees**

At the end of reporting period, the Group had given corporate guarantee to an associate, Excel Technology International(Hong Kong) Limited (“Excel HK”) in respect of all monies owed by and/or the obligations and liabilities of the Excel HK due to a third party under a service contract to the extent of HK\$5,008,000.

**(c) Disclaimer**

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of the Group’s business, as at the close of business on 30 November 2017, based on the books and records currently available to the Directors, the Directors are not aware of the Group having other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

**6. MATERIAL CHANGES**

As at the Latest Practicable Date, save as disclosed in the third quarterly report of the Company for the nine months period ended 30 September 2017, including the Group having recorded a profit of approximately HK\$3.8 million for the nine months period ended 30 September 2017 as compared to a loss of approximately HK\$31.3 million for the nine months period ended 30 September 2016, which was mainly attributable to (i) the reduction of employee benefits expenses of approximately HK\$13.4 million; (ii) the reduction of professional fee of approximately HK\$8.0 million; and (iii) the gain on disposal of control of a subsidiary of approximately HK\$7.4 million for the nine months period ended 30 September 2017, the Directors confirm that there has not been any material change in the financial or trading position or outlook of the Group since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Group were made up.

**7. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the present financial resources and the estimated net proceeds from the Rights Issues, and in the absence of unforeseeable circumstances, the Group has sufficient working capital to satisfy its requirements for at least twelve months from the date of this circular.

## 8. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The principal activity of the Company is investment holding. The Group is principally engaged in the i) development, sale, and implementation of enterprise software, ii) provision of systems integration, professional services, and Application Service Provider (“ASP”) services, along with iii) design and sales of gold and jewellery products in Hong Kong and the PRC.

For the nine months ended 30 September 2017, the Group recorded the unaudited revenue of approximately HK\$73.5M, representing a decrease of about 4% over the same period of the previous year. The sales of gold and jewellery products increased by 14% to HK\$13.4M (2016: HK\$11.8M) mainly due to strategic efforts to enhance brand competition and invest in designs and marketing of exclusive signature products to combat the slow economic environment coupled with changing consumer tastes. On the IT side of the business, sales of enterprise software products decreased by 35% to HK\$20.4M (2016: HK\$31.5M) and systems integration business decreased by 17% to HK\$4.2M (2016: HK\$5.1M). Professional service business increased by 26% to HK\$35.4M (2016: HK\$28M).

As set out in the 2017 third quarterly report, the Group will continue to streamline the organisation structures and develop existing businesses. The Group plans to further develop the jewellery business of the Group through tight co-operations with franchisees to raise income and profitability of this business segment. The management believes that the uptrend will continue to carry over into the future years.

Despite the rising gold prices against the backdrop of a softening Chinese economy, the Group believes there is still potential for growth in the consumption of gold jewellery within the Chinese market. Our Directors believe that the growth in the consumption of gold jewellery is driven by a number of factors, including the continued increase in upscale consumption, higher numbers of marriages and births and the trend for buying gold as a hedge against inflation. The Group was proved successful in building a strong distribution network of franchisees and plans to further gain domestic market share by increasing exclusive signature products, new product series launches, and hiring of appropriate brand representatives to differentiate the Company’s products while enhancing the brand image.

Similarly, our Directors believe that the market demand for diamonds in China will increase due to (1) an increase in the number of middle-class consumers; and (2) the huge demand stemming from the wedding market remains a major stimulus in terms of propelling diamond sales growth forward. As such, the Group believes there is still ample room for expansion in the diamond market in China and plans to leverage on the tight co-operations with franchisees to expand their foothold into various tier cities strategically and reap the profit from the diamond market.

Upon the completion of the Rights Issue, the Group will make use of the proceeds to expand the jewellery and gold businesses while improving its profitability and enhancing the interest of the Shareholders more effectively. The Group will also keep abreast of and consider from time to time other expansion opportunities.

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

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Paragraph 13 of Appendix 1B and Paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) is set out below to illustrate the effects of the Rights Issues on the consolidated net tangible assets of the Group as if the Rights Issue had taken place on 30 June 2017.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and because of its hypothetical nature, may not give a true picture of the financial position of the Group following the Rights Issue.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 June 2017, adjusted as described below:

<b>Adjusted unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2017</b>	<b>Estimated net proceeds from the Rights Issue</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 June 2017</b>
<i>(Note 1)</i>	<i>(Note 2)</i>	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
81,791	56,900	138,691
		<u>HK\$0.07</u>
		<u>HK\$0.08</u>

*Notes:*

1. The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2017 are based unaudited consolidated statement of financial position of the Group as at 30 June 2017 of approximately HK\$81,791,000.
2. The estimated net proceeds from the Rights Issue are based on 594,230,000 Right Shares at the Subscription Price of HK\$0.10 per Rights Share, after deduction of the professional fees and other share issue related expenses payable by the Company of approximately HK\$2,523,000.
3. The unaudited consolidated net tangible assets of the Group attributable to owners of the Company per Share before completion of the Rights Issue is calculated based on 1,188,460,000 shares in issue as at 30 June 2017 before completion of the Rights Issue.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue of approximately HK\$138,691,000 and on 1,782,690,000 Shares in issue and issuable, comprising 1,188,460,000 Shares of the Company in issue as at 30 June 2017 and 594,230,000 Rights Shares to be issued, assuming that the Rights Issue had been completed on 30 June 2017.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2017.

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

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.*



ZHONGHUI ANDA CPA Limited  
Certified Public Accountants

19 January 2018

The Board of Directors  
Yu Tak International Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yu Tak 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 adjusted consolidated net tangible assets as at 30 June 2017 (“Unaudited Pro Forma Financial Information”) as set out on pages II-1 to II-2 of the circular issued by the Company (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page II-1.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the rights issue (the “Rights Issue”) on the Group’s net tangible assets as at 30 June 2017 as if the transaction had been taken place at 30 June 2017. As part of this process, information about the Group’s net tangible assets has been extracted by the Directors from the Group’s consolidated financial statements as included in the interim report for the six months ended 30 June 2017, on which no review report has been published.

**Directors’ Responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 13 of Appendix 1B and paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**Our Independence and Quality Control**

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

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

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Listing Rules and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" 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 2017 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

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

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

We make no comments regarding the reasonableness of the amount of net proceeds from the Rights Issue, the application of those net proceeds, or whether such use will actually take place as described under "Reasons for the Rights Issue and Use of Proceeds" set out on page 25 of the Circular.

### **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 31(7) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,  
**ZHONGHUI ANDA CPA Limited**  
*Certified Public Accountants*  
**Sze Lin Tang**  
Practising Certificate Number P03614  
Hong Kong

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.

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

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the completion of the Rights Issue are expected to be as follows:

### (i) As at the Latest Practicable Date

HK\$

*Authorised:*

5,000,000,000	Shares as the Latest Practicable Date and immediately following the completion of the Rights Issue	500,000,000

*Issued and fully paid:*

1,188,460,000	Shares in issue as at the Latest Practicable Date	118,846,000
594,230,000	Rights Shares to be allotted and issued under the Rights Issue	59,423,000
1,782,690,000	Shares immediately following the completion of the Rights Issue	178,269,000

All of the Rights Shares when allotted, issued and fully paid will rank pari passu in all respects with all the Shares then in issue as at the date of allotment and issue of the Rights Shares. The Rights Shares will be listed and traded on the Stock Exchange.

No part of the equity of the Company is listed or dealt in, nor is listing or permission to deal in the Shares of the Company being, or proposed to be, sought on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived. As at the Latest Practicable Date, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option.

No Shares have been issued since 31 December 2016, being the date on which the latest audited financial statements of the Group were made up. Except for the Rights Shares contemplated under the Underwriting Agreement, as at the Latest Practicable Date, no Shares, options, warrants, conversion rights or any equity or debt securities of the Company was outstanding or was proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

### 3. DISCLOSURE OF INTERESTS

#### (a) Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, or which were required to be disclosed under the Takeovers Code were as follows:

#### *Long position in the ordinary shares of HK\$0.10 each of the Company*

Name of Director	Beneficial owner	Number of ordinary shares held			Total	Percentage of the issued share capital of the Company
		Held by family	Held by controlled corporation			
Mr. CHONG Yu Ping	-	-	906,836,140 (Note 1)	906,836,140	76.30%	
Ms. LI Xia	-	-	906,836,140 (Note 1)	906,836,140	76.30%	
Mr. CHEN Yin	-	-	110,303,827 (Note 2)	110,303,827	9.28%	

*Notes:*

- (1) These shares were held by Sino Eminent. Sino Eminent, a company incorporated in the British Virgin Islands, is owned as to approximately 25% by OEIL and approximately 75% by Shenzhen Yihua, a company incorporated in the PRC which is controlled as to approximately 74.34% by Mr. Chong Yu Ping. Accordingly, Mr. Chong Yu Ping is deemed to be interested in 906,836,140 Shares Sino Eminent is interested in by virtue of Sino Eminent being controlled by Mr. Chong Yu Ping through his shareholding in Shenzhen Yihua. OEIL is a limited company incorporated in the British Virgin Islands which is wholly owned by Ms. Li Xia. Ms. Li Xia is deemed to be interested in 906,836,140 shares held by Sino Eminent by virtue of Sino Eminent being controlled by Ms. Li Xia through her shareholding in OEIL and through her acting as the sole director of Sino Eminent.
- (2) These shares were held by Flourish Zone Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Chen Yin.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders**

As at the Latest Practicable Date so far as is known to any Director or chief executive of the Company, other than the interests disclosed above in respect of certain directors and chief executive of the Company, the interests and short positions of persons in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group were as follows:

Name of Shareholder	Notes	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Sino Eminent Limited 深圳市藝華珠寶首飾股份有限公司	1	906,836,140	76.30%
(Shenzhen Yihua Jewelry Co., Ltd.)	1	906,836,140	76.30%
Ocean Expert Investments Limited	1	906,836,140	76.30%
Ms. LI Xia	1	906,836,140	76.30%
Mr. CHONG Yu Ping	1	906,836,140	76.30%
Flourish Zone Limited	1	110,303,827	9.28%
Mr. CHEN Yin	1	110,303,827	9.28%
Confluence Holdings Limited	2	91,034,166	7.66%
Mr. LIN Feifei	2	91,034,166	7.66%
CK Hutchison Holdings Limited	3	143,233,151	12.05%
Alps Mountain Agent Limited	3	71,969,151	6.06%
iBusiness Corporation Limited	3	67,264,000	5.66%

*Notes:*

- These shares have been disclosed as Directors' interests held by controlled corporation in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company".
- Confluence Holdings Limited is a company incorporated in the British Virgin Islands and 95% share interest of which are owned by Mr. Lin Feifei. Accordingly, Mr. Lin Feifei is deemed to be interested in the 91,034,166 shares interested by Confluence Holdings Limited.
- CK Hutchison Holdings Limited ("CK Hutchison") is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Alps Mountain Agent Limited ("Alps") and iBusiness Corporation Limited ("iBusiness"). Accordingly, CK Hutchison is deemed to be interested in 143,233,151 shares of the Company of which 71,969,151 shares are held by Alps and 67,264,000 shares are held by iBusiness under the SFO.

#### 4. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALING IN SHARES

As at the Latest Practicable Date,

- save for the Underwriting Agreement, there was no agreement, arrangement or understanding between the Concert Group and other persons in relation to the transfer, charge or pledge of the Shares that will be issued and allotted to Sino Eminent pursuant to the fulfillment of its obligations under the Underwriting Agreement;
- save as disclosed in the section headed "Changes in the Shareholding Structure" in the Letter from the Board of this circular, none of the members of the Concert Group held, owned or controlled any other Shares, convertible preference shares, convertible securities, warrants,

- options or derivatives of the Company. In addition, none of the members of the Concert Group had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (c) save as disclosed in the section headed “Changes in the Shareholding Structure” in the Letter from the Board of this circular and the paragraph headed “3. Disclosure of Interests” in this appendix, the sole director of Sino Eminent was not interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, the sole director of Sino Eminent had not dealt in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
  - (d) no person had irrevocably committed themselves to vote for or against the resolution(s) to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement and the Whitewash Waiver;
  - (e) the Concert Group did not have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons;
  - (f) none of the members of the Concert Group or the sole director of Sino Eminent had borrowed or lent any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into Shares;
  - (g) save as disclosed in the paragraph headed “3. Disclosure of Interests” in this appendix, none of the Directors was interested in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any Shares. In addition, none of the Directors had dealt for value in any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
  - (h) save as disclosed in the paragraph headed “Changes in the Shareholding Structure” in the Letter from the Board of this circular, none of the Company and the Directors held any shares, convertible securities, warrants, options or derivatives of Sino Eminent or similar rights which are convertible or exchangeable into shares of Sino Eminent. None of them had dealt for value in any shares, convertible securities, warrants, options or derivatives of Sino Eminent during the Relevant Period;
  - (i) none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, nor (iii) any advisers to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (other than persons enjoying exempt principal trader status under the Takeovers Code), had any interest in the Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company and none of them had dealt for value in any securities of the Company during the period from the Last Trading Day to the Latest Practicable Date;

- (j) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code and none of them had dealt for value in any securities of the Company during the period from the Last Trading Day to the Latest Practicable Date;
- (k) no Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and none of them had dealt for value in any securities of the Company during the period from the Last Trading Day to the Latest Practicable Date;
- (l) none of the Company nor any Directors had borrowed or lent any Shares, convertible preference shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into Shares;
- (m) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Rights Issue, the Underwriting Agreement and the Whitewash Waiver;
- (n) save for the Underwriting Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) (i) between Sino Eminent, the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; and (ii) between any Directors and any other persons having any connection with or dependence upon the Rights Issue, the Underwriting Agreement and the Whitewash Waiver;
- (o) as at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group;
- (p) as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (q) save for the Underwriting Agreement, no material contracts had been entered into by Sino Eminent in which any Director had any material personal interest;
- (r) as at the Latest Practicable Date, except for Mr. Chong Yu Ping, Ms. Li Xia and Mr. Chen Yin's interests in the Shares as disclosed under the Section headed "3. Disclosure of Interests" of this appendix, none of the Directors were interested in any Shares, and hence no Director (other than Mr. Chong Yu Ping, Ms. Li Xia and Mr. Chen Yin) would be entitled to vote for or against any of the resolutions to be proposed at the SGM. The Concert Group (including Mr.

Chong Yu Ping and Ms. Li Xia) and Mr. Chen Yin, who in accordance with Rule 10.29 of the GEM Listing Rules, will abstain from voting at the SGM on the resolutions set out in the notice of the SGM; and

- (s) Sino Eminent and Flourish Zone Limited had indicated that they would accept their respective entitlement to the provisional allotment of 156,303,070 and 55,151,913 Rights Shares respectively under the Rights Issue but would not apply for excess Rights Shares.

## 5. MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange (i) at the end of each of the six calendar months immediately preceding the date of the Announcement and ending on the Latest Practicable Date, (ii) 19 December 2017, the last business day prior to the issue of the Announcement; (iii) 20 December 2017, being the Last Trading Day; and (iv) as at the Latest Practicable Date:

Date	Closing price per Share HK\$
30 June 2017	0.117
31 July 2017	0.116
31 August 2017	0.105
29 September 2017	0.094
31 October 2017	0.077
30 November 2017	0.079
19 December 2017	0.095
20 December 2017 (the Last Trading Day)	0.095
29 December 2017	0.097
16 January 2018 (the Latest Practicable Date)	0.098

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK\$0.070 on 6 October 2017 and HK\$0.138 on each of the 3 consecutive days from 20 June 2017 respectively.

## 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 Group within two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

- the share transfer agreement dated 18 January 2017 entered into between Excel China Investment (BVI) Limited (志鴻中國投資有限公司) and Liu Jia (劉佳) for the sale and purchase of the 65% of the share equity of 北京志鴻英華科技有限公司 (Excel System (Beijing) Limited\*) at a cash consideration of HK\$2,000,000; and
- Underwriting Agreement.

## 7. SERVICE CONTRACTS

As at the Latest Practicable Date:

- (a) none of the Directors had entered or proposed to enter into a service contract with the Company or any of its subsidiaries or associated companies which is not determinable by the Company within one year without payment of compensation, other than statutory compensation;
- (b) none of the Directors had entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or any of its associated companies within the Relevant Period;
- (c) none of the Directors had any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more; and
- (d) none of the Directors had any fixed term service contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors had entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or any of its associated companies within six months before the date of the Announcement.

## 8. LITIGATION

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

## 9. EXPERTS AND CONSENTS

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

<b>Name</b>	<b>Qualifications</b>
Red Sun Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
ZHONGHUI ANDA CPA Limited	Certified Public Accountants

Each of Red Sun Capital Limited and ZHONGHUI ANDA CPA Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their letter or their name in the form and context in which they respective appear.

Each of Red Sun Capital Limited and ZHONGHUI ANDA CPA Limited do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Red Sun Capital Limited and ZHONGHUI ANDA CPA Limited do not have any direct or indirect interests in any assets which have been, since 31 December 2016 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

#### **10. COMPETING INTERESTS**

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

#### **11. DIRECTOR'S INTEREST IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group. As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

#### **12. EXPENSES**

The expenses in connection with the Rights Issue, including financial, legal, other professional advisory fees, printing and translation expenses, registration and statutory fees are estimated to be approximately HK\$2,500,000, which are payable by the Company. No underwriting commission is payable to the Underwriter.

#### **13. CORPORATE INFORMATION**

**Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

<b>Authorised Representatives</b>	Ms. LI Xia 1/F, Block 4, Shui Bei Industrial Park, Bei Li North Road, Shenzhen, P.R.C.  Mr. ZHAO Zhipeng Rm. 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong
<b>Company Secretary</b>	Mr. ZHAO Zhipeng Rm. 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong
<b>Legal adviser to the Company</b>	Deacons 5/F, Alexandra House 18 Charter Road Central, Hong Kong
<b>Reporting Accountant</b>	ZHONGHUI ANDA CPA Limited 111 Hing Fat St, Causeway Bay Hong Kong
<b>Underwriter</b>	Sino Eminent Limited Rm. 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong
<b>Share Registrar</b>	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
<b>Principal Bankers</b>	The Hongkong and Shanghai Banking Corporation Limited Level 10 HSBC Main Building, 1 Queen's Road Central, Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central, Hong Kong

<b>Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders</b>	Red Sun Capital Limited Room 3303, 33/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong
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#### 14. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

##### (a) Name and address

<b>Name</b>	<b>Correspondence address</b>
<i>Executive Directors</i>	
CHONG Yu Ping	1/F, Block 4, Shui Bei Industrial Park, Bei Li North Road, Shenzhen, P.R.C
LI Xia	1/F, Block 4, Shui Bei Industrial Park, Bei Li North Road, Shenzhen, P.R.C
CHEN Yin	No. 727, Wai Ma Lu, Huangpu District, Shanghai, P.R.C
<i>Independent non-executive Directors</i>	
LAM Tin Faat	Unit E, 32/F, King Palace Plaza, 55 King Yip Street, Kwun Tong, Kowloon, Hong Kong
LU Haina	Bo Ya Xuan, Ju Ti Yan, Yu Dong Xi Road, Tian He District, Guangzhou, P.R.C
NA Xin	1820, 29th Street, West Vencouver, BC, Canada V7V4M8

##### (b) Biographical details of the Directors and senior management

###### *Executive Directors*

**Mr. Chong Yu Ping (also known as Mr. Zhuang Yu Ping)**, aged 51, is the Chairman of the Company, who is responsible for leading the work of the Board and setting operation direction and investment strategies for the Company. Mr. Chong has over 20 years of relevant experience in the jewellery and investment industry. Prior to joining the Company, Mr. Chong has been appointed as the general manager and executive Director of a private company,

Shenzhen Yihua Jewellery Limited\* and from 2011 to present, he is the director and legal representative of Shenzhen Yihua Jewellery Limited, a company which is a substantial shareholder of the Company. Mr. Chong was appointed as an executive Director and as the Chairman of the Company on 17 February 2016.

**Ms. Li Xia**, aged 44 is the Chief Executive Officer of the Company, who is responsible for the corporate planning and business development of the Company. Ms. Li served in Shanghai Shengqiu Investment Development Limited\*, and was appointed as executive vice president with her experience and strength in jewellery industry. Ms. Li was responsible for administration and human resource management, marketing operations and brand promotion. With her leadership, the company achieved a healthy growth. At the same time, Ms. Li also served as the special-commissioned jewellery operating adviser for Baidi Jewellery to lead the company to achieve excellent results, which made her the veteran in the jewellery business. Ms. Li graduated from Central Luzon State University, Republic of the Philippines with a degree of Bachelor of Science in Business Administration. Ms. Li has been an Executive Director of the Group since 3 July 2012. During the year ended 31 December 2015, Ms. Li was the Chairman and as the Chief Executive Officer of the Company. And Ms. Li resigned as the Chairman of the Company on 17 February 2016.

**Mr. Chen Yin**, aged 36, is an entrepreneur in the Mainland China, who held senior positions in various private companies principally engaged in luxury goods trading business. Mr. Chen obtained the Diploma of Graduate Gemologist, Diploma of Diamonds and Diploma of Colored Stones from the Gemological Institute of America (“GIA”). Mr. Chen has been as an Executive Director of the Group since 3 July 2012.

#### *Independent non-executive Directors*

**Mr. Lam Tin Faat**, aged 42, holds a bachelor degree of business administration from The Chinese University of Hong Kong. He has more than 10 years of experience in financial audit, accounting and financial management. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom and a member of the Institute of Chartered Accountants in England and Wales. Mr. Lam is also the sole proprietor of TF Lam & Company, a CPA practice in Hong Kong, and a director of Top Team Secretary Limited. Mr. Lam has been an independent non-executive Director of the Group since 3 July 2012.

**Ms. Lu Haina**, aged 39, possesses over 8 years of experience in education in relation to jewellery design. From 2005 to 2010, Ms. Lu taught at the school of jewellery of Guangzhou Panyu Polytechnic. Since 2010, Ms. Lu has been teaching at Guangzhou International Economics College. Ms. Lu graduated from Sun Yat-Sen University with a bachelor degree in arts and design and is a holder of a jewellery designer certificate verified by All-China Federation of Industry & Commerce. Ms. Lu has been an independent Nonexecutive Director of the Group since 3 July 2012.

**Ms. Na Xin**, aged 37, was the chief operating officer of 深圳市九華彩珠寶首飾有限公司 (Shenzhen Jiuha Cai Jewellery Co., Ltd), a company specialized in qualified jewellery trading business from 2008 to 2012. She was an assistant to chief executive officer for Little Sheep North America (Vancouver) Branch (小肥羊北美 (溫哥華)分公司) from 2012 to 2013. Ms. Na completed her Bachelor's degree in English in the School of Humanities and Social Science of Beijing Jiaotong University (formerly known as the Northern Jiaotong University) in 2003. Ms. Na has been an independent non-executive Director of the Group since 1 December 2014.

#### *Senior Management*

**Mr. Zhao Zhipeng**, aged 34, was appointed as the authorised representative, compliance officer and company secretary of the Company on 30 June 2015. Mr. Zhao is currently a registered solicitor of the High Court of Hong Kong. He holds the Bachelor degree of laws (PRC Law) awarded by The East China University of Political Science and Law. He was awarded the Master of Laws in Common Law by The Chinese University of Hong Kong in 2007 and the Juris Doctor degree by the City University of Hong Kong in 2009 respectively. Further, in 2011, Mr. Zhao was awarded the Postgraduate Certificate in Laws by the City University of Hong Kong.

**Dr. Chu Junying**, aged 55, received a doctorate degree from Yunnan University. She served as a lecturer in university for 29 years. She became a qualified lawyer in 1994. She specialises in civil and commercial law and is familiar with the legal matters before and after listing. She worked as a legal consultant in various largescale enterprises in Mainland China and is currently served as the Company's legal consultant.

### 15. AUDIT COMMITTEE

The Company has an audit committee established with written terms of reference in compliance with the GEM Listing Rules. The audit committee currently comprises three members, namely Mr. Lam Tin Faat, Ms. Lu Haina and Ms. Na Xin, all of whom are independent non-executive Directors. Mr. Lam Tin Faat is the chairman of the audit committee. The audit committee's principal duties, amongst other things, are to review and supervise the financial reporting process, internal control procedures and risk management systems of the Group.

### 16. MISCELLANEOUS

- (a) This circular and the accompanying form of proxy have been prepared in both English and Chinese. In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.
- (b) The registered office of Sino Eminent is situated at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The sole director of Sino Eminent is Ms. Li Xia of 1/F., Block 4, Shui Bei Industrial Park, Bei Li North Road, Shenzhen, P.R.C. The registered office of Shenzhen Yihua is situated at Room 602, Block 2, Yixing Garden, 3170 Binhe Road, Nanyuan Street, Futian, Shenzhen, PRC\*. The directors of

Shenzhen Yihua are Wang Qian, Chong Yu Ping, Li Yanmin, Zhuang Weizhong and Zhuang Yuyi and their correspondence address is 1/F., Block 4, Shui Bei Industrial Park, Bei Li North Road, Shenzhen, P.R.C.. The registered office of OEIL is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The director of OEIL is Mr. Li Xia. The correspondence address of Ms. Zhuang Rushan, sister of Mr. Chong, is Room 1102, Block 2 Yi Shan Ju, Mei Gang Road, Futian District, Shenzhen, P.R.C.. These persons are the principal members of parties acting in concert with Sino Eminent.

- (c) The executive Directors of the Company are Mr. Chong Yu Ping, Ms Li Xia and Mr. Chen Yin. The independent non-executive Directors are Mr. Lam Tin Faat, Ms. Lu Haina and Ms. Naxin.

#### 17. DOCUMENTS AVAILABLE FOR INSPECTIONS

Copies of the following documents will be available for inspection at Room 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Day, and on the websites of the Company (<http://www.hkjewelry.net/>) and the SFC ([www.sfc.hk](http://www.sfc.hk)) between the period from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the articles of association of the Offeror;
- (c) the annual reports of the Company for the two years ended 31 December 2015 and 2016;
- (d) the third quarterly report of the Company for the period ended 30 September 2017;
- (e) the interim report of the Company for the six months ended 30 June 2017;
- (f) the material contracts (including the Underwriting Agreement) as referred to in the paragraph headed "Material Contracts" in this appendix;
- (g) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix;
- (h) the accountant's report on the unaudited pro forma financial information of the Group from Zhonghui Anda CPA Limited as set out in appendix II of this circular;
- (i) the letter from the Board, the text of which is set out from pages 12 to 32 of this circular;

- (j) the letter from the Independent Board Committee, the text of which is set out on pages 33 to 34 of this circular;
- (k) the letter from Red Sun Capital Limited, the text of which is set out on pages IFA-1 to IFA-26 of this circular; and
- (l) this circular.

\* *For identification purposes only*

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## NOTICE OF SGM

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# YU TAK INTERNATIONAL HOLDINGS LIMITED

## 御德國際控股有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8048)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Yu Tak International Holdings Limited (the “Company”) will be held at Room 901-905, Wing On Centre, 111 Connaught Road Central, Hong Kong at 2 p.m. on Monday, 12 February 2018 for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions which will be proposed as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. **“THAT** subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any delegate of the Executive Director) (the “Executive”), the waiver of the obligation on the part of Sino Eminent Limited to make a mandatory general offer to shareholders of Company for all the issued ordinary shares of the Company not already owned or agreed to be acquired by the Concert Group (as defined in the circular of the Company dated 19 January 2018 (“Circular”)) upon the Rights Issue (as defined in the Circular) pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “Whitewash Waiver”) be and is hereby approved.”
2. **“THAT** conditional upon (i) the grant of the Whitewash Waiver by the Executive and the fulfilment of all conditions (if any) attached to it; and (ii) the fulfilment of the conditions of the Underwriting Agreement (as defined in the Circular, a copy of which has been produced to this meeting marked “A” and signed by the chairperson of this meeting for the purpose of identification, and such agreement not being terminated in accordance with its terms,
  - (a) the allotment and issue by way of rights issue of 594,230,000 Rights Shares (as defined in the Circular) at HK\$0.10 per Rights Share to the Qualifying Shareholders (as defined in the Circular) whose names appear on the register of members of the Company on 27 February 2018 on the basis of one Rights Share for every two existing Shares held on the Record Date (as defined in the Circular) (the “Rights Issue”) and otherwise on the terms and conditions as set out in the Circular be and is hereby approved;

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## NOTICE OF SGM

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- (b) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue to the Qualifying Shareholders and, in particular, the Directors may make such exclusion or other arrangements in relation to the Non-Qualifying Shareholders (as defined in the Circular) as they deem necessary or expedient having regard to any restrictions or obligations under the laws and/or regulations of, or the rules and/or requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
- (c) any one Director be and is hereby authorised to sign and execute such documents (including but not limited to deeds) and do all such acts and things incidental to the Rights Issue as he considers necessary or otherwise expedient in connection with the implementation of or giving effect to the Rights Issue and the transactions contemplated thereunder or in this resolution.”
3. “**THAT** subject to the passing of each of the resolutions numbered 1 and 2 set out in this notice of meeting:
- (a) the entering into the Underwriting Agreement by the Company be and is hereby approved, confirmed and ratified and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Rights Shares, if any, by Sino Eminent Limited, the sole underwriter) be and are hereby approved; and
- (b) any one Director be and is hereby authorised to sign and execute such documents (including but not limited to deeds) and do all such acts and things incidental to the Underwriting Agreement as he considers necessary or otherwise expedient in connection with the implementation of or giving effect to the Underwriting Agreement (including without limitation entering into supplemental agreement(s) in relation to the Underwriting Agreement) and the transactions contemplated thereunder or in this resolution.”

By Order of the Board  
**Yu Tak International Holdings Limited**  
**Chong Yu Ping**  
*Chairman*

Hong Kong, 19 January 2018

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal Place of Business in Hong Kong:*  
Rm A & B, 17/F

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## NOTICE OF SGM

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Fortune House  
61 Connaught Road Central  
Hong Kong

*Notes:*

1. A form of proxy for use at the SGM or any adjournment thereof is enclosed.
2. A member of the Company entitled to attend and vote at the Special General Meeting convened by the above notice is entitled to appoint one or more proxy(ies) to attend and, subject to the Bye-Laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must present in person at the Special General Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
3. In order to be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for the holding of the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Special General Meeting, if he/she so wish.
4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The register of members of the Company will be closed from Tuesday, 6 February 2018 to Monday, 12 February 2018 (both days inclusive), during which period no transfer of shares in the Company shall be registered. In order to qualify for the proposed SGM, all transfers, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 5 February 2018.
6. A circular containing, inter alia, details of (i) the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder, will be dispatched to the shareholders of the Company.
7. Shareholders of the Company or their proxies shall produce documents of their proof of identity when attending the meeting.
8. If Typhoon Signal no. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the SGM, the meeting will be postponed. The Company will post an announcement on the website of Company at [www.hkjewelry.net](http://www.hkjewelry.net) and on the HKExnews website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) to notify Shareholders of the date, time and place of the rescheduled meeting.