
LETTER FROM THE BOARD

CHINA NEW CONSUMPTION GROUP LIMITED

中國新消費集團有限公司

(Formerly known as “STATE INNOVATION HOLDINGS LIMITED 國科控股有限公司”)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8275)

Executive Director:

Mr. Tang Kwai Leung Stanley

Independent non-executive Directors:

Mr. He Dingding

Ms. Chan Tsz Hei Sammi

Ms. Liu Ching Man

Registered office:

Windward 3, Regatta Office Park

PO Box 1350, Grand Cayman

KY1-1108

Cayman Islands

Principal place of business in Hong Kong:

Room 1204, 12/F, Block 2

Golden Industrial Building

16–26 Kwai Tak Street

Kwai Chung, New Territories

Hong Kong

11 July 2023

To the Shareholders

Dear Sir or Madam,

RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE

INTRODUCTION

Reference is made to the announcements of the Company dated 17 February, 24 February, 3 March, 10 March, 13 March 2023 and the Circular, in relation to, among other things, the Rights Issue. The Board proposed to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date at the Subscription Price of HK\$0.147 per Rights Share to raise HK\$35.28 million by issuing 240,002,067 Rights Shares to the Qualifying Shareholders. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders (if any).

At the EGM convened and held on 12 April 2023, the necessary resolution for approving, among other things, the Rights Issue including the Placing Agreement and the transactions contemplated respectively thereunder was duly passed by the Independent Shareholders.

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The purpose of this Prospectus is to provide you, among other things, details of the Rights Issue, certain financial information and other general information of the Company as required under the GEM Listing Rules.

RIGHTS ISSUE

Issue statistics

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| Basis of the Rights Issue | : | Three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date |
| Subscription Price | : | HK\$0.147 per Rights Share |
| Number of Shares in issue as at the Latest Practicable Date | : | 160,001,378 Shares |
| Number of Rights Shares | : | Up to 240,002,067 Rights Shares |
| Aggregate nominal value of the Rights Shares | : | Up to HK\$2,400,020.67 |
| Number of Shares as enlarged by the allotment and issue of the Rights Shares | : | Up to 400,003,445 Shares |

As at Latest Practicable Date, the 2022 CB Placing is not completed. The Company have mutually agreed with the CB Placing Agent that the 2022 CB Placing will not be completed on or before the Record Date, therefore there is no Bondholder on or before the Record Date, and the Bondholder(s) are not entitled to participate in the Rights Issue.

As at the Latest Practicable Date, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

240,002,067 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 150% of the total number of issued Shares as at the Latest Practicable Date; and (ii) 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

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Non-underwritten basis

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent placees on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Rights Shares and NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue. As the Rights Issue will proceed on a non-underwritten basis, any Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

As at the Latest Practicable Date, the Board has not received any information from any Shareholders of their intention to take up their entitlement under the Rights Issue nor any undertaking from any Shareholders that they will undertake to subscribe for the Rights Shares.

Despite the Rights Issue is conducted on a non-underwritten basis, any Rights Shares not subscribed by the Qualifying Shareholders (i.e. the Unsubscribed Rights Shares), including the NQS Unsold Rights Shares (if any) will be placed by the Placing Agent on the market to independent placees on a best effort basis.

Subscription Price

The Subscription Price is HK\$0.147 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of 26.50% to the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (ii) a discount of approximately 26.50% to the average of the closing prices of approximately HK\$0.200 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 28.29% to the average of the closing prices of approximately HK\$0.205 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 34.38% to the average of the closing prices of approximately HK\$0.224 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 12.50% to the theoretical ex-rights price of approximately HK\$0.168 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represent a discount of approximately 16.00%, represented by the theoretical diluted price of approximately HK\$0.168 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.200 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date of approximately HK\$0.200 per Share) of HK\$0.200 per Share;
- (vii) a cumulative theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) in aggregation with the 2022 Rights Issue and the 2022 CB Placing represented by a discount of approximately 22.17%, represented by the cumulative theoretical diluted price of approximately HK\$0.932 per Share to the benchmarked price of HK\$0.725 per Share in respect of the 2022 Rights Issue and the 2022 CB Placing (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the benchmarked price of the 2022 Rights Issue, being HK\$0.725 per Share and the benchmarked price of HK\$0.417 of the 2022 CB Placing which was at a premium);
- (viii) a discount of 88.52% to the closing price of HK\$1.280 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (ix) a discount of approximately 67.48% to the audited net asset value per Share of approximately HK\$0.452 (based on the latest published consolidated net asset value of the Group of approximately HK\$72,290,000 as at 31 March 2023 as disclosed in the annual report of the Company for the year ended 31 March 2023 and 160,001,378 Shares in issue as at the Latest Practicable Date).

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The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.140. The estimated Net Proceeds (assuming no change in the number of Shares in issue on or before the Record Date) after deducting the related expenses of the Rights Issue will be approximately HK\$33.48 million.

The Subscription Price and the subscription rate (i.e. three (3) Rights Shares for every two (2) Shares held on the Record Date) was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (iii) the latest business performance and financial position of the Group; and (iv) the reasons for and benefits of Rights Issue as discussed in the section headed “REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS” in this Prospectus.

In determining the Subscription Price, which represents a discount of 26.50% to the closing price of HK\$0.200 per Share on the Last Trading Day, the Directors have considered, among other things as mentioned above, market price of the Shares traded on the Stock Exchange from 18 November 2022 to the Last Trading Day, representing approximately three months prior to and including the Last Trading Day (the “**Relevant Period**”), as a benchmark to reflect the prevailing market conditions and recent market sentiment. During the Relevant Period, the Shares were traded on the Stock Exchange with closing price ranges between the lowest closing price of HK\$0.199 per Share on 10 February 2023 and the highest closing price of HK\$0.375 per Share on 2 December and 5 December 2022. In general, the daily closing price per Share during the Relevant Period demonstrates a downward trend.

The Directors consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account that (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue can sell the nil-paid rights in the market; (ii) the Rights Issue allows the Qualifying Shareholders to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company; (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group; and (iv) as the daily closing price per Share during the Relevant Period demonstrates a downward trend, the Subscription Price which represents a discount to the closing price on the Latest Trading Day can attract the Qualifying Shareholders to participate in the Rights Issue.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. The Company has sent the Prospectus Documents to the Qualifying Shareholders only. For the Non-Qualifying Shareholders, the Company has sent copies of the Prospectus to them for their information only, but no PAL has been sent to the Non-Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company, and not be a Non-Qualifying Shareholder on the Record Date.

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

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted.

Overseas Shareholders

The Prospectus are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders, if any, may not be eligible to take part in the Rights Issue.

According to the register of members of the Company as at the Record Date, there was no Overseas Shareholders with registered addresses situated outside Hong Kong.

The Company reserves the right to treat as invalid any acceptance of or application 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.

Basis of provisional allotment

The basis of the provisional allotment shall be three (3) Rights Shares for every two (2) Shares in issue and held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Prospectus Documents.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance. There will be no excess application arrangements in relation to the Rights Issue.

Fractional entitlements to the Rights Shares

No fractional entitlements to the Rights Shares shall be issued to the Shareholders and no entitlements of the Non-Qualifying Shareholders to the Rights Shares shall be issued to the Non-Qualifying Shareholders. All fractions of the Rights Shares shall be rounded down to the nearest whole number of Rights Shares and aggregated and, if a premium (net of expenses) can be achieved, sold in the market by the Company.

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Odd lots matching services

In order to facilitate the trading of odd lots of the Rights Shares arising from the Rights Issue, the Placing Agent has been appointed as designated broker by the Company to match the purchase and sale of odd lots of the Shares at the relevant market price per Share. The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholder; and (ii) they are Independent Third Parties. Holders of the Shares in odd lots represented by valid share certificates for the Shares who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full board lot, may directly or through their brokers, contact the Placing Agent at (852) 2844-9876 or by facsimile at (852) 2526-0618 during the period from 9:00 a.m. on Thursday, 13 July 2023 to 4:00 p.m. on Friday, 18 August 2023 (both days inclusive). Holders of odd lots of Shares should note that successful matching of the sale and purchase of odd lots of Shares is on a best effort basis and not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers.

Procedures for acceptance and payment or transfer

A PAL is enclosed with this Prospectus which entitles the Qualifying Shareholder(s) to whom it is addressed to subscribe for the number of Rights Shares shown therein. If a Qualifying Shareholder wishes to accept all the Rights Shares provisionally allotted to him/her/it as specified in the PAL, he/she/it must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance with the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by not later than 4:00 p.m. on Tuesday, 25 July 2023. All remittances must be made in Hong Kong dollars by cheques which must be drawn on an account with, or by cashier's orders which must be issued by, a licensed bank in Hong Kong and made payable to "TRICOR TRUST (HONG KONG) LIMITED – A/C NO. 34" and crossed "ACCOUNT PAYEE ONLY". It should be noted that unless the PAL, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Tuesday, 25 July 2023, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled. The Company may, at its sole discretion, treat a PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged even if the PAL is not completed in accordance with the relevant instructions. The Company may require such incomplete PAL to be completed by the relevant applicants at a later stage.

If a Qualifying Shareholder wishes to accept only part of his/her/its provisional allotment or transfer part of his/her/its rights to subscribe for the Rights Shares provisionally allotted to him/her/it under the PAL or to transfer part or all of his/her/its rights to more than one person, the entire PAL must be surrendered and lodged for cancellation by not later than 4:30 p.m. on Monday, 17 July 2023 to the Registrar, who will cancel the original PAL and issue new PALs in the denominations required which will be available for collection from the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, after 9:00 a.m. on the second Business Day after the surrender of the original PAL.

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

If the conditions of the Rights Issue as set out in the section headed "Conditions of the Rights Issue" below are not fulfilled, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders to their registered addresses by the Registrar on or before Thursday, 3 August 2023.

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

Status of the Rights Shares

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

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on Thursday, 3 August 2023. Refund cheques in respect of wholly or partially unsuccessful applications for Rights Shares (if any) are expected to be posted on or before Thursday, 3 August 2023 by ordinary post, at the respective Shareholders' own risk, to their registered addresses.

Stamp duty and other applicable fees

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

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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. It is emphasised that none of the Company, the Directors nor any other parties involved in the Rights Issue accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposal of, dealings in or exercising any rights in relation to the Shares or the Rights Shares.

Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the Compensatory Arrangements

According to Rule 10.31(1)(b) of the GEM Listing Rules, the Company will make arrangements to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the Rights Issue. Accordingly, on 17 February 2023(after trading hours), the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees on a best effort basis.

Pursuant to the Placing Agreement, the Company has appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares during the Placing Period to independent placees on a best effort basis, and any premium over the Subscription Price for those Rights Shares that is realised will be paid to those No Action Shareholders on a pro-rata basis. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m. on Monday, 31 July 2023, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares. Any Unsubscribed Rights Shares and the NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Net Gain (if any) will be paid (without interest) to the No Action Shareholders as set out below on pro rata basis (but rounded down to the nearest cent):

- A. the relevant Qualifying Shareholders (or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed) whose nil-paid rights are not validly applied for in full, by reference to the extent that Shares in his/her/its nil-paid rights are not validly applied for; and
- B. the relevant Non-Qualifying Shareholders with reference to their shareholdings in the Company on the Record Date.

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If and to the extent in respect of any Net Gain, any No Action Shareholders become entitled on the basis described above to an amount of HK\$100 or more, such amount will be paid to the relevant No Action Shareholder(s) in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

Application for listing of the Rights Shares

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

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 be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of the dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The nil-paid and fully-paid Rights Shares will be traded in board lots of 20,000 Shares. No part of the securities of the Company is listed or dealt in or on which listing or permission to dealing is being or is proposed to be sought on any other stock exchange.

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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Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (i) the Rights Issue having been approved by the Independent Shareholders at the EGM;
- (ii) the delivery to the Stock Exchange for authorization and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their attorneys or agents duly authorised in writing) in accordance with section 342C of the Companies (WUMP) Ordinance as having been approved by resolutions of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies (WUMP) Ordinance not later than the Prospectus Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders by no later than the Prospectus Posting Date;
- (iv) the GEM Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and the permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) by no later than the business day prior to the first day of their dealings;
- (v) compliance with the requirements under the applicable laws and regulations of Hong Kong and Cayman Islands; and
- (vi) the Placing Agreement not being terminated.

The Company shall use its reasonable endeavours to procure the fulfilment of the conditions above (to the extent it is within its power to do so), and shall do all the things required to be done by it pursuant to the Prospectus Documents or otherwise reasonably necessary to give effect to the Rights Issue. If any of the above conditions are not fulfilled on or before the Latest Time for Termination, the Rights Issue will not proceed. As at the Latest Practicable Date, the above condition (i) is fulfilled and all the other conditions remain unfulfilled.

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Placing Agreement for the Unsubscribed Rights Shares and NQS Unsold Rights Shares

Details of the Placing Agreement are summarised as follows:

Date : 17 February 2023 (after trading hours)

Issuer : The Company

Placing Agent : Excalibur Global Financial Group Limited

The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholder; and (ii) they are Independent Third Parties.

Placing Period : A period commencing from the first Business Day after the date of announcement of the number of Unsubscribed Rights Shares and the NQS Unsold Rights Shares, which is expected to be Thursday, 27 July 2023, and ending at the 4:00 p.m. on Monday, 31 July 2023.

Commission and expense : Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 2.5% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and NQS Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.

Placing price of the Unsubscribed Rights Shares and NQS Unsold Rights Shares : The placing price of the Unsubscribed Rights Shares and NQS Unsold Rights Shares shall be not less than the Subscription Price and the final price determination will be depended on the demand for and the market conditions of the Unsubscribed Rights Shares and NQS Unsold Rights Shares during the process of placement.

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Placees : The Unsubscribed Rights Shares and NQS Unsold Rights Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies).

For the avoidance of doubt, no placee shall become a substantial shareholder of the Company as a result of the Placing. The Company will continue to comply with the public float requirements under Rule 11.23(7) of the GEM Listing Rules and the Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.

Ranking of the placed Unsubscribed Rights Shares and NQS Unsold Rights Shares : The placed Unsubscribed Rights Shares and NQS Unsold Rights Shares (when allotted, issued and fully paid, if any) shall rank *pari passu* in all respects among themselves and with the existing Shares in issue as at the date of completion of the Rights Issue.

Conditions of the Placing Agreement : The Placing is conditional upon the fulfillment of the following conditions:

- (i) the GEM Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Rights Shares, including the Placing Shares;
- (ii) the approval of the Rights Issue by the Independent Shareholders at the EGM;

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- (iii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and
- (iv) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events.

In the event that the above condition precedents have not been fulfilled or waived (where applicable) on or before the Latest Time for Termination, all rights, obligations and liabilities of the parties thereunder in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing (save for any antecedent breaches thereof). As at Latest Practicable Date, the above condition (ii) is fulfilled and all the other conditions remain unfulfilled.

The terms of the Placing Agreement, including the commission payable, was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms with reference to (i) the market comparables including the average placing commission of 2.94% of the recent proposed rights issue announced by the companies listed on GEM of the Stock Exchange within 12 months prior to the Last Trading Day; (ii) the net loss attributable to owners of the Company of approximately HK\$20.5 million recorded by the Group for the nine months ended 31 December 2022; (iii) the gross proceeds of the Rights Issue of HK\$35.28 million; and (iv) the downward trend of the daily closing price of the Shares of the Company during the Relevant Period. The Directors consider that the terms of Placing Agreement in respect of the Unsubscribed Rights Shares and NQS Unsold Rights Shares (including the commission payable) are on normal commercial terms.

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As explained above, the Unsubscribed Rights Shares and NQS Unsold Rights Shares will be placed by the Placing Agent to independent placees on a best effort basis for the benefits of the No Action Shareholders. If all or any of the Unsubscribed Rights Shares and NQS Unsold Rights Shares are successfully placed, any premium over the Subscription Price will be distributed to the relevant No Action Shareholders.

The Board is of the view that the above Compensatory Arrangements are fair and reasonable and are in the best interests of the Shareholders as a whole:

- (i) the arrangements are in compliance with the requirements under Rule 10.31(1)(b) of the GEM Listing Rules under which the No Action Shareholders may be compensated even if they do nothing (i.e. neither subscribe for Rights Shares nor sell their nil-paid rights) because under the arrangements, the Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be first offered to Independent Third Parties and any premium over the Subscription Price will be paid to the No Action Shareholders. The commission payable to the Placing Agent and the related fees and expenses in relation to such placing will be borne by the Company;
- (ii) the Compensatory Arrangements (including the determination of the placing price) will be managed by an independent licensed placing agent which is subject to the stringent code of conduct over, among others, pricing and allocation of the placing Shares. The Placing Agent and its ultimate beneficial owner(s) (i) are not Shareholder; and (ii) are Independent Third Parties; and
- (iii) the Compensatory Arrangements will not only provide an additional channel of participation in the Rights Issue for the Qualifying Shareholders and the Non-Qualifying Shareholders, it also provides a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company.

REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is a foundation contractor primarily specialising in bored piling works as well as other foundation works. The Group is also engaged in leasing of machinery. As stated in the announcement of the Company dated 13 May 2022, in order to enhance the future competitiveness and influence, the Group has a plan to develop new business segments in the field of technological innovation, on the basis of consolidating its existing businesses.

The maximum net proceeds of the Rights Issue, after deducting all relevant expenses are estimated to be approximately HK\$33.48 million (assuming no change in the number of Shares in issue on or before the Record Date). The estimated net subscription price per Rights Share after deducting the relating expenses of the Rights Issue will be approximately HK\$0.140. The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately 55.26% (or approximately HK\$18.50 million) will be used for the expansion of the foundation business

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capacity of the Group; (ii) approximately 22.40% (or approximately HK\$7.50 million) will be used for the development of the AI business, including but not limited to AI translation; and (iii) approximately 22.34% (or approximately HK\$7.48 million) will be used as the general working capital of the Group.

The Construction Business

In order to consolidate Group's foundation business and expand its capacity, the Group plans to acquire sets of pile casing, with cost of HK\$18.50 million. The pile casing is important equipment in the foundation work, it is used to stabilize the drilled shaft excavation and then removed after or during placement of fluid concrete.

Over the years, the Group has periodically leased construction equipment from third-party construction equipment rental services providers to supply its foundation service capacity when its self-owned equipment has been under deployment or unavailable. Occasionally, the third-party construction equipment rental services providers may not be able to provide the construction machinery on time, which may cause the schedule delay in construction projects and increase the construction costs.

According to the 2022–23 Budget announced by the Hong Kong government, the annual capital expenditure on infrastructure will reach approximately HK\$100 billion and approximately 15,200 transitional housing units will be introduced in the next few years. Taking into consideration the long term development of the Hong Kong construction industry in light of the 2022–23 Budget, the Directors consider that there will be an increase in demand for the Group's foundation services. In order to capture the growing demand for foundation services in Hong Kong, it is part of the Group's business strategy to enhance the variety and quantity of its foundation equipment in order to strengthen its service capacity and enhance its market position in Hong Kong.

Based on the aforesaid and in light of the growing demand of construction service in Hong Kong, the Board considers that it is in the interest of the Group to acquire additional sets of pile casing for the provision of foundation services taking into account the followings:

- (i) acquisition of the pile casings can reduce the risk of unavailability of the pile casings from third-party construction equipment rental services providers, thereby facilitating the Group in fulfilling its project schedule; and
- (ii) the Group can lease the pile casings to other foundation services providers to increase revenue of the Group while the pile casing is idle.

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The AI Business

In order to develop new business segments in the field of technological innovation, the Company intend to use the relevant Net Proceeds to set up the AI business by hiring team for operation of the AI business and developing and/or acquiring the respective AI system. The Company may either hire a team of talents to develop the respective AI system or to acquire the system with further enhancement. The Company expects that the total fund required to develop the AI business is approximately HK\$7.50 million. As at the Latest Practicable Date, the Company had not yet enter into any agreement in relation to the AI business.

The AI translation system customises the process of translation and create a memory of files to provide a customised categorisation, glossary and style for each user. The application of AI system can enhance work efficiency, increase the cost effectiveness and decrease the risk arise from human error.

The AI, coined as a term at the Dartmouth Conference in 1956, has evolved from symbolic AI which tried to teach computers how to reason abstractly to the point today where some people have speculated an era that robots will soon be replacing human jobs. While AI is rapidly developing as an inevitable component of emerging technologies, there is no widely accepted definition of it. AI generally refers to a machine-based system (especially a computer system) that can accomplish tasks requiring skills and abilities associated with human intelligence, such as visual and speech recognition, reasoning, learning and problem solving. In recent years, AI has developed not only as a field of research, but also as a technology that expands across a wide range of applications. It is estimated that AI has the potential to reshape the competitive landscape of companies and jobs, as well as delivering additional HK\$123.1 trillion to the global gross domestic product in 2030.

The “Outline of the 14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035*” (中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要) approved by the National People’s Congress of the PRC set out the plan to develop China into an innovative country and a strong country in science and technology, also expressed clear support for Hong Kong’s development into an international innovation and technology hub.

According to the McKinsey Survey, half of its respondents from a variety of industries have adopted AI to serve at least one function in their company, and it has increased the revenue. Businesses use AI for inventory, sales forecasting, pricing optimization and other purposes, including the translation especially in international trade. AI translation tools are capable to work with the traditional text and even offer instant translation during audio and video calls. Comparing to the traditional translation tools, AI translation has significant advance in the cost and productivity.

* For identification purpose only

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The Company will charge the AI business customers on different terms depending on the needs of the users, including but not limited to (i) monthly subscription with a monthly fee covering a certain amount and type of services provided; or (ii) by each word/page translated. As an international commercial hub, the Directors believe that accurate and efficient translation is widely needed in many different industries in Hong Kong especially finance related businesses.

As at Latest Practicable Date, the Company is in negotiation with potential partners and has identified relevant system and platform to acquire. The Board plans to complete the setup of the AI business segment by the end of 2023 and commence at early 2024.

In the light of the above mentioned, considering (i) the ever-increasing market demand of the AI translation tools for the recovering international business; (ii) high level of academic research of AI technology in Hong Kong; and (iii) PRC has expressed clear support for Hong Kong's development into an international innovation and technology hub, the Board believes that the applied AI industry has a promising prospect, therefore that developing AI business will enable the Group to benefit from diversified revenue streams and will drive the development of the Company's financial business and accelerate its expansion.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the Net Proceeds cannot be ascertained at this moment. In the event that the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the Net Proceeds from the Rights Issue are expected to be utilised with proportional reductions in the same usage scenarios as above. The Company may also consider other fund raising alternatives including but not limited to debt financing, in the event that the Rights Issue is undersubscribed.

The Board has considered various ways of raising funds and believe that the Rights Issue is the most efficient way in terms of time and costs for the Company. The Board considers it is prudent to finance the Group's long-term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs. In addition, the Company had preliminarily consulted brokerage companies for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation apart from the Placing Agent who expressed its interest in acting as a placing agent on best effort basis.

The Board has considered other fundraising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. The Company has contacted with certain banks for securing bank loan facilities, upon the discussion, the Board considers that the debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations, as at 30 September 2022, the gearing ratio of the Group, calculated as the total debts divided by the total equity, was approximately 13.9%. In addition, debt financing may not be achievable on favourable terms in a timely manner. As for equity fund raising, such as placing of new Shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the

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Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market. On the other hand, the Board considers that the Rights Issue, being pre-emptive in nature, would allow all Qualifying Shareholders to participate in the future development of the Company and at the same time offer more flexibility to the Qualifying Shareholders to choose whether to maintain, increase or decrease their respective pro rata shareholdings in the Company by taking up only their respective rights entitlement, acquiring additional rights entitlement or disposing of their rights entitlements in the open market (subject to availability).

The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders (if any) should note that their shareholdings in the Company will be diluted.

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

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue (assuming all Shareholders have taken up their entitled Rights Shares); (iii) immediately after completion of the Rights Issue (assuming none of the Shareholders have taken up any entitled Rights Share); (iv) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds); and (v) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of

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issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds), for illustration purposes only, assuming there are no changes in the share capital of the Company on or before the Record Date:

| | (i) As at the Latest Practicable Date | (ii) Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders | (iii) Immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent | (iv) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds) | (v) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds) |
|---|---------------------------------------|--|---|---|--|
| | Number of issued Shares | Number of issued Shares | Number of issued Shares | Number of issued Shares | Number of issued Shares |
| | Approx. % | Approx. % | Approx. % | Approx. % | Approx. % |
| Mr. Lam Yu Chor (Note 1) | 33,098,750 | 82,746,875 | 33,098,750 | 82,746,875 | 33,098,750 |
| Ms. Wong Fei Heung Terbe (Note 2 and 3) | 21,790,000 | 54,475,000 | 21,790,000 | 54,475,000 | 21,790,000 |
| Other public Shareholders | 105,112,628 | 262,781,570 | 105,112,628 | 262,781,570 | 105,112,628 |
| Independent places | - | - | 240,002,067 | - | 240,002,067 |
| Bondholders | - | - | - | 54,545,454 | 54,545,454 |
| Total | 160,001,378 | 400,003,445 | 400,003,445 | 454,548,899 | 454,548,899 |

Notes:

- Mr. Lam Yu Chor ("Mr. Lam") legally and beneficially owns the entire issued share capital of Goldstone Wealth Management Limited ("Goldstone"), which is the general partner of Goldstone 1 LPF. Therefore, Mr. Lam is deemed, or taken to be, interest on all Shares held by Goldstone for the purpose of the SFO. Mr. Lam is the director of Goldstone.
- Ms. Wong Fei Heung Terbe ("Ms. Wong") legally and beneficially owns the entire issued share capital of Success Run International Limited ("Success Run"). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 18,350,000 Shares held by Success Run for the purpose of the SFO. Ms. Wong is the sole director of Success Run.
- Ms. Wong legally and beneficially owns the entire issued share capital of Lion Spring Enterprises Limited ("Lion Spring"). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 3,440,000 Shares held by Lion Spring for the purpose of the SFO. Ms. Wong is the director of Lion Spring.

As illustrated in the above table, if the Shareholders elect not to participate in the Rights Issue, their shareholding interests in the Company will be diluted by approximately 60%.

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FUND RAISING EXERCISE IN THE PAST TWELVE MONTHS

The Company has conducted the following equity fund raising activities during the twelve months immediately preceding the date of the Announcement and up to the Latest Practicable Date:

| Date of Announcement | Event | Net proceeds raised (Approximately) | Proposed use of proceeds | Actual use of proceeds as at the date of the Announcement |
|----------------------|---|-------------------------------------|---|---|
| 24 February 2022 | Rights issue on the basis of three rights shares for every two shares | HK\$42.6 million | (i) approximately HK\$3.1 million for repayment of the principal amount and interest accrued thereon of the promissory notes issued by the Company on 13 December 2021 to China New Economy Fund Limited in the principal amount of HK\$3.0 million with an interest of 8% per annum due six months after the date of issue of the promissory notes (i.e. 13 June 2022); (ii) approximately HK\$20 million for the acquisition of a new office premise and the relevant renovation cost; (iii) approximately HK\$7 million for recruitment of additional full-time staff who will be responsible for implementing and overseeing quality control to enhance the Group's operational capacity and efficiency in foundation and site formation works and bored piling works, as well as additional full-time staff who will be responsible for business development to acquire more business opportunities and broaden the sources of income; | All net proceeds have been fully utilised as intended. The net proceeds in the amount of HK\$17.6 million have been utilised as intended. All net proceeds had not been utilised. |

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| Date of Announcement | Event | Net proceeds raised (Approximately) | Proposed use of proceeds | Actual use of proceeds as at the date of the Announcement |
|-------------------------|--|---|---|---|
| | | | (iv) approximately HK\$3 million for business development and marketing expenses in order to expand the Group's customer base and acquire more projects; and | The net proceeds in the amount of HK\$1.2 million have been utilised as intended. |
| | | | (v) the remaining balance of approximately HK\$9.5 million for general working capital due to the tightened cash flow of the Group as a result of the negative impacts of the COVID-19 pandemic on the foundation industry including supply chain disruptions, workforce shortages due to illness and preventative quarantines, and work stoppages due to measures imposed by the government. | All net proceeds have been utilised as intended. |
| 2 September 2022 | Placing of Convertible Bonds | HK\$29.4 million | For the financial assistance business | As at Latest Practicable Date, the 2022 CB Placing is not completed. |
| 11 November 2022 | Placing of new shares under general mandate | HK\$6.5 million | For the general working capital of the Group | All net proceeds have been utilised as intended. |

Save as disclosed above, the Company did not raise any other funds by issue of equity securities during the twelve months immediately preceding the date of the Announcement and up to the Latest Practicable Date.

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GEM LISTING RULES IMPLICATIONS

As the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the EGM 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 (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue.

As at the date of the EGM, (i) the Company did not have any controlling shareholder; and (ii) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors or the chief executive of the Company or their respective associates were interested in any Share, therefore no Shareholders were required to abstain from voting of the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules.

The Rights Issue (whether on its own or when aggregated with the 2022 Rights Issue and the 2022 CB Placing) does not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

As at Latest Practicable Date, save for the Rights Issue, the Placing, the Company did not have any plan and had not entered into any negotiation, agreement, arrangement or undertaking to conduct any other corporate action or arrangement that may affect the trading of the Company's shares in the next 12 months.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors believe that there are certain risks and uncertainties involved in the operations, some of which are beyond the Group's control. In compliance with the GEM Listing Rules, the Company sets out below the risk factors of the Group for the Shareholders' attention.

Risk relating to the Group

- (i) the Group determines project price based on the estimated time and costs involved in a project, which may deviate from actual time and costs incurred. Inaccurate estimation may adversely affect its financial results;
- (ii) the Group's foundation works are exposed to the risk of unexpected geological or sub-soil conditions;
- (iii) non-performance, delayed performance, sub-standard performance, non-compliance or unavailability of the Group's subcontractors may adversely affect its operation and profitability;

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- (iv) the Group's customers pay us by way of progress payment and require retention money, and there is no guarantee that progress payment will be paid to us on time and in full, or that retention money is fully released to us upon completion of a project;
- (v) the Group's business operations depend on the expertise and continuing performance of our key management personnel and there is no assurance that our Group can hire and retain them; and
- (vi) the Group's business operations depends on the Group's suppliers for construction materials and supplies, and any shortage or delay of supply, or deterioration in the quality, of the same could materially and adversely affect our operations, and the Group may not be able to identify an alternative source of stable supply with acceptable quality and price.

Risk relating to the Share price

The price and trading volume of the Shares are determined by demand and supply of investors for the Shares on the open market and may be highly volatile. Factors such as variations in the Group's revenue, earnings and cash flows, changes in or challenges to its business, announcements of new investments, acquisitions or disposals, the depth and liquidity of the market for the Shares, investors' perceptions of the Group and general political, economic, social and market conditions both globally and in Hong Kong could cause the market price of the Shares to change substantially.

Risk relating to the Rights Issue

Under the Placing Agreement, the Placing Agent shall be entitled by notice in writing to the Company to terminate its obligations upon the occurrence of any of the terminating events as stipulated under the Placing Agreement on or before the Latest Time for Termination.

Moreover, should the Rights Issue proceed as intended, the interest of the existing Shareholders will be diluted if they do not or cannot, as the case may be, subscribe for the Rights Shares which they are entitled to.

Economic and political risks

The business operations of the Group are primarily based in Hong Kong and the PRC, any significant change in the general economic and political developments in Hong Kong and the PRC may adversely affect the Group's operations and financial position.

Additional risks

Additional risks and uncertainties not presently known to the Directors, or not expressed or implied above, or otherwise deemed immaterial by the Directors as at the Latest Practicable Date, may also adversely affect the business of the Group in a material aspect.

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

The Shares have been dealt on an ex-rights basis from Monday, 17 April 2023. Dealings in the nil-paid rights are expected to take place from Thursday, 13 July 2023 to Thursday, 20 July 2023 (both days inclusive). If the conditions of the Rights Issue (please refer to the paragraph headed “Conditions of the Rights Issue” in this Prospectus) are not fulfilled, the Rights Issue will not proceed.

Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or the nil-paid rights is advised to exercise caution when dealing in the Shares and/ or the nil-paid rights.

The Rights Issue will proceed on a non-underwritten basis irrespective of the acceptance of the provisionally allotted Rights Shares. Any person who is in any doubt about his/ her/its position or any action to be taken is recommended to consult his/her/its own professional advisor(s). Any Shareholder or other person dealing in the Shares or in the nil-paid rights up to the time at which the Rights Issue becomes unconditional will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this Prospectus. In the event that any inconsistency between English and Chinese version of this Prospectus, the English will prevail.

By Order of the Board
China New Consumption Group Limited
Tang Kwai Leung Stanley
Chairman and Executive Director

