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## **Heng Fai Enterprises Limited**

**恒輝企業控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 185)**

### **PROPOSED CAPITAL REDUCTION**

The Board announces that the Company proposes to put forward for approval by the Shareholders at the EGM a proposal to eliminate an amount of HK\$800,000,000 standing to the credit of the Company's share capital account. The credit arising from the Proposed Capital Reduction will be applied to offset the entire Accumulated Losses of HK\$650,820,000 as at 31 March 2014 with the remaining balance of such credit of HK\$149,180,000 to be transferred to a capital reduction reserve account of the Company.

The Proposed Capital Reduction is conditional on, among other things, (i) all the Directors making a solvency statement in relation to the Proposed Capital reduction in accordance with the Companies Ordinance; (ii) the passing of a special resolution by the Shareholders in the EGM approving the Proposed Capital Reduction; and (iii) the registration of the relevant documents with the Registrar in accordance with the Companies Ordinance.

A circular containing further details concerning the Proposed Capital Reduction and a notice convening the EGM to approve the Proposed Capital Reduction will be despatched to the Shareholders as soon as practicable.

#### **Introduction**

The Board announces that the Company proposes to put forward for approval by the Shareholders at the EGM a proposal to eliminate an amount of HK\$800,000,000 standing to the credit of the Company's share capital account. The credit arising from the Proposed Capital Reduction will be applied to offset the entire Accumulated Losses of HK\$650,820,000 as at 31 March 2014 with the remaining balance of such credit of HK\$149,180,000 to be transferred to a capital reduction reserve account of the Company.

## **Conditions of the Proposed Capital Reduction**

The Proposed Capital Reduction is conditional upon the fulfillment of the following conditions:

- (i) all the Directors making a solvency statement in relation to the Proposed Capital Reduction in accordance with the Companies Ordinance;
- (ii) the passing of a special resolution by the Shareholders in the EGM approving the Proposed Capital Reduction;
- (iii) the publication of a notice of capital reduction in the Gazette and the newspapers in accordance with the Companies Ordinance;
- (iv) the delivery to the Registrar for registration of the solvency statement in relation to the Proposed Capital Reduction in accordance with the Companies Ordinance;
- (v) no application has been made to the Court for cancellation of the special resolution by members or creditors of the Company within a five-week period after the date of the special resolution approving the Proposed Capital Reduction or in the event of such application, the Court making an order to confirm the special resolution; and
- (vi) the registration of the relevant documents with the Registrar within the prescribed timeframe in accordance with the Companies Ordinance.

Assuming that all of the above conditions are fulfilled, it is expected that the Proposed Capital Reduction will become effective immediately following the registration of the relevant documents with the Registrar as referred to in condition (vi) above.

## **Effect of the Proposed Capital Reduction**

As at 31 March 2014, the Company has an issued and paid-up share capital of HK\$970,951,000. Upon the completion of the Proposed Capital Reduction and assuming no further Shares has been issued from the date of this announcement to the date when the Proposed Capital Reduction becomes effective, the Company will have an issued and paid-up share capital of HK\$170,951,000.

The Proposed Capital Reduction, if effected, will be utilized to offset the Accumulated Losses of HK\$650,820,000 in full with the remaining balance of such credit arising from the Proposed Capital Reduction of HK\$149,180,000 to be transferred to a capital reduction reserve account of the Company. Based on the audited financial statements of the Company for the year ended 31 March 2014, the Company had total Accumulated Losses of HK\$650,820,000 as at 31 March 2014.

Implementation of the Proposed Capital Reduction will not result in diminution of any liability in respect of unpaid capital nor will it, of itself, involve the payment to the Shareholders of any amount of the credit arising from the Proposed Capital Reduction or return to the Shareholders of any paid-up share capital of the Company. There will be no change in the number of Shares held by Shareholders immediately before and after the completion of

the Proposed Capital Reduction. In addition, the implementation of the Proposed Capital Reduction will also not, of itself, alter the underlying assets, liabilities, business operations, management or financial position of the Company or the proportionate interests or voting rights of the Shareholders of the Shares held by the Shareholders immediately prior to the Proposed Capital Reduction becoming effective, except for the expenses incurred by the Company in relation to the Proposed Capital Reduction.

Pursuant to the terms of the Share Option Scheme, the implementation of the Proposed Capital Reduction will not result in any adjustment to the (i) number of the Shares subject to an option under the Share Option Scheme; (ii) subscription price; or (iii) maximum number of Shares available for subscription in relation to the outstanding options granted under the Share Option Scheme. As at the date of this announcement, no share options were granted by the Company under the Share Option Scheme. Save as aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the date of this announcement.

Set out below, for illustrative purpose only, is a simplified statement showing the proposed movement of the equity of the Company before and after the Proposed Capital Reduction taking effect, based on the Company's position as at 31 March 2014.

	<b>Immediately before the Proposed Capital Reduction as at 31 March 2014 HK\$'000</b>	<b>Immediately after the Proposed Capital Reduction taking effect and the application of credit arising from the Proposed Capital Reduction to a capital reduction reserve account HK\$'000</b>	<b>Immediately after setting off against Accumulated Losses as at 31 March 2014 HK\$'000</b>
Share capital ( <i>Note 2</i> )	970,951	170,951	170,951
Capital reduction reserve	–	800,000	149,180
Accumulated Losses	(650,820)	(650,820)	–
Total equity of the Company ( <i>Note 3</i> )	320,131	320,131	320,131

*Notes:*

1. This table does not take into account of the expenses that will be incurred by the Company in relation to the Proposed Capital Reduction.
2. As at 22 May 2014, HK\$19,080,000 were credited to the issued share capital of the Company pursuant to the subscription of 53 million new shares at HK\$0.36 each (as announced on 22 May 2014).
3. Total equity of the Company represents the total equity of Heng Fai Enterprises Limited only. The consolidated total equity of the Group as at 31 March 2014 was HK\$821,770,000.

## **Reasons for the Proposed Capital Reduction**

As at 31 March 2014, being the date to which the latest audited accounts of the Company were drawn up, the Company had the Accumulated Loss of HK\$650,820,000. The Accumulated Losses were mainly attributable to write-downs in the carrying values of investments, impairment losses for subsidiaries and the Company's operating costs incurred and accumulated in the past. Accordingly, the Board proposed that the resulting credit arising from the Proposed Capital Reduction to be applied to offset the entire Accumulated Losses of HK\$650,820,000 as at 31 March 2014 with the remaining balance of such credit to be transferred to a capital reduction reserve account of the Company.

The Proposed Capital Reduction, if implemented, would enable the Company to have a capital structure, which allows payments of dividends out of and/or undertake any corporate exercise, which may require the use of distributable reserves of the Company as and when the Board of Directors considers appropriate in the future.

Based on the reasons and the effects of the Proposed Capital Reduction set out above, the Directors consider that the Proposed Capital Reduction is in the interest of the Company and the Shareholders as a whole.

**As the Proposed Capital Reduction is subject to satisfaction of conditions, it may or may not become effective. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. At this stage, there can be no assurance that a dividend will be declared or paid in future even if the Proposed Capital Reduction has become effective. It should be noted that the dividend policy of the Company is subject to the financial performance, financial position, cash flows position and/or reinvestment needs of the Company in the future.**

**Further announcement(s) will be made informing the Shareholders of the progress of the matter as and when appropriate.**

## **General**

A circular containing further details of the Proposed Capital Reduction as well as a notice convening the EGM to approve the Proposed Capital Reduction will be despatched to the shareholders as soon as practicable.

## **Definitions**

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

“Accumulated Losses”	the accumulated realized losses of the Company standing in the account of the Company as at 31 March 2014
“Board”	the board of Directors
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“Company”	Heng Fai Enterprises Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Proposed Capital Reduction
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Proposed Capital Reduction”	the proposed reduction of the credit standing to the share capital account of the Company by an amount of HK\$800,000,000
“Registrar”	the Registrar of Companies in Hong Kong
“Share(s)”	share(s) of the Company
“Share Option Scheme”	the share option scheme adopted by the Company in the annual general meeting held on 28 August 2013
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board  
**Heng Fai Enterprises Limited**  
**Chan Tong Wan**  
*Managing Director*

Hong Kong SAR, 17 July 2014

*As at the date of this announcement, the executive Directors are Mr. Chan Heng Fai, Mr. Chan Tong Wan, Ms. Chan Yoke Keow; the non-executive Directors are Mr. Fong Kwok Jen and Mr. Teh Wing Kwan and the independent non-executive Directors are Mr. Chan King Fai, Mr. Tan Choon Seng, Mr. Wong Dor Luk, Peter and Mr. Wong Tat Keung.*