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C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code : 1182)

DISCLOSEABLE TRANSACTION

EXCLUSIVE RIGHT TO LICENSE AND DISTRIBUTE ONLINE GAME

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	3
The Agreement	4
Shareholding structure	7
Information of the licensor	8
Purpose of the Acquisition	8
General information	8
Additional information	9
Appendix — General information	10

DEFINITIONS

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

“Announcement”	The announcement made by the Company on 30 December 2008 in respect of the entering into the Agreement
“Acquisition”	the acquisition of the exclusive right to distribute and market the Game in the PRC subject to the terms and conditions of the Agreement
“Agreement”	the exclusive Rohan License and distribution agreement dated 18 December 2008 made between YNK Korea Inc. as the Licensor and CYF Investments Limited as the Licensee in relation to the Acquisition
“Board”	the board of Directors
“Chinese Version”	the Game in the Simplified Chinese character language
“Commercial Service”	The commercial operation of the Game provided to the end users in the PRC
“Company”	C Y Foundation Group Limited, a company incorporated in Bermuda with limited liability and which securities are listed on the main board of the Stock Exchange
“Directors”	the directors of the Company
“Game”	The massively multi-player online role-playing game known as Rohan
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	party(ies) which is/are independent of the Company and the connected persons of the Company as defined under the Listing Rules
“Latest Practicable Date”	15 January 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Open Beta Service”	The operation of the Game that is opened to the general public and provided free to users through for the purpose of testing the Game, the Client Software, the Server Software, and/or other software or hardware requirements necessary for the full and proper operation of the Game in the PRC and otherwise as required by the Licensor
“PRC”	the Peoples’ Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan
“Royalty”	the royalty at the rate of 30% of the Service-Sales Amount which the Licensee is obliged to pay to the Licensor on a monthly basis
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Service-Sales Amount”	The total service-sales amount paid by end users for the Game, including amount paid for prepaid cards and client software, calculated in the billing system with the deduction of the wholesaler-discounts granted under the Agreement
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	share(s) of HK\$0.001 each in the issued share capital of the Company

LETTER FROM THE BOARD



C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code : 1182)

Board of Directors:

Executive:

CHENG Chee Tock Theodore (*Chairman*)
POH Po Lian
WOELM Samuel
WU Chuang John
CAO Dongxin

Independent Non-executive:

SZE Tsai Ping Michael
CHOW Steven
WANG Shan Chuan

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

17/F Silver Base Centre
200 Gloucester Road
Wanchai
Hong Kong

19 January 2009

To Shareholders

Dear Sir/Madam,

DISCLOSEABLE TRANSACTION

EXCLUSIVE RIGHT TO LICENSE AND DISTRIBUTE ONLINE GAME

INTRODUCTION

On 30 December 2008, the Board made the Announcement which related to the Agreement entered into between YNK Korea Inc. as licensor (“Licensor”) and CYF Investments Limited, a wholly owned subsidiary of C Y Foundation Group Limited (“Company”), as licensee (“Licensee”), for the acquisition of the exclusive right to distribute and market the online role-playing game known as Rohan in the PRC at a total consideration of US\$9,000,000 (“Total Consideration”).

Under the Listing Rules, the Acquisition constitutes a discloseable transaction of the Company. The purpose of this circular is to give you further information regarding the Agreement.

LETTER FROM THE BOARD

THE AGREEMENT

- Date: 18 December 2008
- Licensee: CYF Investments Limited, a wholly-owned subsidiary of the Company. The Group is principally engaged in the provision of online game tournament services, apparel trading, strategic investments, manufacturing and sale of packaging products as well as trading of watches.
- Licensor: YNK Korea Inc., a listed company in Korea which is principally engaged in game publishing business, and to the best of the Director's knowledge, information and belief having made all reasonable enquiries, the Licensor and its ultimate beneficial owner are Independent Third Parties.
- License ("License"): the exclusive right to distribute and market the Game in the PRC for a term of 3 years with the right to renew for 1 year commencing from the date of commencement of the Commercial Service of the Chinese Version in the PRC and subject to the terms and conditions of the Agreement.

Consideration

The Total Consideration for the License is USD9,000,000 comprising technical support fee in the sum of USD4,000,000 ("Technical Support Fee") and minimum guarantee of royalty in the sum of USD5,000,000 ("Minimum Guarantee").

The total consideration was arrived at arm's length negotiation between the parties to the agreement. The Technical Support Fee in the sum of USD4,000,000, which is the market price of a comparable online game in the market, based on recent researches conducted by the Company relating to development cost of the Game, popularity of the online game in the PRC, market structure, expected number of end users, features and playability of the online game etc. The Royalty, including the Minimum Guarantee, is determined based on market practice for similar online game and determined in accordance with the sales targets as well as the business plans of the Group. The Licensor has recorded a book value for the Game in the amount of USD10,000,000.

The Technical Support Fee which is payable for the grant of the License and the technical assistance and support to be provided by the Licensor to the Licensee in connection with the localization of the Game shall be satisfied by way of cash and by the issue of the Consideration Shares in 3 tranches. The First Instalment and the Second Instalment of the Technical Support Fee which shall be paid in cash will be financed by internal resources of the Group. The directors consider that the Agreement was entered into on normal commercial terms after arm's length negotiations and in the ordinary and usual course of business of the Group. The directors also consider the terms are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

The Technical Support Fee will be paid by the Group in the following manner:

1. an amount of USD1,200,000 as first instalment (“First Instalment”) will be paid within 5 working days after signing of the Agreement by the parties thereto and both parties have agreed that the payment of the same should be postponed to 31st December 2008. The payment of the First Instalment has been further postponed. As at the Latest Practicable Date, the First Instalment has not yet been paid;
2. a further amount of USD1,800,000 as second instalment (“Second Instalment”) will be paid within 5 working days after the date of commencement of the Open Beta Service of the Chinese version of the Game; and
3. a further amount of USD 1,000,000 as third instalment (“Third Instalment”) will be settled by the issue of consideration shares (“Consideration Shares”) by the Company to the Licensor within 10 months after signing of the Agreement or within 30 days after the payment of the Second Instalment, whichever is later. Particulars of the Consideration Shares are set out in the section headed “Consideration Shares” below.

In the event that all the necessary government approvals, permits and licenses which are necessary for the distribution of the Game are not obtained within 12 months from the date of the Agreement, either party has the right to terminate the Agreement by giving a written notice of no less than 30 working days on the other party. Upon expiration of the notice, all the rights and obligations of both parties under the Agreement shall lapse and both parties shall have no claim whatsoever against the other in respect of the Agreement save for antecedent breach. The Licensor shall have the right to retain the First Instalment in the sum of US\$1,200,000 as liquidated damages upon termination of the Agreement for the aforesaid reason.

Guarantee Payments

In addition to the Technical Support Fee, the Licensee shall pay to the Licensor as continuing royalties 30% of the Service-Sales Amount paid by end users (“Royalty”). The Royalty shall be paid on a monthly basis within 20 days after the end of each applicable month during the initial 3 years of the Agreement (“Term”) which shall commence after the date of commencement of Commercial Service of the Chinese version of the Game in the PRC (“Term Commencement Date”).

The Licensee has to pay the Licensor a minimum guarantee of Royalty (“Minimum Guarantee”) during the Term. The Minimum Guarantee is non-refundable and in the total sum of USD5,000,000, payable by 3 yearly payments for every 12-month period after the Term Commencement Date. The Minimum Guarantee will be settled by cash by way of annual adjustment to the Royalty already paid by the Licensee in the preceding 12 months of the relevant year and the breakdown of the Minimum Guarantee is as follows:

1. the first Minimum Guarantee in the amount of USD2,000,000 for the first 12-month period after the Term Commencement Date;

LETTER FROM THE BOARD

2. the second Minimum Guarantee in the amount of USD2,000,000 for the second 12-month period after the Term Commencement Date; and
3. the third Minimum Guarantee in the amount of USD1,000,000 for the third 12-month period after the Term Commencement Date.

The Minimum Guarantee for each 12-month period after the Commercial Service Date shall be settled within 2 weeks after each of the three 12-month periods. If the Royalty received by the Licensor within any of the 12-month period is less than the Minimum Guarantee for the relevant period, the Licensee shall pay to the Licensor the balance of the Minimum Guarantee. If the Royalty exceeds the Minimum Guarantee within any such 12-month period, the Licensee shall pay to the Licensor the Royalty in excess of the Minimum Guarantee (if the same has not yet been paid).

Corporate Guarantee

The Company has to provide a guarantee to the Licensor guaranteeing the payment of all the amounts due to the Licensor by the Licensee under the Agreement up to the amount of USD9,000,000 within 14 days after the signing of the Agreement.

Consideration Shares

According to the terms of the Agreement, the Third Instalment of the Technical Support Fee in the amount of USD1,000,000 will be settled by the issue of the Consideration Shares, being a total of 15,600,000 Shares, by the Company to the Licensor at an issue price of HK\$0.5 per Consideration Share. The issue price shall be subject to adjustment in the event that the average closing price for the 15 consecutive trading days up to the day prior to the date of the payment of the Third Instalment (“Average Market Price”) is below HK\$0.5 in which case the number of Consideration Shares to be issued shall be calculated in the following manner:

$$\text{Number of Consideration Shares} = \frac{\text{HK\$7.8 million}}{\text{Average Market Price (subject to a floor price of HK\$0.25)}}$$

As at the Latest Practicable Date, the authorized share capital of the Company amounted to 300,000,000,000 Shares and the issued share capital amounted to 4,853,481,162 Shares. In any event, the issue price after such adjustment shall be no less than HK\$0.25 and the number of Consideration Shares to be issued shall be no more than 31,200,000 Shares. The Consideration Shares when issued will rank pari passu with all other Shares then in issue with no restrictions on subsequent sales. The Consideration Shares represent approximately 0.64% of the total issued share capital of the Company as enlarged by the issue of the Consideration Shares.

If the Average Market Price is lower than HK\$0.25, then a cash payment to be calculated in the following manner (“Cash Payment”) shall be paid by the Licensee to the Licensor in addition to the issue of the Consideration Shares:

$$\text{Cash Payment} = [\text{HK\$0.25} - \text{Average Market Price}] \times 31,200,000$$

LETTER FROM THE BOARD

The Consideration Shares will be issued under the general mandate granted to the Board by the shareholders of the Company on 12 August 2008, and which mandate has not yet been utilized except for the issue of the Consideration Shares.

SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately after issue of the Consideration Share; and (iii) immediately after issue of the Consideration Shares and the Shares upon exercise of the subscription rights/conversion rights attaching to the outstanding convertible securities of the Company:

	As at the Latest Practicable Date		Immediately after issue of the Consideration Shares		Immediate after issue of (i) the Consideration Shares and (ii) the Shares upon exercise of the subscription rights/conversion rights attaching to the outstanding convertible securities of the Company in full	
	No of Shares	%	No of Shares	%	No of Shares	%
Luck Continent Limited <i>(Note 1)</i>	2,646,264,127	54.52	2,646,264,127	54.18	3,246,264,127	46.35
YUNG Leonora <i>(Note 2)</i>	257,142,856	5.3	257,142,856	5.26	1,757,142,856	25.09
The Licensor	—	—	31,200,000	0.64	31,200,000	0.45
Public Shareholders <i>(Note 3&4)</i>	1,950,074,179	40.18	1,950,074,179	39.92	1,969,074,179	28.11
Total	<u>4,853,481,162</u>	<u>100</u>	<u>4,884,681,162</u>	<u>100</u>	<u>7,003,681,162</u>	<u>100</u>

Notes:

- Luck Continent Limited is solely owned by Dato Poh Po Lian, an executive Director of the Company. As at the Latest Practicable Date, Luck Continent Limited holds (i) 2,646,264,127 Shares and (ii) outstanding warrants in aggregate amounts of HK\$6 million which confer rights to subscribe up to 600,000,000 Shares at the subscription price of HK\$0.01 per Share (subject to adjustment).
- 257,142,856 Shares were held by Treasure Bay Assets Limited (“Treasure Bay”), Pacific Equity Development Corp (“Pacific Equity”), Super Mark Profits Corp (“Super Mark”), Golden View Worldwide Limited (“Golden View”) and Super Crown Venture Inc (“Super Crown”). Outstanding convertible notes in aggregate amounts of HK\$15 million which confer rights to subscribe up to 1,500,000,000 Shares at the conversion price of HK\$0.01 per Share (subject to adjustment) were held by Super Bonus Management Limited (“Super Bonus”). Each of Treasure Bay, Pacific Equity, Super Mark, Golden View and Super Bonus was wholly owned by Ms Yung Leonora (the spouse of Mr Cheng Chee Tock Theodore, Chairman of the Company), whereas Super Crown was owned as to 50% by Ms Yung. Mr Cheng was deemed to be interested in all these Shares.
- The Company undertakes to take appropriate step(s) to resume the public float in compliance with the Listing Rules when necessary.

LETTER FROM THE BOARD

- Options confer rights to subscribe for a total of 10,000,000 Shares at the subscription price of HK\$0.08 per Share (subject to adjustment) and 9,000,000 Shares at the subscription price of HK\$0.1 per Share (subject to adjustment) have been granted to the staff of the Group and are outstanding as at the Latest Practicable Date.

INFORMATION OF THE LICESNOR

YNK Korea Inc, is a listed company in Korea, which was principally engaged in game publishing business.

PURPOSE OF THE ACQUISITION

The principal activity of the Group is online game tournament services, apparel trading and strategic investments, manufacturing and sale of packaging products as well as trading of watches.

Rohan is a massive multiplayer online role play game, the Game has ranked in among the top 10 massive multiplayer online games in Korea for the 3 preceding years.

The Acquisition is in the ordinary and usual course of business. The Directors consider that it will be in the interest of the Group and the Shareholders as a whole to acquire reputable online game to enhance the development of the Group's gaming business and improve the comprehensiveness of the services.

The Directors consider the terms of the Agreement fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Game has not been launched in PRC before and there is no track record relating to net profits or revenue of the Game. The value of the Game cannot be ascertained.

After the Acquisition, the Company will treat the Technical Support Fee as an intangible asset, which will be amortized equally in the 3 ensuing financial years and will treat the Royalty including the Minimum Guarantee as expenses in the Group's account in the relevant financial periods. It is expected that the Acquisition will have a positive impact on the earnings of the Group in the long run. The Agreement will increase the Group's intangible assets as Technical Support Fee. The Agreement is not expected to have any material impact on the assets and liabilities of the Group.

GENERAL INFORMATION

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Agreement constitutes a discloseable transaction for the Company under the Listing Rules.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Yours faithfully,
On behalf of the Board
Cheng Chee Tock Theodore
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually 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 and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or otherwise as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Long positions in Shares

Name	Capacity	Number of Shares	
		Corporate interest	Shareholding (%)
Poh Po Lian ⁽ⁱ⁾	Interest in a controlled corporation	2,646,264,127	54.52
Cheng Chee Tock Theodore ⁽ⁱⁱ⁾	Interest in a controlled corporation	257,142,856	5.3
		<u>2,903,406,983</u>	<u>59.82</u>

(b) Long positions in underlying Shares — warrant

Name	Date of issue	Exercise period	Amount of warrant (HK\$)	Exercise price per Share (HK\$)	Number of exercisable Shares	Percentage to issued Shares (%)
Poh Po Lian ⁽ⁱ⁾	2007-01-31	2007-01-31 to 2010-01-30	6,000,000	0.01	<u>600,000,000</u>	<u>12.36</u>

(c) Long positions in underlying Shares — convertible note

Name	Date of issue	Conversion period	Amount of convertible note (HK\$)	Conversion price per Share (HK\$)	Number of convertible Share	Percentage to issued Share (%)
Cheng Chee Tock Theodore ⁽ⁱⁱ⁾	2007-04-13	2007-04-13 to 2010-04-12	15,000,000	0.01	1,500,000,000	30.91

(d) Aggregate long positions in Shares and underlying Shares

Name	Number of Shares	Number of underlying Shares	Aggregate in number	Percentage to issued Shares (%)
Poh Po Lian ⁽ⁱ⁾	2,646,264,127	600,000,000	3,246,264,127	66.89
Cheng Chee Tock Theodore ⁽ⁱⁱ⁾	<u>257,142,856</u>	<u>1,500,000,000</u>	<u>1,757,142,856</u>	<u>36.20</u>
	<u>2,903,406,983</u>	<u>2,100,000,000</u>	<u>5,003,406,983</u>	<u>103.09⁽ⁱⁱⁱ⁾</u>

(e) Notes:

- (i) The Shares were held by Luck Continent Limited (“Luck Continent”) which was wholly owned by Dato Poh. Dato Poh was deemed to be interested in all these Shares which are also disclosed in the section headed “Substantial Shareholders” below.
- (ii) The Shares were held by Super Bonus Management Limited (“Super Bonus”), Treasure Bay Assets Limited (“Treasure Bay”), Pacific Equity Development Corp. (“Pacific Equity”), Super Mark Profits Corp. (“Super Mark”), Golden View Worldwide Limited (“Golden View”) and Super Crown Venture Inc. (“Super Crown”). Each of Super Bonus, Treasure Bay, Pacific Equity, Super Mark and Golden View was wholly owned by Ms Yung Leonora (the spouse of Mr Cheng), whereas Super Crown was owned as to 50% by Ms Yung Leonora. Mr Cheng was deemed to be interested in all these Shares which are also disclosed in the section headed “Substantial Shareholders” below.
- (iii) The figure is distorted to above 100% as dilution upon issue of the underlying Shares is not taken into consideration in accordance with the applicable rules for the disclosure requirement hereof.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial 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) as recorded in the register required to be kept under section 352 of the SFO, or otherwise as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register of the Company were as follows:

(a) Long positions in Shares

Name	Capacity	Number of Shares	Shareholding (%)
Luck Continent ⁽ⁱ⁾	Beneficial owner	2,646,264,127	54.52
Yung Leonora ⁽ⁱⁱ⁾	Interest of controlled corporation	257,142,856	5.30

(b) Long positions in underlying Shares

Name	Capacity	Financial instrument	Number of underlying Shares	Percentage to issued Shares (%)
Luck Continent ⁽ⁱ⁾	Beneficial owner	Warrant	600,000,000	12.36
Super Bonus ⁽ⁱⁱ⁾	Beneficial owner	Convertible note	1,500,000,000	30.91

(c) Notes:

- (i) Pursuant to the SFO, Dato Poh Po Lian, a Director, was deemed to be interested in these Shares, details of which have been disclosed in the section headed "Directors' Interests" above.
- (ii) Pursuant to the SFO, Mr Cheng Chee Tock Theodore, a Director, was deemed to be interested in the Shares, details of which have been disclosed in the section headed "Directors' Interests" above.

Save as disclosed above, as at the Latest Practicable Date, no other person/company, other than a Director or chief executive of the Company, had any personal, family, corporate or other beneficial interests or short positions in the Shares or underlying Shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register of the Company.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed contract with any member of the Group in respect of his service to the Group in the capacity of a Director which is not expiring or terminable by the Group within one year without payment of compensation other than statutory compensation.

6. LITIGATION

In August 2005, Orient Rise Limited (“Orient Rise”) initiated a legal action against, inter alias, Prime Axis Limited (Formerly known as Euro Fashion Trading Company Limited), a wholly-owned subsidiary of the Group, for a breach of the terms of sublicence causing loss and damages to Orient Rise.

Up to the Latest Practicable Date, based on the legal advice obtained, the Directors believed that there is no ground for Orient Rise to make the claim and therefore, no provision therefore has been made.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any other company in the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against either the Company or any other company in the Group.

7. MISCELLANEOUS

- (a) The secretary of the Company is Ms Pang Siu Yin, a practising solicitor in Hong Kong and a partner of Cheung, Tong & Rosa.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and the principal place of business of the Company in Hong Kong is at 17th Floor, Silver Base Centre, 200 Gloucester Road, Wanchai, Hong Kong.

- (c) The principal share registrars and transfer office of the Company in Bermuda is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda. The branch share registrars and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.