



國農金融投資有限公司
China Demeter Financial Investments Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8120)

Executive Directors:

Mr. Ng Man Chun Paul (*Chairman*)
Mr. Ng Ting Ho (*Chief Executive Officer*)
Mr. Lam Chun Kei

Registered office:

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Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Chan Hin Hang
Mr. Yum Edward Liang Hsien
Mr. Hung Kenneth

Principal place of business

in Hong Kong:
Office A01, 35/F, United Centre
No. 95 Queensway
Admiralty, Hong Kong

28 May 2021

To the Shareholders

Dear Sir or Madam

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

INTRODUCTION

References are made to the Announcement and the announcements of the Company dated 7 May 2021 and 14 May 2021 in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

The purpose of this circular is to provide you with, among other things, (i) further details of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee in respect of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver; (iv) other information required under the GEM Listing Rules and the Takeovers Code; and (v) a notice convening the SGM.

PROPOSED RIGHTS ISSUE

The Company proposes to raise, before expenses, not less than approximately HK\$45.9 million by issuing not less than 459,088,545 Rights Shares and not more than approximately HK\$49.6 million by issuing not more than 495,808,545 Rights Shares on the basis of three (3) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK\$0.10 per Rights Share. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Non-Qualifying Shareholders.

Issue statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every one (1) Share held on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	153,029,515 Shares
Number of Rights Shares	:	Not less than 459,088,545 Shares and not more than 495,808,545 Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Aggregate nominal value of the Rights Shares	:	Not less than approximately HK\$4.59 million and not more than approximately HK\$4.96 million
Amount to be raised	:	Not less than approximately HK\$45.9 million and not more than approximately HK\$49.6 million before expenses

As at the Latest Practicable Date, save for the outstanding Existing Share Options carrying the right to subscribe for a total number of 15,300,000 Shares at an exercise price of HK\$0.2392 per Share and exercisable from 12 October 2020 to 11 October 2021 (both days inclusive), the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

The number of the Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any Shares which may be allotted and issued pursuant to the exercise of the Existing Share Options on or before the Record Date.

Based on the 153,029,515 Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date, upon completion of the Rights Issue, 459,088,545 Rights Shares will be issued. If the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) were exercised in full on or before the Record Date, upon completion of the Rights Issue, 495,808,545 Rights Shares would be issued.

Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the completion of the Rights Issue, the minimum aggregate number of 459,088,545 Rights Shares proposed to be allotted and issued pursuant to the Rights Issue represents: (i) 300% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) 75% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue.

Assuming that the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) were exercised in full on or before the Record Date and there would be no other change in the issued share capital of the Company from the Latest Practicable Date up to the completion of the Rights Issue, the number of the total Shares in issue as at the Record Date would be 165,269,515 Shares and the maximum aggregate number of 495,808,545 Rights Shares proposed to be allotted and issued pursuant to the Rights Issue represents: (i) 300% of the existing issued share capital of the Company as enlarged by the allotment and issue of the Shares pursuant to the full exercise of the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings); and (ii) approximately 75% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Shares pursuant to the full exercise of the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) and issue of the Rights Shares immediately after completion of the Rights Issue.

Basis of provisional allotments

The basis of the provisional allotment shall be three (3) Rights Shares (in nil-paid form) for every one (1) Share held by the Qualifying Shareholders as at the close of business on the Record Date.

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.

Subscription price

The Subscription Price is HK\$0.10 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (1) a discount of approximately 17.36% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a discount of approximately 4.99% to the theoretical ex-rights price of approximately HK\$0.10525 per Share based on the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (3) a discount of approximately 20.38% to the average closing price of HK\$0.1256 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (4) a discount of approximately 6.02% to the theoretical ex-rights price of approximately HK\$0.1064 based on the average closing price of HK\$0.1256 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (5) a discount of approximately 22.30% to the average closing price of HK\$0.1287 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (6) a discount of approximately 6.69% to the theoretical ex-rights price of approximately HK\$0.107175 based on the average closing price of HK\$0.1287 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (7) a discount of approximately 86.11% to the audited consolidated net asset value per Share of approximately HK\$0.720 based on the published audited consolidated net asset value of the Company of approximately HK\$110.1 million as at 31 December 2020 as extracted from the annual report of the Company for the year ended 31 December 2020 and the issued share capital of the Company of 153,029,515 Shares as at the Latest Practicable Date;
- (8) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 15.29% of the theoretical diluted price of HK\$0.1064 per Share to the bench marked price of HK\$0.1256 per Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.121 per Share and the average closing prices of the Shares as quoted on the Stock Exchange in the 5 consecutive trading days immediately prior to the Last Trading Day of HK\$0.1256 per Share);

- (9) a discount of approximately 53.27% over the closing price of HK\$0.214 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (10) a discount of approximately 22.18% over the theoretical ex-rights price of HK\$0.1285 per Share based on the closing price of HK\$0.214 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to, amongst other factors, (i) the recent closing prices of the Shares; (ii) the financial position of the Group; (iii) the amount of the intended funding needs; and (iv) the reasons and benefits of the Rights Issue as discussed in the section headed "Reasons for the Rights Issue" in this Letter from the Board.

In determining the Subscription Price, the Directors have considered, among other things as mentioned above, the closing price range of the Shares traded on the Stock Exchange in the past two months prior to and including the Last Trading Day ("**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 a closing price range between HK\$0.121 and HK\$0.179 with an average closing price of approximately HK\$0.1432 per Share and that the Subscription Price of HK\$0.10 represents (i) a discount of approximately 17.36% to the lowest closing price of HK\$0.121 per Share; (ii) a discount of approximately 44.13% to the highest closing price of HK\$0.179 per Share; and (iii) a discount of approximately 30.17% to the average closing price of the Shares of approximately HK\$0.1432 per Share. Given the trading prices of the Shares during the Relevant Period have been affected by the general downturn of the stock prices of the stock market in Hong Kong during the same period, the Directors considered that the Subscription Price demonstrated a reasonable discount to the then trading prices and an incentive to the Shareholders to participate in the proposed Rights Issue.

As set out above, the Subscription Price represents a discount of approximately 86.11% to the consolidated net asset value per Share of approximately HK\$0.720 ("**NAV per Share**") based on the published audited consolidated net asset value of the Company of approximately HK\$110.1 million as at 31 December 2020 and the issued share capital of the Company of 153,029,515 Shares as at the Latest Practicable Date. The Directors were of the view that the Shares had been consistently traded at a substantial discount to the NAV per Share during the period since the publication of the audited financial statements of the Group for the year ended 31 December 2019 to the publication of the latest audited financial statements of the Group including the Relevant Period. As such, the Directors considered that when determining the Subscription Price, it would be more appropriate to make reference to the prevailing market price of the Shares, which reflected the fair market value of the Shares traded on the Stock Exchange instead of making reference to the net asset value per Share. The attractiveness of the Rights Issue for the Shareholders to participate in the Rights Issue would be significantly reduced if the Subscription Price was made with reference to the NAV per Share.

In view of the above, and having considered that all the Qualifying Shareholders will be offered equal opportunity to subscribe for the Rights Shares by way of provisional allotment, the Directors consider that the terms of the Rights Issue and the Underwriting Agreement, including the Subscription Price, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

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\$0.094, representing (1) a discount of approximately 22.31% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day; (2) a discount of approximately 10.69% to the theoretical ex-rights price of approximately HK\$0.10525 per Share based on the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Day; (3) a discount of approximately 56.07% over the closing price of HK\$0.214 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (4) a discount of approximately 26.85% over the theoretical ex-rights price of HK\$0.1285 per Share based on the closing price of HK\$0.214 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be a Non-Qualifying Shareholder.

Investors whose Shares are held by nominee companies should note that the Board will regard a nominee company as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date. Shareholders and investors should consult their professional advisers if they are in any doubt as to their status.

In order to be registered as members of the Company at the close of business on the Record Date, any relevant transfer documents (together with the relevant share certificates) must be lodged with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 24 June 2021. It is expected that the last day of dealings in the Shares on a cum-rights basis is Tuesday, 22 June 2021 and the Shares will be dealt with on an ex-rights basis from Wednesday, 23 June 2021.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience any dilution to their interests in the Company. **If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

For Shareholders with an address outside Hong Kong on the register of members of the Company at the close of business on the Record Date, please refer to the paragraph headed "Non-Qualifying Shareholders" below.

Non-Qualifying Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 17.41(1) of the GEM Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to the Overseas Shareholders, if any. If, based on the legal opinions to be provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), the Rights Issue will not be extended to such Overseas Shareholders.

Based on the latest available register of members of the Company, as at the Latest Practicable Date, the Company had four Overseas Shareholders, one with a registered address in Malaysia holding 25 Shares, one with a registered address in Singapore holding 216 Shares and two with registered addresses in the PRC holding an aggregate of 123 Shares. The Overseas Shareholders collectively held 364 Shares in aggregate, representing approximately 0.00024% of the total number of Shares in issue as at the Latest Practicable Date. The Company is in the course of seeking legal advice from such jurisdictions in relation to the feasibility of extending the offer of the Rights Shares to such Overseas Shareholders. The result of the enquiries and the basis of the exclusion, if any, will be included in the Prospectus. The Company will send the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL to them. For the avoidance of doubt, the Non-Qualifying Shareholders may vote at the SGM unless such person is not an Independent Shareholder (in which case they shall abstain).

The Non-Qualifying Shareholders (which are excluded from the Rights Issue) will not have any entitlement under the Rights Issue. Nonetheless, arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealing in nil-paid Rights Shares commence and before dealing in the nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses, of more than HK\$100 will be paid on pro-rata basis to the relevant Non-Qualifying Shareholders. In view of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

The Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form that have not been sold by the Company, i.e. the NQS Unsold Rights Shares, together with the Unsubscribed Rights Shares, shall be subject to the Compensatory Arrangements, as further described in the paragraph headed "Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, and the Compensatory Arrangements" below.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 16 June 2021 to Monday, 21 June 2021 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

The register of members of the Company will also be closed from Friday, 25 June 2021 to Monday, 5 July 2021 (both days inclusive) for determining the entitlements to the Rights Issue.

No transfer of Shares will be registered during the above book closure periods.

Fractions of Rights Shares

On the basis of provisional allotment of three (3) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

Status of Rights Shares

The Rights Shares, when allotted and fully paid, will 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, the record date of which is after the date of allotment of the Rights Shares in their fully-paid form.

Share certificates for the Rights Issue

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on Thursday, 29 July 2021 by ordinary post to the allottees, at their own risk, to their registered addresses. Each allottee will receive one share certificate for all allotted Rights Shares.

Odd lots matching services

In order to alleviate the difficulties arising from the existence of odd lots of Rights Shares arising from the Rights Issue, the Company will arrange the odd lots matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Rights Shares to make up a full board lot, or to dispose of their holdings of odd lots of the Rights Shares. Details of the odd lots arrangement will be set out in the Prospectus to be despatched to the Shareholders.

Application for listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

Subject to the granting of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, 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 their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second 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. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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

No part of the share capital of the Company is listed or dealt in or for which listing or permission to deal in is being or is proposed to be sought on any other stock exchange, save for the Stock Exchange.

Irrevocable Undertakings

As at the Latest Practicable Date, (1) Mr. Ng Ting Kit, a substantial Shareholder, owns an aggregate of 25,925,000 Shares, representing approximately 16.94% of the existing issued Shares; (2) Mr. Ng Man Chun Paul, the chairman of the Board and an executive Director, owns an aggregate of 961,250 Shares, representing approximately 0.63% of the existing issued Shares, and the holder of Existing Share Options entitling him to subscribe for a maximum of 1,530,000 new Shares; and (3) Mr. Ng Ting Ho, the chief executive officer of the Company and an executive Director, owns an aggregate of 961,250 Shares, representing approximately 0.63% of the existing issued Shares, and the holder of Existing Share Options entitling him to subscribe for a maximum of 1,530,000 new Shares.

Pursuant to the Irrevocable Undertakings, each of Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho has provided irrevocable and unconditional undertakings to the Company that (a) all the above Shares and (where applicable) the Existing Share Options held by them will continue to be beneficially owned by each of them on the Record Date; (b) each of them will accept and pay for all the Rights Shares to be provisionally allotted to each of them under the Rights Issue pursuant to the terms and conditions of the Prospectus Documents; and (c) each of Mr. Ng Man Chun Paul and Mr. Ng Ting Ho shall not exercise any of his Existing Share Options up to the date of allotment and issue of the Rights Issue (in their fully-paid form) under the Rights Issue. The Irrevocable Undertakings shall automatically lapse and be of no further force and effect in the event the Underwriting Agreement is terminated in accordance with its terms at or before the Latest Time for Termination or upon completion of the Rights Issue. Other than the above, the Irrevocable Undertakings will not cease to be binding.

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

Pursuant to Rule 10.31(2) of the GEM Listing Rules, as the Underwriter is wholly-owned by Mr. Ng Ting Kit, a substantial Shareholder owning an aggregate of 25,925,000 Shares, representing approximately 16.94% of the existing issued Shares, the Company must make arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules 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 places for the benefit of the Shareholders to whom they were offered by way of the rights. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 10.31(1)(a) of the GEM Listing Rules.

The Company has appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the Latest Time for Acceptance to independent places on a best effort basis, and any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related expenses/fees), that is realised from the Placing will be paid to those No Action Shareholders. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m. on Monday, 26 July 2021, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares at a price not less than the Subscription Price. Any unsold Unsubscribed Rights Shares and the NQS Unsold Rights Shares under the Compensatory Arrangements will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Net Gain (if any) will be paid on pro-rata basis (on the basis of all Unsubscribed Rights Shares and NQS Unsold Rights Shares) to the No Action Shareholders (but rounded down to the nearest cent) as set out below:

- (1) the Qualifying Shareholders who did not subscribe for the Rights Shares (whether partially or fully) under the PALs and their renounees;
- (2) such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed; and
- (3) the Non-Qualifying Shareholders in respect of the NQS Unsold Rights Shares.

It is proposed that Net Gain to any of the No Action Shareholder(s) mentioned in (1) to (3) above which is in an amount of HK\$100 or more will be paid to such No Action Shareholder in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

Conditions of the Rights Issue

The Rights Issue will be conditional upon, among others, (i) granting of the Whitewash Waiver by the Executive and the satisfaction of any condition attached to the Whitewash Waiver; (ii) obtaining the Independent Shareholders' approval for the Underwriting Agreement and the Whitewash Waiver; and (iii) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination. For details of the conditions of the Underwriting Agreement, please refer to the section headed "The Underwriting Agreement – Conditions of the Underwriting Agreement" in this Letter from the Board.

The Placing Agreement

After trading hours on 29 March 2021, the Company and the Placing Agent entered into the Placing Agreement (as amended by the Supplemental Placing Agreements), pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares. Details of the Placing Agreement are as follows:

- Date : 29 March 2021 (the original Placing Agreement)
7 May 2021 and 14 May 2021 (the Supplemental Placing Agreements)
- Placing Agent : Kingkey Securities Group Limited was appointed as the Placing Agent to procure, on a best effort basis, Placees to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares.

The Placing Agent confirmed that each of it and its ultimate beneficial owner(s) is independent of and not connected with the Company and its connected persons or any of their respective associates and not acting in concert with the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them. It is also a term of the Placing Agreement that each of the sub-placing agent(s), if any is appointed by the Placing Agent, and their ultimate beneficial owner(s) is also independent of and not connected with the Company and its connected persons or any of their respective associates and not acting in concert with the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them.

As at the Latest Practicable Date, each of the Placing Agent and its ultimate beneficial owner(s) and their respective concert parties does not hold any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company, and no sub-placing agents has been appointed by the Placing Agent as at the Latest Practicable Date.

Placing fee	:	2% of the aggregate placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares successfully placed by or on behalf of the Placing Agent.
Placing price of the Unsubscribed Rights Shares and/or and the NQS Unsold Rights Shares (as the case maybe)	:	<p>The placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case maybe) shall be not less than the Subscription Price.</p> <p>The final price determination is dependent on the demand and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of placement.</p>
Placees	:	The Unsubscribed Rights Shares and the NQS Unsold Rights Shares are expected to be placed to the Placee(s) who and whose ultimate beneficial owner(s) shall be the Independent Third Party(ies).
Ranking of Unsubscribed Rights Shares and the NQS Unsold Rights Shares	:	Unsubscribed Rights Shares and the NQS Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank pari passu in all respects among themselves and with the Shares then in issue.
Condition Precedent	:	The obligations of the Placing Agent under the Placing Agreement are conditional upon the Underwriting Agreement becoming unconditional.
Placing Completion Date	:	Thursday, 29 July 2021 or such other date as the Company and the Placing Agent may agree in writing.
Termination	:	<p>If, prior to the Latest Placing Time:</p> <p>(1) in the reasonable opinion of the Placing Agent, the success of the Placing would be materially and adversely affected by:</p> <p>(a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Placing Agent materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Placing; or</p>

- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any materially adverse change in the business or in the financial or trading position of the Group as a whole; or
 - (d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions which includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs in Hong Kong, the United States of America or the PRC which in the reasonable opinion of the Placing Agent makes it inexpedient or inadvisable to proceed with the Placing,

the Placing Agent shall be entitled, without any liability to the Company, by notice in writing to the Company served prior to the Latest Placing Time, to terminate the Placing Agreement.

The terms of the Placing Agreement (including the placing fee) were determined after arm's length negotiation between the Placing Agent and the Company and are on normal commercial terms. The Directors consider that the placing fee charged by the Placing Agent is no less favourable to the Company than the market rate in recent placing transactions and are therefore of the view that the terms of the Placing Agreement are on normal commercial terms.

Given that the Compensatory Arrangements would provide (1) a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company; (2) channel of participation in the Rights Issue for independent investors; and (3) a compensatory mechanism for No Action Shareholders, the Directors consider that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders.

THE UNDERWRITING AGREEMENT

The Underwriter and the Company entered into the Underwriting Agreement (as amended by the Supplemental Underwriting Agreements) pursuant to which the Underwriter has conditionally agreed to fully underwrite all the Rights Shares other than those agreed to be taken up by Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho pursuant to the Irrevocable Undertakings. Material terms of the Underwriting Agreement are set out below:

Date	:	29 March 2021 (the original Underwriting Agreement) 7 May 2021 and 14 May 2021 (the Supplemental Underwriting Agreements)
Underwriter	:	Trinity Worldwide Capital Holding Limited. Please refer to the paragraph headed "The Underwriting Agreement – Information on the Underwriter" in this Letter from the Board below.
Total number of Rights Shares underwritten by the Underwriter	:	375,546,045 Rights Shares to 412,266,045 Rights Shares (being all the Rights Shares other than the 83,542,500 Rights Shares that have been undertaken to be subscribed by Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho pursuant to the Irrevocable Undertakings).
Commission	:	The Underwriter will not receive any underwriting commission.

The terms of the Underwriting Agreement were determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the market conditions.

It is not in the ordinary course of business of the Underwriter to underwrite issues of shares. The Underwriter's role as an underwriter in respect of the Rights Issue, together with the Irrevocable Undertaking given by Mr. Ng Ting Kit, signify strong support from the substantial Shareholder to the Group and his confidence in the development of the Group.

Having considered the above, the Directors (excluding the members of the Independent Board Committee whose opinion is set forth in this circular after having been advised by the Independent Financial Adviser) consider that the Underwriter, a company wholly-owned by the substantial Shareholder who is willing to support the continuing growth of the Group, as the underwriter for the Rights Issue is in the interests of the Company and the Shareholders as a whole, and that the terms of the Underwriting Agreement are fair and reasonable and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Information on the Underwriter

The Underwriter is an investment holding company incorporated in British Virgin Islands with limited liability and is not engaged in underwriting of issue of securities in its ordinary course of business. The Underwriter is wholly-owned by Mr. Ng Ting Kit, a substantial Shareholder who is a cousin of Mr. Ng Man Chun Paul, the chairman of the Board and an executive Director, and the brother of Mr. Ng Ting Ho, the chief executive officer of the Company and an executive Director. As at the Latest Practicable Date, Mr. Ng Ting Kit is beneficially interested in 25,925,000 Shares, representing approximately 16.94% of the existing issued Shares. As such, the Underwriter complies with Rule 10.24A(2) of the GEM Listing Rules. Therefore, the Underwriter is a connected person of the Company under Chapter 20 of the GEM Listing Rules.

It is the intention of the Underwriter to continue to carry on the businesses of the Group and to continue the employment of the employees of the Group. The Underwriter has no intention to introduce any major changes to the businesses of the Group including redeployment of the fixed assets of the Group.

Conditions of the Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement are conditional upon:

- (1) the passing by the Independent Shareholders at the SGM of (i) ordinary resolutions to approve the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Shares to the Non-Qualifying Shareholders) and the Underwriting Agreement; and (ii) a special resolution to approve the Whitewash Waiver by no later than the Prospectus Posting Date;
- (2) the Executive granting the Whitewash Waiver to the Underwriter and the satisfaction of any condition attached to the Whitewash Waiver granted;

- (3) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Prospectus Posting Date;
- (4) the filing and registration of all relevant documents with the Registrar of Companies in Hong Kong by no later than the Prospectus Posting Date;
- (5) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;
- (6) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (7) the entering into of the Placing Agreement;
- (8) the delivery of the duly signed Irrevocable Undertakings to the Company;
- (9) the SFC having granted the necessary approval or consent for the Underwriter to become a substantial shareholder of the Licensed Subsidiary under the SFO as a result of the taking up of the Underwritten Shares by the Underwriter pursuant to its obligations under the Underwriting Agreement; and
- (10) compliance with and performance of all the undertakings and obligations of the signatory of each of the Irrevocable Undertakings.

None of the above conditions precedent is capable of being waived. If any of the conditions precedent are not satisfied by the Latest Time for Termination (or such later time and/or date as the Underwriter may agree with the Company in writing), the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise.

As at the Latest Practicable Date, other than the conditions precedent (7) and (8) above, none of the above conditions precedent has been fulfilled.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

- (1) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the

Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any materially adverse change in the business or in the financial or trading position of the Group as a whole; or
 - (d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions which includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs in Hong Kong, the United States of America or the PRC which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the representations, warranties and undertakings contained in the Underwriting Agreement untrue or incorrect in any material respect comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If the Underwriter terminates the Underwriting Agreement in accordance with the terms thereof, the Rights Issue will not proceed.

SHAREHOLDING STRUCTURE OF THE COMPANY

If the Rights Issue is to proceed, for illustration purposes only:

- (1) Assuming that there is no change in the shareholding structure of the Company from the Latest Practicable Date up to the completion of the Rights Issue:

	(i)		(ii)		(iii)		(iv)	
	As at the Latest Practicable Date		Immediately after completion of the Rights Issue assuming full acceptance of the Rights Shares by the Qualifying Shareholders		Immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than those who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are fully placed to the Places under the Compensatory Arrangements		Immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than those who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are taken up by the Underwriter (Note 5)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Ng Ting Kit (Note 1)	25,925,000	16.94	103,700,000	16.94	103,700,000	16.94	103,700,000	16.94
Ng Man Chun Paul (Note 2)	961,250	0.63	3,845,000	0.63	3,845,000	0.63	3,845,000	0.63
Ng Ting Ho (Note 3)	961,250	0.63	3,845,000	0.63	3,845,000	0.63	3,845,000	0.63
Underwriter (Note 4)	-	-	-	-	-	-	375,546,045	61.35
<i>Sub-total of the Underwriter and parties acting in concert with it</i>	27,847,500	18.20	111,390,000	18.20	111,390,000	18.20	486,936,045	79.55
Other public Shareholders	125,182,015	81.80	500,728,060	81.80	500,728,060	81.80	125,182,015	20.45
Total	153,029,515	100.00	612,118,060	100.00	612,118,060	100.00	612,118,060	100.00

- (2) Assuming that (i) the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) were exercised in full on or before the Record Date; and (ii) there is no other change in the shareholding structure of the Company from the Latest Practicable Date up to the completion of the Rights Issue:

	(i)		(ii)		(iii)		(iv)	
	As at the Record Date assuming the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) were exercised in full on or before the Record Date		Immediately after completion of the Rights Issue assuming full acceptance of the Rights Shares by the Qualifying Shareholders		Immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than those who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS		Immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than those who have provided Irrevocable Undertakings and 100% of the Unsubscribed Rights Shares and the NQS	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Ng Ting Kit (Note 1)	25,925,000	15.69	103,700,000	15.69	103,700,000	15.69	103,700,000	15.69
Ng Man Chun Paul (Note 2)	961,250	0.58	3,845,000	0.58	3,845,000	0.58	3,845,000	0.58
Ng Ting Ho (Note 3)	961,250	0.58	3,845,000	0.58	3,845,000	0.58	3,845,000	0.58
Underwriter (Note 4)	-	-	-	-	-	-	412,266,045	62.36
<i>Sub-total of the Underwriter and parties acting in concert with it</i>	27,847,500	16.85	111,390,000	16.85	111,390,000	16.85	523,656,045	79.21
Other public Shareholders	137,422,015	83.15	549,688,060	83.15	549,688,060	83.15	137,422,015	20.79
Total	165,269,515	100.00	661,078,060	100.00	661,078,060	100.00	661,078,060	100.00

Notes:

- Mr. Ng Ting Kit is a cousin of Mr. Ng Man Chun Paul, the chairman of the Board and an executive Director, and the brother of Mr. Ng Ting Ho, the chief executive officer of the Company and an executive Director. As at the Latest Practicable Date, Mr. Ng Ting Kit owns 25,925,000 Shares.
- Mr. Ng Man Chun Paul is the chairman of the Board and an executive Director. He is also a cousin of each of Mr. Ng Ting Kit and Mr. Ng Ting Ho. As at the Latest Practicable Date, Mr. Ng Man Chun Paul owns 961,250 Shares and is the holder of 1,530,000 Existing Share Options.
- Mr. Ng Ting Ho is the chief executive officer of the Company and an executive Director. He is the brother of Mr. Ng Ting Kit and a cousin of Mr. Ng Man Chun Paul. As at the Latest Practicable Date, Mr. Ng Ting Ho owns 961,250 Shares and is the holder of 1,530,000 Existing Share Options.
- The Underwriter is wholly-owned by Mr. Ng Ting Kit.

5. This scenario is for illustrative purpose only. For the Compensatory Arrangements, the Company has entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares. The Company will take all appropriate steps to ensure that sufficient public float be maintained upon completion of the Rights Issue and the Compensatory Arrangements in compliance with Rule 11.23(7) of the GEM Listing Rules. To ensure the compliance of the public float requirements under the GEM Listing Rules can be fulfilled by the Company, the Underwriter will enter into a placing agreement which shall only become effective after the completion of the Rights Issue (including the allotment and issue of the Rights Shares and completion of the Compensatory Arrangements) with a placing agent to ensure that, in the event that as a result of the Underwritten Shares that the Underwriter has taken up pursuant to its obligations under the Underwriting Agreement upon completion of the Rights Issue and the Compensatory Arrangements would result in public float could not be maintained, the Underwriter shall place down such number of Shares, such that sufficient public float could be maintained in compliance with Rule 11.23(7) of the GEM Listing Rules. The Underwriter advised that the placing agreement would be entered on or before the publication of the Prospectus which shall only become effective after the completion of the Rights Issue (including the allotment and issue of the Rights Shares and completion of the Compensatory Arrangements).
6. Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

REASONS FOR THE RIGHTS ISSUE

The Group is principally engaged in (i) alcoholic beverage distribution and miscellaneous business; (ii) food and beverage business; (iii) money lending business; (iv) provision of children education services; (v) financial services business; and (vi) securities investment business.

The Board believes that the Rights Issue will enable the Company to strengthen its working capital base and to enhance its financial position, while at the same time to key business development for the foreseeable future. As at 31 December 2020, the Group had cash and cash equivalents of approximately HK\$35.6 million. Based on the current funding requirement of the Group, the Group will require maintaining operating cash and general working capital for the different business segments of the Group such as a minimum operating cash for the operation of the Group's food and beverage business, and also for the licensing requirements for the Group's licensed corporation under the SFO for operation of the Group's financial services business, even if disregarding the funding needs for (i) the loan repayment (which amounted to approximately HK\$10 million); (ii) the expected investment cost to be incurred for the new restaurant in the food and beverage business segment (which amounted to approximately HK\$4 to HK\$5 million); and (iii) developing the margin financing business while maintaining at all times capital liquidity to settle all trades and the requirement as set out under the financial resources rules and financial return, details of which are more particularly described in the section headed "Use of proceeds" in this Letter from the Board below. As such, it is expected that the net proceeds from the Rights Issue can help resolve the cash flow need of the Group and thus is in the interests of the Company and its shareholders as a whole.

In addition, to maintain a healthy business development of the Group, in the view of the drop in rent prices and increasing supply of attractive sites in the market in Hong Kong, the Board is confident to expand the food and beverage business at reasonable pace. Regarding the development of the financial services business, the increasing demand from the U.S. listed Chinese companies and more technology companies seeking to have listings in Hong Kong benefits the average daily turnover over the past 12 months. Hence the appetite for margin financing is increased. Therefore, the Board intends to allot more capitals in margin financing business to capture the opportunities.

Apart from the Rights Issue, the Board has considered other debt/equity fund raising alternatives such as bank borrowings, placing or an open offer. The Board noted that bank borrowings will carry interest costs and may require the provision of security and creditors will rank before the Shareholders, and placing will dilute the interests of Shareholders without giving them the opportunity to take part in the exercise. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Board consider raising funds by way of the Rights Issue is more attractive in the current market condition and the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee whose opinion is set forth in this circular after having been advised by the Independent Financial Adviser) consider that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The Company will raise, before expenses, not less than approximately HK\$45.9 million and not more than approximately HK\$49.6 million from the Rights Issue. The estimated expenses, in the sum of approximately HK\$2.4 million, in relation to the Rights Issue, including the financial, legal, and other professional advisory fees, placing fee, printing and translation expenses will be borne by the Company. The Company intends to apply the minimum net proceeds from the Rights Issue of approximately HK\$43.5 million as follows:

- (1) as to approximately HK\$9.0 million to capital expenditure and related expenses on expanding the restaurants of the Group's food and beverage business segment:**

Of such amount, (i) approximately HK\$4 to HK\$5 million will be used for investment costs in opening a new restaurant, the operation of which is expected to commence around August to September 2021. To this end, the Group has entered into a lease of premises in Landmark North, Sheung Shui, New Territories for operation of a Japanese Shabu Shabu restaurant, further particulars of which are set out in the announcement of the Company dated 14 April 2021; and (ii) approximately HK\$4 to HK\$5 million will be used for the replacement for its existing facilities, procurement of machinery and equipment, installing systems for accounting and customer relationship management and exploring opportunities for opening new restaurants.

- (2) as to approximately HK\$20.0 million will be allocated to the Group's financial services business segment for margin financing:**

Approximately HK\$19.5 million will be used to develop the financial services business of the Group through the margin financing services. The remaining approximately HK\$0.5 million will be used in marketing the financial services business. During the year ended 31 December 2020, the stocks market in Hong Kong set new trading activity records, in which the trading volumes on both Stock Connect reached new highs as driven by the strong growth momentum in biotech and new economy company fundraisings. In the same period, the Group's interest income from margin financing has been growing continually from approximately HK\$339,000 to approximately HK\$1.82 million and the receivables from margin clients were up to approximately HK\$45 million while the total marginable value of securities under margin clients' accounts was over approximately HK\$80 million. The Group has benefited in an increase in interest income and commission from the high demand for margin financing and the higher average trading turnover during 2020, and the Group considers that the interest income will increase considerably if the proceeds raised from the Rights Issue as mentioned above can be utilised in the margin financial service.

- (3) **as to approximately HK\$10.0 million for repayment of a loan of the Group owing to a lender who is an Independent Third Party and is not a Shareholder:**

Such loan was granted to the Group by E Finance Limited, which is an Independent Third Party and is not a Shareholder, in the principal amount of HK\$10,000,000. Such loan bears an interest at 10% per annum, shall mature on 26 July 2021 and is unsecured.

- (4) **as to approximately HK\$4.5 million will be used as general working capital of the Group:**

The Company intends to apply the net proceeds to general working capital purpose which includes salaries and allowance of the staff at the Company's head office and administration expense (including but not limited to rental and management fee of the Company's head office), which based on the Group's estimation, the related expenses would be approximately HK\$1.5 million per month.

The Company confirms that, as at Latest Practicable Date, it has no intention, agreement, arrangement, understanding and/or negotiation (i.e. concluded or otherwise) on any potential equity/debt fundraising activities in the next twelve months after the Rights Issue and the Compensatory Arrangements.

If the Company raises the maximum net proceeds from the Rights Issue of approximately HK\$47.2 million, the Company intends to apply the additional approximately HK\$3.7 million as general working capital of the Group.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities involving issue of securities in the past 12 months immediately preceding the Latest Practicable Date.

GEM LISTING RULES IMPLICATIONS

Rights Issue

As the Rights Issue, if proceeded with, will increase the number of the issued Shares by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the SGM by a resolution on which the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates shall abstain from voting in favour under Rule 10.29(1) of the GEM Listing Rules since there is no controlling Shareholder. As such, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho and their respective associates (including Mr. Ng Ting Kit), who as at the Latest Practicable Date holding an aggregate of 27,847,500 Shares (representing approximately 18.20% of the existing issued Shares), shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder at the SGM.

Underwriting Agreement

The Underwriter is wholly-owned by Mr. Ng Ting Kit. As at the Latest Practicable Date, Mr. Ng Ting Kit is beneficially interested in 25,925,000 Shares, representing approximately 16.94% of the existing issued Shares. As such, the Underwriter is a connected person of the Company under Chapter 20 of the GEM Listing Rules and the transactions contemplated under the Underwriting Agreement constitute connected transactions for the Company under the GEM Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company has not conducted any rights issue or open offer within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities within such 12-month period. The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

None of the Directors had material interests in the transactions contemplated under the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder. Nevertheless, given that the Underwriter is an associate of Mr. Ng Ting Kit, a substantial shareholder who is a cousin of Mr. Ng Man Chun Paul and the brother of Mr. Ng Ting Ho, each an executive Director, each of Mr. Ng Man Chun Paul and Mr. Ng Ting Ho has abstained from voting on the Board resolutions which approved the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it (comprising the Underwriter, Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho), taken together, in aggregate, hold 27,847,500 Shares, representing approximately 18.20% of the issued share capital of the Company.

If there had been no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho pursuant to the Irrevocable Undertakings) and no placement can be made under the Compensatory Arrangements, upon completion of the Rights Issue:

- (1) assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the Underwriter will be required to take up 375,546,045 Rights Shares. In such circumstances, the Underwriter and parties acting in concert with it (comprising the Underwriter, Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho), taken together, will in aggregate, hold 486,936,045 Shares, representing approximately 79.55% of the issued share capital of the Company as enlarged by the Rights Shares; and
- (2) assuming that the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) were exercised in full on or before the Record Date and there is no other change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the Underwriter will be required to take up 412,266,045 Rights Shares. In such circumstances, the Underwriter and parties acting in concert with it (comprising the Underwriter, Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho), taken together, will in aggregate, hold 523,656,045 Shares, representing approximately 79.21% of the issued share capital of the Company as enlarged by the Rights Shares.

Accordingly, in either case, such increase of voting rights of the Company of the Underwriter would therefore trigger an obligation of the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them under Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among others, (i) the approval by at least 75% of the Independent Shareholders at the SGM by way of poll; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder. The Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates; the Underwriter, its associates and parties acting in concert with the Underwriter; and any Shareholders who are involved in, or interested in, or have a material interest in the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM.

If there had been no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho pursuant to the Irrevocable Undertakings) and no placement can be made under the Compensatory Arrangements, upon completion of the Rights Issue, the Underwriter and parties acting in concert with it (comprising the Underwriter, Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho) will, in aggregate, hold more than 50% of the Company's voting rights, the Underwriter may thereafter increase its holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company believes that the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver and the Irrevocable Undertakings would not give rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue does not comply with other applicable rules and regulations.

As at the Latest Practicable Date, save for the Irrevocable Undertakings, the Company has not received any other irrevocable commitments to accept or reject the Rights Shares or to vote for or against the Rights Issue and/or the Whitewash Waiver.

DEALINGS OF THE SHARES BY THE UNDERWRITER AND PARTIES ACTING IN CONCERT WITH IT

As at the Latest Practicable Date, neither the Underwriter, Mr. Ng Ting Kit nor any parties acting in concert with any one of them:

- (a) save for the Shares as set out in the section headed "Shareholding structure of the Company" in the Letter form the Board in this circular, owns, controls or has direction over any Shares and right over Shares, outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (b) has received any irrevocable commitment to vote for or against the Rights Issue and/or the Underwriting Agreement and/or the Whitewash Waiver;
- (c) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (d) save for the Underwriting Agreement and Irrevocable Undertakings given by Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho, details of which are set out in the section headed "Proposed Rights Issue – Irrevocable Undertakings" in the Letter form the Board in this circular, there are no arrangements referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, with any other persons;
- (e) save that the Rights Issue and the Underwriting Agreement are conditional upon, among other things, obtaining of the Whitewash Waiver by the Underwriter as set out in the section headed "The Underwriting Agreement – Conditions of the Underwriting Agreement" in the Letter form the Board in this circular, has any agreement or arrangement to which it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Rights Issue and/or the Underwriting Agreement and/or the Whitewash Waiver;
- (f) has dealt in any relevant securities of the Company in the Relevant Period;
and
- (g) has entered into any derivative in respect of the relevant securities in the Company which are outstanding.

As at the Latest Practicable Date:

- (a) apart from the Rights Shares to be subscribed and underwritten by the Underwriter, the Company has not paid and will not pay any other consideration, compensation or benefit in whatever form to the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them in connection with the Rights Issue and the Underwriting Agreement;
- (b) apart from the Underwriting Agreement and the Irrevocable Undertakings, there is no other understanding, arrangement or special deal between the Group on the one hand, and the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them on the other hand; and
- (c) there is no understanding, arrangement or agreement or special deal between (i) any Shareholders (excluding the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them who are Shareholders); and (ii)(x) the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them; or (y) the Company, its subsidiaries or associated companies.

SGM

The register of members of the Company will be closed from Wednesday, 16 June 2021 to Monday, 21 June 2021 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

The SGM will be held at 11:00 a.m. on Monday, 21 June 2021 at Room 2301B, 23/F, China Insurance Group Building, 141 Des Voeux Road Central, Central, Hong Kong for the Shareholders to consider and, if thought fit, pass the resolution(s) to approve, among other things: (i) the Rights Issue; (ii) the Underwriting Agreement and (iii) the Whitewash Waiver. Only the Independent Shareholders will be entitled to vote on the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

In accordance with the GEM Listing Rules and the Takeovers Code, (i) the Underwriter and its associates; (ii) any parties acting in concert with the Underwriter and Mr. Ng Ting Kit; (iii) the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates; and (iv) Shareholders who are involved in, or interested in, the Rights Issue, the Underwriting Agreement or the Whitewash Waiver and the Irrevocable Undertakings, including but not limited to the Underwriter and Mr. Ng Ting Kit and parties acting in concert with any one of them, will be required to abstain from voting on the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the SGM. Save as disclosed, no other Shareholder is involved or interested in or has a material interest in the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver and the Irrevocable Undertakings and, hence, is required to abstain from voting on the resolution(s) in relation to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

Moreover, to ensure only Independent Shareholders will vote on the resolutions proposed at the SGM in case they have appointed the chairman of the SGM as a proxy, the chairman of the SGM will not be a de facto concert party and/or presumed to be acting in concert with the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them and those who are involved in and/or interested in the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Irrevocable Undertakings.

Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by 11:00 a.m. on Saturday, 19 June 2021 or not less than 48 hours before the time appointed for holding any adjournment thereof to the office of the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

ESTABLISHMENT OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors (namely Mr. Chan Hin Hang, Mr. Yum Edward Liang Hsien and Mr. Hung Kenneth), to provide recommendation to the Independent Shareholders as to whether the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable and on how to vote at the SGM.

Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

DESPATCH OF THE PROSPECTUS DOCUMENTS

The Prospectus Documents will be despatched to the Qualifying Shareholders on Tuesday, 6 July 2021 after obtaining the approval of the Rights Issue, the Underwriting Agreement and the transaction contemplated thereunder and the Whitewash Waiver from the Independent Shareholders at the SGM. Only the Prospectus will be despatched to the Non-Qualifying Shareholders for their information. The Non-Qualifying Shareholders will not be entitled to any assured allotment under the Rights Issue.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the section headed "The Underwriting Agreement — Termination of the Underwriting Agreement" in this Letter from the Board). Accordingly, the Rights Issue may or may not proceed.

The Shares are expected to be dealt in on an ex-rights basis from Wednesday, 23 June 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Thursday, 8 July 2021 to Thursday, 15 July 2021 (both days inclusive). Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or the Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party 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 adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

RECOMMENDATION

The Directors (including all the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) believe that the terms of the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder (including the Subscription Price), and the Whitewash Waiver, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder, and the special resolution to be proposed at the SGM to approve the Whitewash Waiver.

Shareholders are advised to read carefully the letter from the Independent Board Committee of this circular and the letter from the Independent Financial Adviser of this circular. The Independent Board Committee, having taken into account the principal factors and reasons considered by, and the advice of the Independent Financial Adviser, considers that (i) the terms of the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder (including the Subscription Price), and the Whitewash Waiver are normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; and (ii) the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of (i) the ordinary resolution to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder; and (ii) the special resolution to be proposed at the SGM to approve the Whitewash Waiver.

RISK FACTORS

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

Business risks relating to the Group

The Group is principally engaged in (i) alcoholic beverage distribution and miscellaneous business; (ii) food and beverage business; (iii) money lending business; (iv) provision of children education services; (v) financial services business; and (vi) securities investment business.

(1) *Reliance on key personnel*

The effective operations and future success of the Group's business are depending, to a significant extent, on the capability, experience and continued efforts of our key management personnel. If the Group is unable to attract, retain and motivate the necessary key management personnel, the business and operation conditions of the Group may be disrupted and the results and financial positions of the Group may be materially or adversely affected.

(2) *Reliance on close relationship with the Group's customers*

The success of the Group relies heavily on good relationship with its customers. If the Group fails to maintain the current level of business relationship with its customers and retain them in its sales and distribution network, the sales, financial condition and operating results of the Group may be adversely affected.

(3) *Risk relating to the food and beverage business*

- (a) Uncertainties on obtaining or renewing the licences and permits for the Group's operations – the Group is required to obtain and maintain various type of licences, including (i) general licences and (ii) liquor licence and other approvals or permits, including restricted food permits for its restaurants operation in Hong Kong. Most of the requisite licences are usually valid for one to two years and the licences are required to be renewed before their expiry to comply with the relevant requirements and ensure that business operation can be continued without any disruption. The Group may experience difficulties or failures in obtaining or renewing the necessary approvals, licences and permit for new restaurants in a timely manner or at all for factors beyond its control.
- (b) Rely on individual to hold all the liquor licences of restaurants – all of the liquor licences of the Group's restaurants were held by individuals. Pursuant to Regulation 15 of the Dutiable Commodities (Liquor) Regulations (Chapter 109B of the Laws of Hong Kong), any transfer of a liquor licence must be conducted in the prescribed form with the consent of the liquor licence holder. In case of illness or temporary absence of the liquor licence holder, the secretary of the Liquor Licensing Board may in his/her discretion authorize any person to manage the licenced premises under Regulation 24 of the Dutiable Commodities (Liquor) Regulations, upon application by the liquor licence holder. For any application for cancellation of the liquor licence made by the holder of liquor licence, one must make an application for new issue of a liquor licence to the Liquor Licensing Board. In case of death or insolvency of the liquor license holder, his/her executor or administrator or trustee may carry on the business in the licence premises until the expiration of the licence under section 54 of the Dutiable Commodities Ordinance. If the relevant liquor licence holder in each of the Group's restaurants refuses to give consent to a transfer application when a transfer is required, or fails to make an application in respect of his/her illness or temporary absence or makes a cancellation application without consent, or if an application for new issue of a liquor licence is required in case of death or insolvency of the relevant employee, the relevant restaurant may have to cease it sale of liquor for the time being, in which case may adversely affect its business operation.

(4) *Risks relating to the money lending business*

The money lending business of the Group is exposed to default from the Group's customers, which involves the risk of loss due to the inability or unwillingness of customers to meet their contractual obligations. If the customers of the money lending business of the Group fail to meet their contractual obligations, the Company may incur additional costs to collect the loan principal and corresponding interests. To mitigate this risk, the Board has set up the Credit Committee (which comprises (i) the directors of the subsidiaries of the Company which hold money lending licenses and (ii) the personnel of the finance department of the Group) with relevant experience of this business segment and report to the board of the Company directly. The Credit Committee has full authority to deal with all credit matters. The members of the Credit Committee are appointed by the Board and the quorum of the Credit Committee is at least two committee members. The credit policy of the Group's money lending business is subject to the review and amendments by the Credit Committee and the Board from time to time in line with changes in market environment.

(5) *Risk relating to the financial services business*

The financial services business of the Group is subject to the performance of the Hong Kong securities market and the performances of the Group's competitors which are beyond its control and the Group cannot assure that our historical level of income can be sustained. In addition, non-compliance with extensive regulatory requirements could cause the Group to incur fines, restriction on financial service activities or even suspension or revocation of some or all of the licences for carrying on the Group's business activities.

Also the Group's brokerage services involved active interactions between its staff and customers and therefore it is subject to human errors, which the Group has to bear the losses resulting therefrom. For placing and underwriting business, the Group is exposed to business risks in case the securities underwritten by the Group are undersubscribed or the placing exercises fail to complete.

(6) *Major financial risk exposed to the Group*

The Group is exposed to financial risks, including credit, interest rate, liquidity and other price risks. The Group actively and regularly reviews these risks and will adopt measures, if needed, to control and mitigate these risks.

(7) *Difficulties in recruitment and retention of the Group's employees*

The success of the Group depends upon the Group's ability to attract, retain and motivate a sufficient number of qualified employees, including responsible officers, teachers, restaurant staff, chefs and kitchen staff. Highly service-oriented and qualified individuals are in relatively short supply in Hong Kong and competition for these employees is intense. Any failure to employ and retain enough qualified employees could delay planned new restaurant openings, cause untenable teacher-to-pupil ratio to meet the statutory requirement or result in higher employee turnover, either of which could have a material adverse effect on the Group's business operations. In addition, competition for qualified employees could also require the Group to pay higher wages, which could result in higher labour cost.

Risks relating to politics, economics and regulations

The business operations of the Group are primarily based in Hong Kong. Accordingly, the Group's operations and prospects could be adversely affected by economic, political and legal developments in the Hong Kong. Any changes in the political and economic policies/environments of the Hong Kong (including, but not limited to, government policies, political instability, expropriation, laws, labour activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions) may adversely affect the Group's business and operations as well as its ability to sustain its expansion strategies and thus future growth.

Risks relating to the Share price

The price and trading volume of the Shares are determined by demand and supply of investors for the Shares in the public market price 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 the PRC or Hong Kong could cause the market price of the Shares to change substantially.

Risks relating to the Rights Issue

Under the Underwriting Agreement, the Underwriter shall be entitled by notice in writing to the Company to terminate its obligations upon the occurrence of any of the events stated in the section headed "Termination of the Underwriting Agreement" in this circular on or before the Latest Time for Termination.

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.

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 Group's business in a material aspect.

ADDITIONAL INFORMATION

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

Yours faithfully
On behalf of the Board
China Demeter Financial Investments Limited

Ng Man Chun Paul
Chairman

