PELICAN FINANCIAL
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PELICAN FINANCIAL LIMITED
21/F, Lee Garden Three
1 Sunning Road
Causeway Bay
Hong Kong

28 May 2021

To the Independent Board Committee and the Independent Shareholders of
China Demeter Financial Investments Limited

Dear Sirs,

(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

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 28 May 2021 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement dated 29 March 2021 in relation to among other things, the fundraising of the Company of, before expense, not less than approximately HK$45.9 million by the issue of not less than 459,088,545 Rights Shares, and not more than approximately HK$49.6 million by the issue of 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 the Non-Qualifying Shareholders.

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) 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.

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.

In addition, 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, the Underwriter will be required to take up the Underwritten Shares and in such circumstances, the aggregate shareholding held by 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), would amount to approximately 79.21% to 79.55% of the issued share capital of the Company as enlarged by the Rights Shares. Accordingly, such increase of voting rights of the Company of the Underwriter would 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 will be 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. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue will not proceed.

The Board currently consists of three executive directors and three independent non-executive directors. The Independent Board Committee, comprising Mr. Chan Hin Hang, Mr. Yum Edward Liang Hsien and Mr. Hung Kenneth, has been established to advise the Independent Shareholders as to whether the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and to make a recommendation to the Independent Shareholders as to whether to vote in favour of or against the relevant resolution(s) to be proposed at the SGM. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on these matters.

We are not connected (financially or otherwise) with the Company, the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and concert parties and we are not aware of any relationships or interests between us and the Company or any of their respective substantial shareholders, directors or chief executives, or of their respective associates, as well as the Underwriter, Mr. Ng Ting Kit and parties acting in concert with any one of them, that could reasonably be regarded as relevant to our independence. In the last two years, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby Pelican Financial Limited will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and concert parties, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of or against the relevant resolution(s) to be proposed at the SGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Underwriting Agreement, the Irrevocable Undertakings, the Placing Agreement, the Announcement, the first quarterly report of the Company for the three months ended 31 March 2021 (the "**2021 Q1 Report**"), the annual report of the Company for the financial year ended 31 December 2020 (the "**2020 Annual Report**"), the interim report of the Company for the six months ended 30 June 2020 (the "**2020 Interim Report**") and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs of the Group. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date pursuant to Rule 9.1 of the Takeovers Code.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In arriving at our opinion and recommendation with regard to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, we have taken into account the principal factors and reasons set out below:

1. Background and financial information of the Group

The Company was incorporated in the Cayman Islands and continued in Bermuda with limited liability. 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.

Set out below is a summary of the financial information of the Group for the three months ended 31 March 2020 and 31 March 2021 as extracted from the 2021 Q1 Report, and for the two years ended 31 December 2020 as extracted from the 2020 Annual Report.

Table 1: Summarised financial results of the Group

	For the three months ended 31 March		For the financial year ended 31 December	
	2021	2020	2020	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited) (restated)
Revenue from continuing operations				
Alcoholic beverage distribution and miscellaneous business	14	213	14,224	12,314
Food and beverage business	30,944	18,268	106,926	68,793
Dividend income from listed equity instruments	–	–	101	86
Loan interest income	766	2,115	5,901	8,476
Provision of children education services	1,238	1,019	4,287	5,427
Provision of financial services	3,127	746	5,433	1,816
Total revenue	36,089	22,361	136,872	96,912
Gross profit	23,594	15,825	86,187	62,741
Loss for the year attributable to owners of the Company	(1,024)	(10,392)	28,453	104,211

According to the 2021 Q1 Report, the Group recorded revenue of approximately HK$36.1 million for the three months ended 31 March 2021 as compared with approximately HK$22.4 million for the three months ended 31 March 2020, representing an increase of approximately 61.4%. Such growth in revenue was mainly attributable to an increase of approximately 69.4% in revenue from the Group's food and beverage business as compared with that in the previous year. As shown in the above table, the Group's food and beverage business had contributed approximately 85.7% of its total revenue for the three months ended 31 March 2021, hence the growth in revenue from this segment had a major impact on the Group's financial performance.

Another major revenue growth driver for the three months ended 31 March 2021 was the Group's financial services business, the revenue from which had increased by close to 4 times from that for the three months ended 31 March 2020. According to the 2021 Q1 Report, the strong growth momentum in biotech and new economy companies fundraising in the Hong Kong stock market had resulted in a high demand for margin financing services, benefiting the Group with an increase in commission from securities dealing and interest income from securities clients.

As a result of the increase in revenue from the Group's food and beverage and financial services businesses as discussed above, the Group recorded gross profit of approximately HK$23.6 million for the three months ended 31 March 2021, representing an increase of approximately 49.1% compared with that of approximately HK$15.8 million for the three months ended 31 March 2020. Due to the gain in the Group's gross profit, the Group's net loss attributable to owners of the Company narrowed to approximately HK$1.0 million for the three months ended 31 March 2021, as compared with that of approximately HK$10.4 million for the three months ended 31 March 2020.

According to the 2020 Annual Report, the Group recorded revenue of approximately HK$136.9 million for the year ended 31 December 2020 as compared with approximately HK$96.9 million for the year ended 31 December 2019, representing an increase of approximately 41.2%. Similarly, such growth in revenue was mainly attributable to an increase of approximately 55.4% in revenue from the Group's food and beverage business as compared with that in the previous year, as the Group had opened 3 new restaurants in Hong Kong in the second quarter of 2020, and 2 new restaurants in Singapore in the first and fourth quarters of 2020, making there in total 15 restaurants of the Group throughout the year. As shown in the above table, the Group's food and beverage business had been its major business segment for the year ended 31 December 2020, contributing approximately 78.1% of the Group total revenue for the year, hence the growth in revenue from this segment had positively impacted the Group's overall financial performance.

Similar to its financial results for the three months ended 31 March 2021, the Group's financial services business, which had increased by close to 3 times from that for the previous year, had been a key driver for its overall revenue growth. According to the 2020 Annual Report, as the stocks market in Hong Kong set new trading activity records in 2020 and trading volumes on both Stock Connect reached new highs, particularly driven by the growing fundraising activities of biotech and new economy companies, it is noted that the Stock Exchange had raised a total of approximately HK$400.2 billion for IPO fundraisings in 2020. As a result of the high demand for margin financing services and high average trading turnover in the Hong Kong stock market, the Group recorded an increase in commission from securities dealing and interest income from securities clients, and such growth in commission and interest income had continued to benefit the Group for the three months ended 31 March 2021 as discussed earlier.

Mainly as a result of the increase in revenue from the Group's food and beverage and financial services businesses as discussed above, the Group recorded gross profit of approximately HK$86.2 million for the year ended 31 December 2020, representing an increase of approximately 37.4% compared with that of approximately HK$62.7 million in 2019. While we noted that the Group had been in a net loss position for five consecutive years since 2016, due to the gain in the Group's gross profit, the COVID-19-related rent concessions of approximately HK$4.8 million and the government grant of approximately HK$6.8 million in respect of COVID-19-related subsidies, the Group's net loss attributable to owners of the Company narrowed to approximately HK$28.5 million for the year ended 31 December 2020, as compared with that of approximately HK$104.2 million for the year ended 31 December 2019.

The consolidated assets and liabilities of the Group as at 31 December 2020 and 30 June 2020 as extracted from the 2020 Annual Report and 2020 Interim Report respectively are summarised as follows:

Table 2: Summarised financial position of the Group

	As at 31 December 2020 *HK$'000* (audited)	As at 30 June 2020 *HK$'000* (unaudited)
Total assets		
– Non-current assets	71,442	53,235
– Current assets	171,582	251,719
Total liabilities		
– Current liabilities	100,982	164,411
– Non-current liabilities	31,893	19,885
Net current assets	70,600	87,308
Net assets	110,149	120,658
Equity attributable to owners of the Company	108,766	119,298

As at 31 December 2020, the Group's total assets amounted to approximately HK$243.0 million, which mainly included (i) trade receivables of approximately HK$55.9 million; (ii) property, plant and equipment of approximately HK$38.6 million; (iii) cash and cash equivalents of approximately HK$35.6 million; (iv) loans and interest receivables of approximately HK$26.0 million; (v) trust bank accounts of approximately HK$23.3 million; (vi) financial assets at fair value through profit or loss of approximately HK$18.1 million; (vii) goodwill of approximately HK$17.2 million; and (viii) deposits, prepayments and other receivables of approximately HK$19.8 million. As at 31 December 2020, the Group had total liabilities of approximately HK$132.9 million, which mainly consisted (i) lease liabilities that were payable after one year of approximately HK$31.9 million; (ii) lease liabilities that were payable in less than one year of approximately HK$31.1 million; and (iii) trade and other payables of approximately HK$59.6 million.

As at 30 June 2020, the Group's total assets amounted to approximately HK$305.0 million, which mainly included (i) trust bank accounts of approximately HK$112.7 million; (ii) loans and interest receivables of approximately HK$52.4 million; (iii) cash and cash equivalents of approximately HK$30.1 million; and (iv) trade receivables of approximately HK$21.6 million. As at 30 June 2020, the Group had total liabilities of approximately HK$184.3 million, which mainly included (i) trade and other payables of approximately HK$142.5 million; (ii) lease liabilities that were payable in less than one year of approximately HK$21.5 million; and (iii) lease liabilities that were payable after one year of approximately HK$19.9 million.

As shown in the above table, the consolidated equity attributable to owners of the Company decreased from approximately HK$119.3 million as at 30 June 2020 to approximately HK$108.8 million as at 31 December 2020.

2. Information on the Underwriters and parties acting in concert with it

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 elder brother of Mr. Ng Ting Ho, the chief executive officer of the Company and an executive Director. Accordingly, Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho are parties acting in concert with the Underwriter.

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 it complies with Rule 10.24A(2) of the GEM Listing Rules by being the substantial Shareholder of the Company.

3. Fund raising activities involving issue of securities in the past 12 months

As set out in the Board Letter, the Company has not conducted any fund raising activities involving issue of securities in the past 12 months immediately preceding the date of the Announcement.

4. **Reasons for the Rights Issue and the intended use of proceeds**

As disclosed in the Board Letter, the Board believes that the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position, while at the same time support the Group's key business development for the foreseeable future. In particular, in the view of the drop in rent prices and increasing supply of attractive sites in the Hong Kong market, the Board is confident of expanding the food and beverage business at a reasonable pace. Regarding the development of the financial service business, the increasing demand from the U.S. listed Chinese companies and technology companies seeking to have a (second) listing in Hong Kong has benefited the average daily turnover of share transactions in Hong Kong to reach approximately HK$154.6 billion over the past 12 months, driving the appetite for margin financing. Therefore, the Board intends to allocate more capitals to its margin financing business in order to capture the opportunities.

As set out in the Board Letter, 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, including but not limited to opening new restaurants, replacement for its existing facilities, procurement of machinery, equipment, and installing systems for accounting and customer relationship management;

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

(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; and

(4) as to approximately HK$4.5 million will be used as general working capital of the Group.

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.

5. Our views on the reasons for the Rights Issue and the intended use of proceeds

5.1. *Expand the Group's food and beverage business segment*

As stated in the Board Letter, the Group intends to apply part of the net proceeds from the Rights Issue of approximately HK$9.0 million to expand its food and beverage business, which is currently one of the principal businesses of the Group.

Of such amount, (i) approximately HK$4 to HK$5 million will be used to invest in the opening of a new restaurant of the Group, 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, installation of systems for accounting and customer relationship management and exploration of opportunities for opening new restaurants.

In this regard, we have reviewed the 2020 Annual Report and noted that the Group had continued to expand its food and beverage business in 2020, and currently has 15 restaurants in full operation (with 3 of them opened in Hong Kong and 2 of them in Singapore in 2020). We also noted that the Group has taken various measures to strengthen its food and beverage business in order to tackle the COVID-19 outbreak. For example, the Group has been expanding the delivery and take-away business of its restaurants and has been implementing cost control measures such as having special work arrangements and rearranging the work schedule of its restaurants where appropriate.

While it is a general understanding that the food and beverage industry in Hong Kong has been hit hard by the COVID-19 pandemic and the relevant social-distancing restrictions, the pandemic is expected to be brought under control in 2021 as the number of vaccine recipients increases, and hence it is expected that those restrictions will be further relaxed, benefiting the food and beverage industry as people can then dine out in larger groups and stay at restaurants and bar till later. On the other hand, we noted that according to the Rating and Valuation Department, the rental index for private retail properties in Hong Kong (which include those for restaurant operation) for the fourth quarter of 2020 had dropped by about 7.4% and 10.6% compared with those for the fourth quarters of 2019 and 2018 respectively[1], implying that the operating cost for food and beverage businesses has decreased, a factor favorable to restaurant operators. Indeed, such view is supported by the fact that the number of new restaurants opened in Hong

1 Please refer to the website of the Rating and Valuation Department at https://www.rvd.gov.hk

Kong from December 2020 to March 2021 had outweighed the number of restaurants closed during the same period, according to the market insights published by the online food and restaurant guide named OpenRice[2].

Given that the food and beverage business had been a key driver for the Group's revenue and that the food and beverage business in Hong Kong is expected to benefit as the COVID-19 pandemic becomes more controlled, we consider allocating part of the net proceeds from the Rights Issue to invest in the opening of a new restaurant of the Group and to improve the Group's current facilities in this business segment as fair and reasonable so far as the Independent Shareholders are concerned.

5.2. *Expand the Group's financial services business segment for margin financing*

As stated in the Board Letter and as discussed with the Company, the Group intends to allocate the net proceeds from the Rights Issue of approximately HK$19.5 million to increase its provision of margin loans, and remaining net proceeds of approximately HK$0.5 million to the marketing of its margin financing business, given that in view of the quantitative easing among countries, interest income from its margin financing services is expected to maintain a steady growth.

We noted that despite the economic hit brought by the COVID-19 pandemic, the stock market in 2020 had demonstrated resilience and overall recorded gain for the year. Indeed, despite stock market volatility was observed in the early 2021, PricewaterhouseCoopers Hong Kong expected that the Hong Kong stock market will raise between HK$420 and HK$460 billion, the most funds among the global IPO fundraising markets, in 2021[3]. With such active stock market, it is expected that the demand for margin financing services will grow substantially. In fact, even amid the outbreak of the COVID-19 pandemic in 2020, the number of active margin clients in Hong Kong had been increasing significantly from 2015 to 2020, with the annual growth rates being 10.4%, 26.4%, 37.43%, 29.7% and 144% respectively, according to the financial review of the security industry in Hong Kong conducted by the Securities and Future Commission of Hong Kong[4]. As such, we consider it fair and reasonable so far as the Independent Shareholders are concerned that the Company intends to allocate part of the net proceeds from the Rights Issue to this business segment, as it would allow the Group to capture opportunities from the active stock market and hence high demand for margin financing services.

2 Please refer to the website of Openrice Group Inc. at https://biz.openrice.com/hk/en/restaurants/insights

3 Please refer to the website of PricewaterhouseCoopers Hong Kong at https://www.pwchk.com/en/press-room/press-releases/pr-040121.html

4 Please refer to the website of the Securities & Futures Commission of Hong Kong at https://www.sfc.hk/-/media/EN/files/IS/publications/Financial-Review-of-the-Securities-Industry_Eng.pdf, https://www.sfc.hk/-/media/EN/files/ER/Annual-Report/2019-20/24_Breakdown_of_SFC_activity_data_EN.pdf, and https://www.sfc.hk/-/media/EN/files/ER/Reports/Securities-Industry-Financial-Review-Report_31-Dec-2020.pdf

5.3. Repay a loan of the Group

As discussed in the Board Letter, the loan which the Group intends to repay using part of the net proceeds from the Rights Issue refers to the loan in the principal amount of HK$10.0 million that was obtained from E Finance Limited, an Independent Third Party. Such loan bears an interest rate of 10% per annum and is unsecured, and shall mature on 26 July 2021. According to our discussion with the Company, the said loan had been utilized for administrative expenses in 2020. Besides its current internal financial resources, the Group intends to allocate part of the net proceeds from the Rights Issue of approximately HK$4.5 million (as further discussed in the next sub-section) for administrative expenses. It is also the Group's plan to repay the principal amount of the loan of HK$10.0 million using part of the net proceeds from the Rights Issue of approximately HK$10.0 million, and to repay any interest accrued on the said loan using the Group's general working capital.

Given the upcoming repayment schedule of the said loan, we consider it reasonable to allocate part of the net proceeds from the Rights Issue to the repayment of the principal amount of such.

5.4. Strengthen the Group's working capital position

As discussed in the Board Letter, the Company intends to apply part of the net proceeds from the Rights Issue of approximately HK$4.5 million into the Group's general working capital for items such as salaries, allowance for staff at the Company's head office and administration expenses (including but not limited to rental and management fees incurred by the Company's head office). Based on the Group's estimation, the related expenses would be approximately HK$1.5 million per month.

In this regard, we noted that according to the 2020 Annual Report, as at 31 December 2020, the Group has cash and cash equivalents of approximately HK$35.6 million and current liabilities of approximately HK$101.0 million. We also noted that the current ratio was about 2.89 as at 31 December 2019 and about 1.70 as at 31 December 2020, reflecting a significantly decrease in the Group's liquidity. Given the need to maintain a sufficient level of current assets, particularly cash, for the Group's operation, we consider allocating part of the net proceeds from the Rights Issue into the Group's working capital would allow the Group to enjoy more flexibility in its working capital management.

Despite the cash position of the Group as at 31 December 2020, taking into consideration (i) the expected investment cost to be incurred for the opening of a new restaurant which will amount to approximately HK$4 to HK$5 million; (ii) the development of the Group's margin financing business which will require a level of capital and liquidity of the Group at all times for its provision of margin loans; and (iii) the upcoming loan repayment which will amount to approximately HK$10 million, the Group considers, and we agree that, its current level of working capital may not be sufficient to cater both the development plan for its food and beverage business and financial services business, as well as its capital needs for daily operation. As such, we concur with the Board that the net proceeds from the Rights Issue can help resolve the cash flow need of the Group, and the intended use of proceeds is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5.5. Fund raising activities in the past and fund raising alternatives

As set out in the Board Letter, the Company has not conducted any fund raising activities involving issue of securities in the past 12 months immediately preceding the Latest Practicable Date.

In addition, apart from the Rights Issue, the Board has considered the below debt/equity fund raising alternatives such as bank borrowings, placing or an open offer.

(i) Bank borrowing

As discussed with the Company, we understand the Board is of the view that additional bank borrowing will incur further interest burden on the Group and therefore negatively affect the gearing of the Group. Additional bank borrowing may also require the provision of security and make creditors rank before the Shareholders. In view of the uncertain outlook of the global economy, it may also be difficult for the Group to obtain long term bank borrowings in favourable terms.

Given that the equity raised through the Rights Issue would not be interest-bearing, we agree that the Rights Issue would allow the Company to strengthen its capital base and liquidity without incurring interest costs as it would through bank borrowing.

(ii) Placing

The Board is of the view, and we concur, that placing will dilute the interests of the Shareholders without giving them the opportunity to take part in the exercise.

(iii) Open offer

Finally, the Board considers, and we concur, in comparison to rights issue, open offer does not provide the flexibility to the Shareholders in dealing with the nil-paid rights attaching to the Rights Shares.

In view of the above, we concur with the Board that the Rights Issue is a more beneficial way of fund raising when compared to alternative fund-raising methods and that the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, given that the Rights Issue (i) allows the Company to strengthen its capital base and liquidity without incurring interest costs and also enables the Company to reduce its gearing ratio; (ii) offers all the Qualifying Shareholders equal opportunity to subscribe for their pro-rata provisional allotments of the Rights Shares without diluting their shareholding interests and allows the Qualifying Shareholders to participate in the future development of the Company; (iii) allows the Qualifying Shareholders who decide not to take up their entitlements under the Rights Issue to sell the nil-paid Rights Shares in the market for economic benefits and allows other Qualifying Shareholders to acquire these nil-paid Rights Shares; and (iv) allows the Qualifying Shareholders to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares in addition to their entitlements under the Rights Shares through the Compensatory Arrangements, despite the absence of excess application arrangements.

6. Principal terms of the Rights Issue

Set out below is a summary of the principle terms of the Rights Issue:

Issue price	:	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 has 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.

7. Our analysis of the principal terms of the Rights Issue and the Underwriting Agreement

7.1. *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 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 the Board Letter. The Subscription Price represents:

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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 2020 Annual Report and the issued share capital of the Company of 153,029,515 Shares as at the Latest Practicable Date;

(viii) 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); and

(ix) 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.

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; and (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.

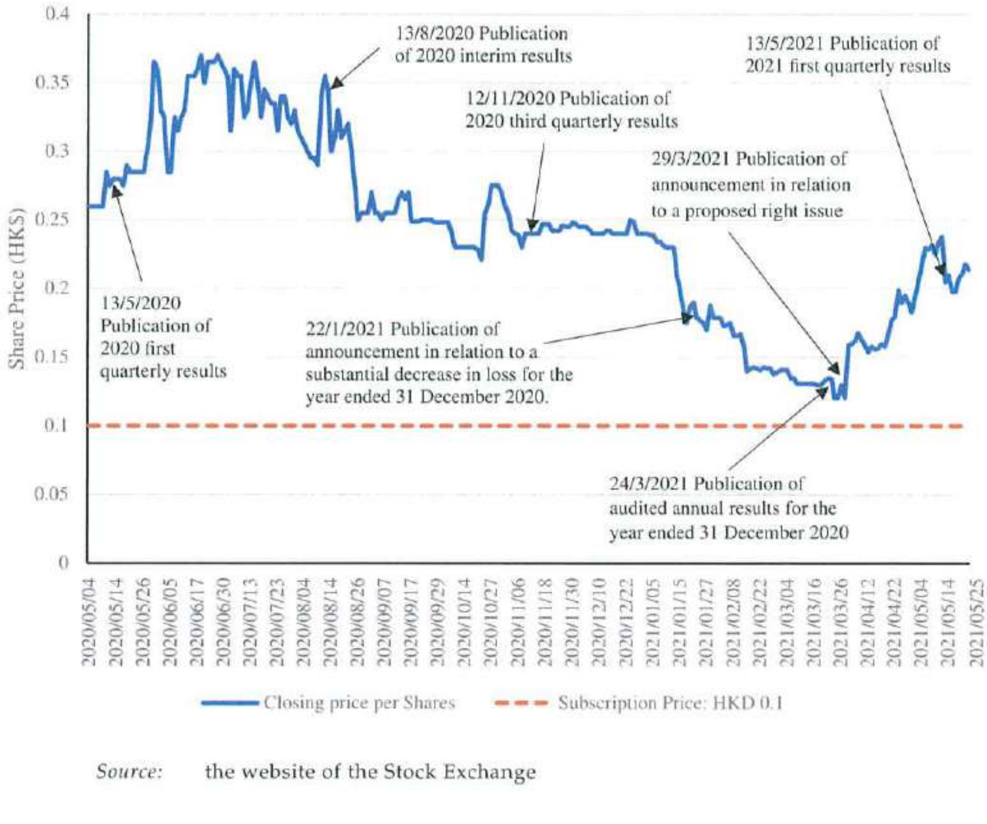
We noted that the Subscription Price of HK$0.10 per Rights Share represents a deep discount of approximately 86.11% to the audited net asset value per Share of approximately HK$0.720 as at 31 December 2020. In this regard, as discussed in the next sub-section below, we noted that the market price of the Shares ranged from HK$0.121 to HK$0.370 during the Review Period (as defined hereinafter), and from HK$0.121 to HK$0.275 during the six-month and up to the Last Trading Day. Given that the unaudited consolidated net asset value per Share as at 30 June 2020 and audited consolidated net asset value per Share as at 31 December 2020 were approximately HK$0.79 and HK$0.720 respectively, the Shares had been trading at a deep discount to the audited/unaudited net asset value per Share for the last year and up to the Last Trading Day.

In view of the above and the fact that the prevailing market prices of the Shares have already reflected the market valuation of the Company in general, we consider that (i) the discount of the Subscription Price to the audited/unaudited net asset value per Share is justifiable; and (ii) it is fair and reasonable so far as the Independent Shareholders are concerned to make reference to the market prices of the Shares rather than the audited/unaudited net asset value per Share when determining and assessing the Subscription Price.

7.2. Historical Share price performance

In assessing the fairness and reasonableness of the Subscription Price, we have taken into account the daily closing price of the Shares as quoted on the Stock Exchange commencing on 1 May 2020 up to and including 25 May 2021, being the Latest Practicable Date (the "**Review Period**"). We consider that such sampling period of approximately 12-month is adequate as it represents a reasonable period to provide a general overview of the recent price performance of the Shares. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Chart: Historical closing prices of the Shares during the Review Period



Source: the website of the Stock Exchange

As illustrated in the chart above, during the Review Period, the closing price of the Shares demonstrated an overall downward trend before the publication of the Announcement, decreasing from its highest at HK$0.37 per Share on 18 June 2020 to its lowest at HK$0.121 per Share on 24, 25 and 29 March 2021. After the publication of the Announcement, likely because of the positive public response to the Rights Issue, the Share price rebounded to HK$0.159 per Share and reached its highest point at HK$0.238 during the remaining Review Period, despite returning to HK$0.214 per Share as at the Latest Practicable Date. During the Review Period, the closing prices of the Shares showed an average of HK$0.243 per Share. Accordingly, the Subscription Price represents (i) a discount of approximately 17.4% to the lowest closing price of the Shares; (ii) a discount of approximately 73.0% to the highest closing price of the Shares; and (iii) a discount of approximately 58.8% to the average closing price of the Shares during the Review Period.

As further discussed in the sub-section below, we noted that it is a common market practice for listed issuers in Hong Kong to set the subscription price of their rights issue at a discount to the prevailing market prices of the relevant shares in order to enhance the attractiveness of rights issue to existing shareholders. In this regard, while we noted that the Subscription Price represents significant discounts of approximately 17.4% and 58.8% respectively to the lowest and average closing prices of the Shares during the Review Period, taking into account (i) the Group had been in a net loss position for five consecutive years since 2016; (ii) the closing prices of the Shares had demonstrated an overall downward trend during the Review Period; (iii) the Subscription Price, which represents a discount of approximately 17.36% to the closing price per Share on the Last Trading Day, and a discount of approximately 4.99% to the theoretical ex-rights price per Share on the Last Trading Day, show discounts that are within the ranges of those represented by the Comparable Transactions (as defined hereinafter) as discussed in further details in the next sub-section headed "Comparable analysis" below; and (iv) a favourable discount to prevailing market prices of the Shares would attract the Qualifying Shareholders to participate in the Rights Issue and invest in the Company so as to enable the Company to satisfy its funding and capital needs, we are of the view that the Subscription Price is not only fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, but also in alignment with the market practice.

7.3. Comparable analysis

To further assess the fairness and reasonableness of the terms of the Rights Issue, we have further considered recent market rights issue listed on the Stock Exchange (the "**Comparable Transactions**") announced since 1 November 2020 up to and including the Latest Practicable Date, being a sampling period of approximately six months (the "**Comparable Review Period**"). The Comparable Transactions were selected on the basis that (i) they were conducted by companies that are listed on the Stock Exchange; (ii) they were conducted during a six-month Comparable Review Period which we consider would provide a reasonable sample size to reflect the recent market practice regarding rights issue transactions; and (iii) there was no artificial selection or filtering on our part so that the Comparable Transactions would represent a reasonable reference to the recent market trends on similar rights issue transactions conducted by other issuers listed on the Stock Exchange. Nonetheless, it should be noted that the issue ratio of the Comparable Transactions, as well as the market capitalisation, industry, financial performance and funding needs of the companies which conducted Comparable Transactions, may not be the same as those of the Company and we have not conducted any investigation into these aspects. Accordingly, we have prepared the Comparable Transactions here only for cross-checking purposes. Set out below is a fair and exhaustive list of the 29 Comparable Transactions we were able to identify based on the aforementioned selection criteria during the Comparable Review Period.

Table 4: Analysis of the Comparable Transactions

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
04 November 2020	Top Form International Limited (333)	2 for 5	(21.88)	(16.67)	(6.25)	Y	Nil	Controlling shareholder	N	28.57
05 November 2020	Asia-Pac Financial Investment Company Limited (8193)	3 for 1	(10.70)	(3.70)	(9.90)	N	N/A	N/A	N	75
10 November 2020	China Fortune Holdings Limited (110)	1 for 1	(5.36)	(2.75)	(2.75)	N	N/A	N/A	Y	50
20 November 2020	Global Strategic Group Limited (8007)	4 for 1	(20.79)	(4.76)	(17.56)	Y	3	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	80

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
03 December 2020	Capital Finance Holdings Limited (8239)	2 for 1	4.65	1.50	3.10	N	N/A	N/A	N	66.67
14 December 2020	Chinlink International Holdings Limited (997)	3 for 1	(13.64)	(4.58)	(11.70)	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	75
22 December 2020	FDG Kinetic Limited (378) ("**FDG**") *(Note 3)*	9 for 1	(91.30)	(51.00)	(82.10) *(Note 1)*	N	N/A	N/A	N	90
31 December 2020	Pacific Century Premium Developments Limited (432)	1 for 2	0.00	0.00	0.40	N	N/A	N/A	Y	33.33

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
06 January 2021	Sinolink Worldwide Holdings Limited (1168)	4 for 5	(42.86)	(31.37)	(20.09)	N	N/A	N/A	Y	44.44
20 January 2021	Roma Group Limited (8072)	3 for 1	(31.32)	(10.07)	(23.63)	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	75
25 January 2021	Beaver Group (Holding) Company Limited (8275)	3 for 2	(34.38)	(17.32)	(20.63)	N	N/A	N/A	N	60

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
27 January 2021	Cornerstone Financial Holdings Limited (8112)	4 for 1	(21.11)	(5.33)	(22.57)	Y	3	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	80
27 January 2021	Esprit Holdings Limited (330)	1 for 2	(25.00)	(18.21)	(8.68)	Y	1.625	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	33.33
05 February 2021	Bossini International Holdings Limited (592)	1 for 2	(23.40)	(16.86)	(8.47)	N	N/A	N/A	Y	33.33

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
17 February 2021	China LotSynergy Holdings Limited (1371)	2 for 1	(30.07)	(15.97)	(23.93)	N	N/A	N/A	Y	66.67
19 February 2021	Enterprise Development Holdings Limited (1808)	1 for 2	(49.15)	(39.09)	(16.38)	Y	1	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	33.33
17 March 2021	Qingdao Holdings International Limited (499)	1 for 1	(18.80)	(10.30)	(9.40)	Y	4.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	50

Date of announcement	**Company name (stock code)**	**Basis of provisional allotment**	**Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day** *(Approx. %)*	**Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day** *(Approx. %)*	**Theoretical dilution effect** *(Approx. %)*	**Underwritten**	**Underwriting commission** *(Approx. %)*	**Underwriter capacity**	**Excess application**	**Maximum dilution** *(Note 2)* *(Approx. %)*
24 March 2021	Noble Engineering Group Holdings Limited (8445)	1 for 2	(33.80)	(25.30)	(11.90)	N	N/A	N/A	N	33.33
26 March 2021	Kaisa Group Holdings Limited (1638)	1 for 7	(25.13)	(22.70)	(3.44)	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activity	Y	12.5
23 April 2021	PFC Device Inc. (8231)	1 for 2	(20.00)	(23.37)	(7.79)	N	N/A	N/A	Y	33.33
28 April 2021	Sandmartin International Holdings Limited (482)	1 for 2	(16.00)	(11.21)	(5.33)	N	N/A	N/A	N	33.33

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/(Discount) of the subscription price over/to the closing price per share on the last trading day *(Approx. %)*	Premium/(Discount) of the subscription price over/to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
04 May 2021	China Investment Development Limited (204)	1 for 2	(10.31)	(6.98)	(3.56)	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activities	Y	33.3
04 May 2021	Coolpad Group Limited (2369)	1 for 2	(41.10)	(31.70)	(14.50)	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activities	Y	33.3
11 May 2021	Great Wall Belt & Road Holdings Limited (524)	1 for 4	(18.90)	(15.70)	(3.78)	N	N/A	N/A	Y	20
11 May 2021	China Best Group Holding Limited (370)	1 for 2	(45.21)	(37.89)	(15.93)	N	N/A	N/A	N	33.3

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
13 May 2021	Ta Yang Group Holdings Limited (1991)	1 for 2	(22.22)	(16.02)	(7.39)	N	N/A	N/A	Y	33.3
14 May 2021	Golden Power Group Holdings Ltd (3919)	1 for 2	(24.40)	(15.40)	(7.10)	Y	7.07	Licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities	Y	33.3
18 May 2021	Champion Technology Holdings Limited (92)	3 for 1	8.70	2.04	N/A	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activities	Y	75

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
20 May 2021	China Internet Investment Finance Holdings Limited (810)	1 for 2	(51.22)	(41.18)	(17.88)	Y	2.5	Licensed corporation carrying out Type 1 (dealing in securities) regulated activities	Y	33.3
Excluding FDG Kinetic Limited which we consider as outlier										
		Maximum	8.70	2.04	3.10		7.07			80.00
		Minimum	(51.22)	(41.18)	(23.93)		1.00			12.50
		Average	(22.98)	(15.75)	(11.00)		2.90			46.14
		Median	(22.05)	(15.84)	(9.40)		2.50			33.33

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the subscription price over/ to the closing price per share on the last trading day *(Approx. %)*	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Approx. %)*	Theoretical dilution effect *(Approx. %)*	Underwritten	Underwriting commission *(Approx. %)*	Underwriter capacity	Excess application	Maximum dilution *(Note 2)* *(Approx. %)*
29 March 2021	The Company	3 for 1	(17.36)	(4.99)	(15.29)	Y	0	corporation wholly-owned by a substantial Shareholder *(Note 4)*	N	62.36

Source: The website of the Stock Exchange

Notes:

(1) The relevant announcements did not disclose the theoretical dilution effect. The theoretical dilution effect of these companies was calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the GEM Listing Rules for companies listed on GEM.

(2) Maximum dilution is calculated according to the basis of entitlement of each rights issue with formula: (number of new shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%

(3) As disclosed in the circular of FDG dated 22 December 2020, FDG was being petitioned for winding-up by one of its creditors, and the assets, properties and undertakings of FDG had been placed under receivership and the net current assets value of FDG was negative; as such, the rights issue of FDG formed part of a rescue proposal for FDG. According to the letter from the board included in the said circular, the subscription price of FDG's rights issue was commercially determined by FDG having considered the financial position of the FDG group and the winding-up petition against FDG and the receivership over all of its assets, property and undertaking as well as comparable precedent restructuring cases. As stated in the said letter from the board, the board of FDG considered a substantial discount to the market price of FDG's shares would be necessary to attract FDG's share holders and potential investors to participate in the rights issue for the rescue of FDG.

In addition, pursuant to Note 2 to Rule 7.27B of the Listing Rules, FDG had consulted the Stock Exchange regarding its rights issue and the Stock Exchange was satisfied that there were exceptional circumstances for FDG to conduct the rights issue which would result in a theoretical dilution effect of over 25%.

In view that the figures of FDG appear to be abnormally low as compared to the rest of the Comparables, the figures have been excluded from the computations as FDG is considered as an outlier which may skew the overall results.

(4) The underwriter is wholly-owned by Mr. Ng Ting Kit, who is a substantial Shareholder.

7.3.1. Subscription price and dilution effect

As shown in the above table, it is a common market practice that the pricing of a rights issue represents a discount to both the closing share prices on the last trading day and to the theoretical ex-entitlement prices of the shares. After excluding the outlier (i.e. FDG Kinetic Limited) from the Comparable Transactions, we noted that the subscription prices of the Comparable Transactions ranged from a discount of approximately 51.22% to a premium of approximately 8.70%, with an average discount of approximately 22.98% and a median discount of approximately 22.05% as compared to their respective closing prices per share on the last trading day prior to/on the dates of the relevant announcements of the Comparable Transactions. The discount of approximately 17.36% as represented by the Subscription Price to the closing price per Share on the Last Trading Day, therefore falls within the range of those of the Comparable Transactions; and

We also noted that the subscription prices of the Comparable Transactions ranged from a discount of approximately 41.18% to a premium of approximately 2.04%, with an average discount of approximately 15.75% and a median discount of approximately 15.84% as compared to their respective average theoretical ex-rights prices per share based on the closing prices on the last trading day prior to/on the dates of the relevant announcements of the Comparable Transactions. The discount of approximately 4.99% as represented by the Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day, therefore also falls within the range of those of the Comparable Transactions.

In addition, it is noted that after excluding the outlier from the Comparable Transactions, the theoretical dilution effect of the Comparable Transactions ranged from a discount of approximately 23.93% to a premium of approximately 3.10%, with an average discount of approximately 11.00% and a median discount of approximately 9.40%. In this regard, we noted that among the 28 Comparable Transactions (after excluding the outlier) that were conducted during the Comparable Review Period (among them 21 Comparable Transactions were conducted in 2021), 9 of them would had resulted in a discount of the theoretical dilution effect of above 15%, with 8 of them conducted in 2021. As such, despite being higher than the average and median discounts of the theoretical dilution effect of the Comparable Transactions, the discount of the theoretical dilution effect of the Rights Issue of approximately 15.29% (i) falls within the range of those of the Comparable Transactions; (ii) is comparable to the theoretical dilution effect of most of the recent Comparable Transactions of above 15%; and (iii) is in compliance with Rule 10.44A of the GEM Listing Rules as such theoretical dilution effect is less than 25%.

In respect of the maximum dilution effect of the Comparable Transactions, it is noted that after excluding the outlier from the Comparable Transactions, the maximum dilution effect of the Comparable Transactions ranged from approximately 12.5% to approximately 80%, with an average of approximately 46.14% and a median of approximately 33.33%. As such, the maximum dilution effect of the Rights Issue of approximately 62.36% falls within the range of those of the Comparable Transactions despite being higher than the average and median maximum dilution effect of the Comparable Transactions.

Given that the above ranges represented by the Comparable Transactions are rather wide, the above comparable analysis should be regarded as a general reference for cross-checking purposes only in relation to the terms of rights issues under recent market conditions. In this regard, we have taken into account the following factors in determining whether the Subscription Price (together with its dilution effect) is fair and reasonable so far as the Independent Shareholders are concerned.

(i) the need for the Group to develop its key businesses and strengthen its working capital base as detailed in the above section headed "Reasons for the Rights Issue and the intended use of proceeds", as well as the decreased liquidity of the Group in view of its current ratio of about 2.89 as at 31 December 2019 and about 1.70 as at 31 December 2020 as discussed in the sub-section headed "Strengthen the Group's working capital position" under the section headed "Our views on the reasons for the Rights Issue and the intended use of proceeds" of this letter;

(ii) the reasons for and benefits of the Rights Issue and the intended use of proceeds is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;

(iii) the Right Issue is considered to be a better financing alternative over bank borrowings, placing or an open offer, especially when the Rights Issue allows the Company to strengthen its capital base and liquidity without incurring interest costs and also enables the Company to reduce its gearing ratio, as detailed in the above section headed "Reasons for the Rights Issue and the intended use of proceeds" of this letter;

(iv) the Group had been in a net loss position for five consecutive years since 2016, the closing prices of the Shares had demonstrated an overall downward trend and the Subscription Price had been below the closing prices of the Shares during the Review Period as discussed in the above subsection headed "Historical Share price performance";

(v) it is common for listed issuers in Hong Kong to issue rights shares at a discount to prevailing market prices in order to enhance the attractiveness of a rights issue as illustrated in this sub-section; and

(vi) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares under the Rights Issue and are offered the same discounts of the Subscription Price to the closing price of the Share on the Last Trading Day and to the theoretical ex-rights price and the same potential maximum dilution.

In light of the above, we are of the view that the Subscription Price (together with its dilution effect) is fair and reasonable so far as the Independent Shareholders are concerned.

7.3.2. Excess application

As stated in the Board Letter, 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. From our review, we also noted that 21 out of the 29 Comparable Transactions (including the outlier, namely FDG Kinetic Limited) allowed for application of excess rights shares, implying that most of the rights issues on the market do allow for excess application. In this regard, we understand that 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 placees (including Qualifying Shareholders who wish to take up more of these shares in addition to their entitlements under the Rights Shares) for the benefit of the Shareholders to whom they were offered by way of the rights. In light of the above, we are of the view despite the absence of excess application arrangements, the interests of the Qualifying Shareholders are well-protected as they can subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares in addition to their entitlements under the Rights Shares through the Compensatory Arrangements. Such Compensatory Arrangement is further described in the paragraph headed "Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, and the Compensatory Arrangements" in the Board Letter.

The Company therefore 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 placees (including Qualifying Shareholders who wish to take up more of these shares in addition to their entitlements under the Rights Shares) 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. 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.

Based on our review, we are also not aware of any unusual arrangement of the Rights Issue as compared to those of the Comparable Transactions which do not offer excess application. Accordingly, we consider that the arrangement of the Rights Issue is consistent with normal market practice.

In addition, given that despite the absence of excess application arrangements, (i) Qualifying Shareholders can subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares in addition to their entitlements under the Rights Shares through the Compensatory Arrangements; (ii) Qualifying Shareholders can sell the nil-paid Rights Shares in the market for economic benefits if they decide not to take up their entitlements under the Rights Issue so that other Qualifying Shareholders can acquire these nil-paid Rights Shares; and (iii) the Underwriter will only take up the unsold Unsubscribed Rights Shares and the NQS Unsold Rights Shares under the Compensatory Arrangements if the Qualifying Shareholders decide not to take up their entitlements under the Compensatory Arrangements, we consider the interests of the Qualifying Shareholders are well-protected.

7.4. Irrevocable Undertaking

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.

Considering the Irrevocable Undertakings can provide certainty of funding to the Company as each of Mr. Ng Ting Kit, Mr. Ng Man Chun Paul and Mr. Ng Ting Ho have undertaken to take up an aggregate of 83,542,500 Rights Shares on a firm commitment basis regardless of the participation level of other Qualifying Shareholders, we concur with the Directors that the Irrevocable Undertakings are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

7.5. Underwriting Agreement

The Underwriter and the Company entered into the Underwriting Agreement, 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
Underwriter	:	Trinity Worldwide Capital Holding Limited. Please refer to the paragraph headed "Information on the Underwriter" under the section headed "The Underwriting Agreement" in the Board Letter.
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.

As mentioned in the Board Letter, 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.

In assessing the principal terms of the Underwriting Agreement, namely the underwriting commission, we have reviewed the underwriting commissions of the Comparable Transactions, if any, and noted that their underwriting commissions ranged from about 1.0% to 4.5%, with an average and median of about 2.5%. Given that the Underwriter did not charge any underwriting commission for the Rights Issue, such underwriting arrangement is more favourable to the Group than those to the Comparable Transactions.

Having considered the zero-commission arrangement under the Underwriting Agreement which is more favourable to the Group, and that Mr. Ng Man Chun Paul and Mr. Ng Ting Ho (each an executive Directors who has undertaken to subscribe for the Rights Shares pursuant to the Irrevocable Undertakings) have abstained from voting on the Board resolutions approving the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, we concur with the Board that the terms of the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

8. Potential dilution effect on the interests of the Independent Shareholders

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market.

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 allotted and 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 will be allotted and issued.

Details of such dilution effect are presented in the section headed "Shareholding structure of the Company" in the Board Letter. According to that section, the maximum dilution effect of the Rights Issue was approximately 62.36%.

Among the Comparable Transactions as set out in the sub-section headed "Comparable analysis" under the above section headed "Our analysis of the principal terms of the Rights Issue and the Underwriting Agreement" of this letter, the maximum dilution effect of the Rights Issue of approximately 62.36% is above the average and median maximum dilution effect of the rights issues conducted by the Comparable Transactions are approximately 46.14% and 33.33% respectively.

However, having considered that (i) the shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the Rights Issue in full will not be diluted; (ii) the proposed Rights Issue offers the Qualifying Shareholders an equal opportunity to subscribe for the Rights Shares for the purpose of maintaining their proportionate interests in the Company at a discount as compared to the prevailing market prices of the Shares; (iii) all Qualifying Shareholders are offered the same discounts of the Subscription Price to the closing price of the Share as well as the same potential maximum dilution; (iv) the Qualifying Shareholders who do not wish to take up the Rights Shares would have the opportunity to sell their nil-paid Rights Shares in the market and (v) the Compensatory Arrangements would provide adequate safeguard to protect the interest of the Company's minority Shareholders and ensure the Underwriter will not be in a more favorable position than the Shareholders as they would provide (1) a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company; (2) a channel of participation in the Rights Issue for independent investors; and (3) a compensatory mechanism for No Action Shareholders, we are of the view that the dilution effect of the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned.

9. Financial effects of the Rights Issue

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

9.1. Working capital

According to the 2020 Annual Report, the cash and cash equivalents of the Group amounted to approximately HK$35.6 million as at 31 December 2020. As part of the net proceeds from the Rights Issue will be applied as additional working capital of the Group, the Group's liquidity position would be improved upon completion of Rights Issue.

9.2. NAV

According to the 2020 Annual Report, the NAV of the Group as at 31 December 2020 amounted to approximately HK$110.1 million. According to the Company, assuming the completion of the Rights Issue had taken place on 31 December 2020, the unaudited pro forma adjusted consolidated NAV of the Group would have increased to at least approximately HK$153.6 million immediately after the completion of the Rights Issue because of the issue of the Rights Shares. Accordingly, there will be a positive impact on the NAV of the Group.

9.3. Gearing

According to the 2020 Annual Report, the Group's gearing ratio ("**Gearing Ratio**"), which is calculated on the basis of the Group's total liabilities to the total assets, was approximately 55% as at 31 December 2020. Since part of the net proceeds will be utilised for repaying a loan of the Group, the borrowings level of the Group is expected to decrease.

On the other hand, the capital base of the Group is expected to be enlarged by the Rights Shares upon completion of the Rights Issue. Accordingly, the gearing ratio of the Group will be improved as a result of the Rights Issue.

Based on the above analysis, we noted that the Rights Issue is expected to have a positive effect on the Group's working capital, NAV and gearing position. Accordingly, we are of the view that the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

10. 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 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 will be 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. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue will not proceed.

In view that (i) it is in the interests of the Company and the Shareholders as a whole to raise long term equity capital through the Rights Issue for the Group's expansion and operation needs; (ii) the Rights Issue is currently the most appropriate and equitable fund raising method available to the Company; and (iii) the terms of the Rights Issue and the Underwriting Agreement, including the Subscription Price and underwriting commission, are fair and reasonable so far as the Independent Shareholders are concerned as analysed in the above section headed "Our analysis of the principal terms of the Rights Issues and the Underwriting Agreement" of this letter, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Rights Issue, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole for the purpose of proceeding with the Rights Issue.

RECOMMENDATION

Taking into consideration the below principal factors and reasons that:

(i) the intended use of proceeds is fair and reasonable so far as the Independent Shareholders are concerned considering (a) the growing market opportunities in the food and beverage as well as margin financing services industries in Hong Kong; (b) the upcoming repayment schedule of the loan from E Finance Limited, an Independent Third Party; and (c) the need for the Group to maintain a sufficient level of cash so that it can enjoy more flexibility in its working capital management;

the Rights Issue is a more beneficial way of fund raising when compared to alternative fund-raising methods given that the Rights Issue (a) allows the Company to strengthen its capital base and liquidity without incurring interest costs and also enables the Company to reduce its gearing ratio; (b) offers all the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata provisional allotments of the Rights Shares without diluting their shareholding interests and allows the Qualifying Shareholders to participate in the future development of the Company; (c) allows the Qualifying Shareholders who decide not to take up their entitlements under the Rights Issue to sell the nil-paid Rights Shares in the market for economic benefits and allows other Qualifying Shareholders to acquire these nil-paid Rights Shares; and (d) allows the Qualifying Shareholders to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares in addition to their entitlements under the Rights Shares through the Compensatory Arrangements, despite the absence of excess application arrangements;

(ii) in addition to the "nil-paid right" arrangement under the Rights Issue, the Compensatory Arrangements would provide adequate safeguard to protect the interests of the Company's minority Shareholders and ensure the Underwriter will not be in a more favorable position than the Shareholders, as they would provide (1) a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company; (2) a channel of participation in the Rights Issue for independent investors (including Qualifying Shareholders who wish to take up more of these shares in addition to their entitlements under the Rights Shares); and (3) a compensatory mechanism for No Action Shareholders;

(iii) the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned given that (a) the Group had been in a net loss position for five consecutive years since 2016; (b) the closing prices of the Shares had demonstrated an overall downward trend before the publication of the Announcement and despite after the publication of the Announcement, the Share price rebounded and reached its highest point at HK$0.238 during the remaining Review Period, the Share price returned to HK$0.214 per Share as at the Latest Practicable Date; (c) the Subscription Price had remained below the closing prices of the Shares during the Review Period; (d) a favourable discount to prevailing market prices of the Shares would attract the Qualifying Shareholders to participate in the Rights Issue and invest in the Company; and (e) it is common for listed issuers in Hong Kong to issue rights shares at a discount to prevailing market prices in order to enhance the attractiveness of a rights issue;

(iv) it is common for rights issues to not allow for excess application as demonstrated by the Comparable Transactions and we are also not aware of any unusual arrangement of the Rights Issue as compared to those of the Comparable Transactions which do not offer excess application;

(v) 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;

(vi) the zero-commission arrangement under the Underwriting Agreement is more favourable to the Group than those underwriting agreements of the Comparable Transactions which charged underwriting commissions;

(vii) the potential dilution effect of the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned given that among others, (a) the proposed Rights Issue offers the Qualifying Shareholders an equal opportunity to subscribe for the Rights Shares for the purpose of maintaining their proportionate interests in the Company at a discount as compared to the prevailing market prices of the Shares; and (b) all Qualifying Shareholders are offered the same discounts of the Subscription Price to the closing price of the Share as well as the same potential maximum dilution;

(viii) the Rights Issue is expected to have a positive effect on the Group's working capital, NAV and gearing position; and

(ix) the approval of the Whitewash Waiver is a prerequisite for the completion of the Rights Issue, as set out in this letter, we are of the view that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) approving the Rights Issue, the Underwriting Agreement and the Whitewash Waiver at the SGM. We also recommend the Independent Shareholders to vote in favour of the resolution(s) relating to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver at the SGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited

Charles Li*
Managing Director

* *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*