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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered institution in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Merdeka Financial Group Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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MERDEKA FINANCIAL GROUP LIMITED

領智金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

- (I) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE;**
(II) CONNECTED TRANSACTION — SUBSCRIPTION OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
(III) CONNECTED TRANSACTION — PROPOSED AMENDMENTS TO THE TERMS OF THE 2008 CONVERTIBLE BONDS; AND
(IV) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



Underwriter to the Rights Issue



Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



Capitalised terms used in this cover page have the same meanings as defined in this circular.

A letter from the Board is set out on pages 11 to 89 of this circular. A letter from the Independent Board Committee is set out on pages 90 to 91 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 92 to 133 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Monday, 20 April 2020. Dealings in the Rights Shares in the nil-paid form will take place from Tuesday, 5 May 2020 to Tuesday, 12 May 2020 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Tuesday, 5 May 2020 to Tuesday, 12 May 2020 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

A notice convening the EGM to be held at 1/F., China Building, 29 Queen's Road Central, Central, Hong Kong on Thursday, 16 April 2020 at 11:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours (i.e. 11:00 a.m. on Tuesday, 14 April 2020 (Hong Kong time)) before the time scheduled for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending or voting in person at the EGM or any adjourned meeting thereof should you so wish.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right in its absolute discretion to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. Such events are set out in the section headed "Termination of the Underwriting Agreement" of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

27 March 2020

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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EXPECTED TIMETABLE

Set out below is the expected timetable for the proposed Rights Issue which is indicative only and has been prepared on the assumption that all the conditions of the proposed Rights Issue will be fulfilled. The expected timetable is subject to change. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.

All time and dates references contained in this circular shall refer to Hong Kong local time and dates.

Event	2020
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Despatch of this circular	Friday, 27 March
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Latest time for lodging transfers of Shares in order to qualify for attendance and voting at the EGM	4:30 p.m. on Tuesday, 7 April
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Closure of the register of members (both dates inclusive)	Wednesday, 8 April – Thursday, 16 April
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Latest time for lodging proxy forms for the EGM (not less than 48 hours prior to the time of the EGM)	11:00 a.m. on Tuesday, 14 April
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Record date for attendance and voting at the EGM	Thursday, 16 April
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Expected date of the EGM	11:00 a.m. on Thursday, 16 April
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Announcement of the poll results of the EGM	Thursday, 16 April
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Last day of dealings in securities on cum-rights basis	Friday, 17 April
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Ex-date (the first day of dealings in securities on ex-rights basis)	Monday, 20 April
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Latest time for lodging transfers of Shares to qualify for the Rights Issue	4:30 p.m. on Tuesday, 21 April
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Register of members of the Company closes (both days inclusive)	Wednesday, 22 April – Tuesday, 28 April
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Record date for determining entitlements to the Rights Issue	Tuesday, 28 April
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EXPECTED TIMETABLE

Event	2020
Register of members of the Company re-opens	Wednesday, 29 April
Despatch of Prospectus Documents (in the case of Non-Qualifying Shareholders, the Prospectus only).	Wednesday, 29 April
First day of dealing in nil-paid Rights Shares	9:00 a.m. on Tuesday, 5 May
Latest time for splitting of the PAL	4:30 p.m. on Thursday, 7 May
Last day of dealings in nil-paid Rights Shares	Tuesday, 12 May
Latest Time for Acceptance and payment for Rights Shares and application for excess Rights Shares.	4:00 p.m. on Friday, 15 May
Latest Time for the Termination of the Underwriting Agreement and for the Rights Issue to become unconditional (if applicable).	4:00 p.m. on Monday, 18 May
Announcement of the allotment results	Friday, 22 May
Despatch of certificates for fully-paid Rights Shares and refund cheques, if any, in respect of wholly or partially unsuccessful applications for excess Rights Shares	Monday, 25 May
Expected first day of dealings in fully-paid rights shares	9:00 a.m. on Tuesday, 26 May
Designated broker starts to stand in the market to provide matching services for odd lots of the Shares	Tuesday, 26 May
Designated broker ceases to stand in the market to provide matching services for odd lots of the Shares	Monday, 15 June

Dates or deadlines specified in the expected timetable above or in other parts of this circular are indicative only and may be extended or varied by the Company. Any changes to the expected timetable will be published or notified to the Shareholders and the Stock Exchange as and when appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning or “extreme conditions” caused by a super typhoon:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Friday, 15 May 2020. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 15 May 2020. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

Under such circumstances, the dates mentioned in the expected timetable above (including, without limitation, the Latest Time for Termination) may be affected.

Dates or deadlines stated in this circular for events in the timetable are indicative only and may be extended or varied between the Company and the Underwriter. Any changes to the anticipated timetable for the Rights Issue will be announced as and when appropriate.

DEFINITIONS

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

“2008 CB Sale and Purchase Agreement”	the sale and purchase agreement dated 21 January 2020 (as amended and supplemented by the supplemental agreement dated 20 March 2020) entered into between Ivana and Team Sunny pursuant to which Team Sunny has conditionally agreed to acquire from Ivana and Ivana has conditionally agreed to sell to Team Sunny the 2008 Sale Convertible Bonds in the principal amount of HK\$55.00 million
“2008 CB Specific Mandate”	the specific mandate to the Board to allot, issue and deal with the 2008 Conversion Shares to be proposed for approval as an ordinary resolution of the Independent Shareholders at the EGM
“2008 CB Terms Amendments”	together (a) the proposed extension of the maturity date of the 2008 Convertible Bonds for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the proposed revision of the 2008 Conversion Price from HK\$0.95 per Share to HK\$0.110 per Share with effect from 13 August 2020
“2008 CB Transfer”	the proposed transfer of the 2008 Sale Convertible Bonds in the principal amount of HK\$55.00 million from Ivana to Team Sunny pursuant to the 2008 CB Sale and Purchase Agreement
“2008 CB Transfer Announcement”	the announcement of the Company dated 21 January 2020 in relation to, among other things, the proposed 2008 CB Transfer
“2008 CB Transfer Completion”	the completion of the 2008 CB Transfer
“2008 Conversion Price”	HK\$0.95 per 2008 Conversion Share with effect from 19 August 2019 up to and including 12 August 2020; and subject to the 2008 CB Terms Amendments having become effective, the adjusted conversion price of HK\$0.110 per 2008 Conversion Share with effect from 13 August 2020 to the maturity date of the 2008 Convertible Bonds, subject to adjustment under the terms and conditions of the 2008 Convertible Bonds
“2008 Conversion Share(s)”	new Shares to be issued by the Company upon the exercise of the conversion rights attached to the 2008 Convertible Bonds by the CB Holders
“2008 Convertible Bonds”	the zero coupon convertible bonds due 2020 issued by the Company on 12 August 2008 and as amended from time to time

DEFINITIONS

“2008 Sale Convertible Bonds”	the 2008 Convertible Bonds in the principal amount of HK\$55.00 million to be transferred from Ivana to Team Sunny pursuant to the 2008 CB Sale and Purchase Agreement
“2014 PN”	the promissory notes issued by the Company on 4 April 2014 which bears interest at 2% per annum and is due on 4 April 2017 with an outstanding amount of approximately HK\$14.86 million (including the outstanding principal amount of approximately HK\$7.8 million and the outstanding interest incurred from the 2014 PN of approximately HK\$7.06 million as at the Latest Practicable Date)
“2019 PN”	the promissory notes issued by the Company on 28 February 2019 to settle the acquisition of 100% of the issued share capital of Merdeka Professional Services Limited (formerly known as Veda Corporate Services Limited), which bears interest at 2% per annum and is due on 28 February 2020 with an outstanding principal amount of HK\$8,000,000. On 28 February 2020, Mr. Wong executed an extension letter and agree to extend the maturity date of the 2019 PN from 28 February 2020 to the date of completion of the Subscription or the date on which the Subscription lapses, whichever is the earlier.
“2020 Announcement”	the announcement of the Company dated 10 January 2020 in relation to, among other things, the proposed Rights Issue, the Subscription and the 2008 CB Terms Amendments
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding a Saturday, Sunday, public holiday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business throughout their normal business hours
“CB Holder(s)”	holders of the 2008 Convertible Bonds
“CB Holders’ Irrevocable Undertakings”	the irrevocable and unconditional undertakings given by the CB Holders in favour of the Company and the Underwriter, details of which is set out in the paragraph headed “Irrevocable undertakings from Team Sunny and the CB Holders” under the section headed “Proposed Rights Issue” in this circular

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Merdeka Financial Group Limited 領智金融集團有限公司, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Debt Settlement”	the settlement of outstanding debt due from the Company to Mr. Wong of HK\$39,805,651 pursuant to the Subscription
“Director(s)”	the director(s) of the Company from time to time
“EAF(s)”	the form(s) of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such form as may be agreed between the Company and the Underwriter
“EGM”	the extraordinary general meeting of the Company to be convened and held at 11:00 a.m. on Thursday, 16 April 2020 at 1/F., China Building, 29 Queen’s Road Central, Central, Hong Kong for the Independent Shareholders to approve the proposed Rights Issue, the Underwriting Agreement, the Subscription Agreement and the Fourth Supplemental Deed and the transactions contemplated respectively thereunder
“Fourth Supplemental Deed”	the supplemental deed dated 10 January 2020 and entered into between the Company and the CB Holders in respect of the 2008 CB Terms Amendments
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Committee”	has the meaning ascribed to it in the GEM Listing Rules
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising Ms. Yeung Mo Sheung, Ann, Ms. Ng Ka Sim, Casina and Mr. Wong Wing Kit, being all the independent non-executive Directors to advise the Independent Shareholders as to the fairness and reasonableness of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder
“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO), being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder
“Independent Shareholder(s)”	the Shareholders not required under the GEM Listing Rules to abstain from voting on the resolution(s) approving the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder at the EGM
“Independent Third Party(ies)”	an individual(s) or a company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third party(ies) independent of the Company and its connected persons
“Ivana”	Ivana Investments Limited, being an investment holding company, the entire issued shares of which are owned by a trust founded by Mr. Cheung
“Last Trading Day”	10 January 2020, being the last trading day of the Shares on the Stock Exchange before the release of the 2020 Announcement
“Latest Lodging Time”	4:30 p.m. on Tuesday, 21 April 2020 or such other date as the Underwriter and the Company may agree, being the latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue
“Latest Practicable Date”	Tuesday, 24 March 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular

DEFINITIONS

“Latest Time for Acceptance”	4:00 p.m. on Friday, 15 May 2020 or such later time or date as may be agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for, the Rights Shares as described in the Prospectus Documents
“Latest Time for Termination”	4:00 p.m. on the first Business Day after the Latest Time for Acceptance or such other date as the Underwriter may agree in writing with the Company
“Mr. Cheung”	Mr. Cheung Wai Yin, Wilson, the Chairman, an executive Director and the chief executive officer of the Company
“Mr. Cheung Advance”	the various advance provided by Mr. Cheung to the Company in the aggregated amount of HK\$12.64 million for the general working capital of the Group
“Mr. Jin”	Mr. Jin Xiaobin, being a CB Holder and an Independent Third Party
“Mr. Shang”	Mr. Shang Xiaodong, being a CB Holder and an Independent Third Party
“Mr. Wong”	Mr. Wong Hin Shek, the sole beneficial owner of Team Sunny which is a substantial shareholder of the Company and interested in 47,164,000 Shares, representing approximately 17.99% of the issued share capital of the Company as the Latest Practicable Date
“Mr. Wong 1st Facility”	the shareholder’s loan facility granted by Mr. Wong to the Company on 28 September 2018 in an aggregate principal amount of up to HK\$25,000,000 at an interest rate of 5.125% per annum
“Mr. Wong 2nd Facility”	the shareholder’s loan facility granted by Mr. Wong to the Company on 30 October 2019 in an aggregate principal amount of HK\$10,000,000 at an interest rate of 5.0% per annum
“Mr. Wong Facilities”	collectively, Mr. Wong 1st Facility and Mr. Wong 2nd Facility
“Non-Qualifying Shareholders”	those Overseas Shareholders whom the Directors, based on opinions provided by the Company’s legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Overseas Shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Options Holder(s)”	holders of the Outstanding Share Options

DEFINITIONS

“Outstanding Share Option(s)”	as at the Latest Practicable Date, 33,199 outstanding share options granted under the Share Option Scheme
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is (are) in a place(s) outside Hong Kong
“PAL(s)”	the renounceable provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the proposed Rights Issue, being in such usual form as may be agreed between the Company and the Underwriter
“PRC”	People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Taiwan and Macau Special Administrative Region
“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the proposed Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Prospectus Posting Date”	Wednesday, 29 April 2020 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholder(s)
“Record Date”	Tuesday, 28 April 2020 (or such other date as the Underwriter may agree in writing with the Company), as the date by reference to which entitlements to the proposed Rights Issue are expected to be determined
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, being Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rights Issue”	the proposed issue by way of rights on the basis of four (4) Rights Shares for every one (1) existing Share in issue and held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents

DEFINITIONS

“Rights Share(s)”	Shares to be issued and allotted under the proposed Rights Issue on the basis of four (4) Rights Shares for every one (1) existing Share in issue on the Record Date, being 1,048,802,876 Shares based on the Company’s issued share capital as at the Latest Practicable Date, or if the Outstanding Share Options are exercised in full on or before the Record Date, an aggregate of 1,048,935,672 Shares
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.010 each in the Share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 3 May 2012
“Shareholder(s)”	the holder(s) of the issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Team Sunny Convertible Bonds by Team Sunny pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 10 January 2020 (as amended and supplemented by the supplemental agreement dated 20 March 2020) entered into between the Company and Team Sunny in relation to the Subscription
“Subscription Long Stop Date”	30 April 2020 or such other date as may be agreed by the Company and Team Sunny
“Subscription Price”	HK\$0.110 per Rights Share
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“Team Sunny”	Team Sunny International Holdings Limited, a company incorporated in the British Virgin Islands, which holds and will hold 47,164,000 existing Shares up to and including the Latest Lodging Time and is wholly-owned by Mr. Wong
“Team Sunny Conversion Price”	HK\$0.110 per Team Sunny Conversion Shares, subject to adjustments under the terms and conditions of the Team Sunny Convertible Bonds

DEFINITIONS

“Team Sunny Conversion Share(s)”	new Shares to be issued by the Company upon the exercise of the conversion rights attached to the Team Sunny Convertible Bonds by Team Sunny
“Team Sunny Convertible Bonds”	convertible bonds in an aggregate principal amount of HK\$39,805,651 to be issued by the Company and subscribed by Team Sunny pursuant to the Subscription Agreement for the Debt Settlement
“Team Sunny Irrevocable Undertaking”	the irrevocable and unconditional undertaking given by Team Sunny in favour of the Company and the Underwriter, details of which is set out in the paragraph headed “Irrevocable undertakings from Team Sunny and the CB Holders” under the section headed “Proposed Rights Issue” in this circular
“Team Sunny Specific Mandate”	the specific mandate to the Board to allot, issue and deal with the Team Sunny Conversion Shares to be proposed for approval as an ordinary resolution of the Independent Shareholders at the EGM
“Underwriter”	Head & Shoulders Securities Limited
“Underwriting Agreement”	the underwriting agreement dated 10 January 2020 (as amended and supplemented by the extension letters dated 31 January 2020, 21 February 2020 and 13 March 2020) entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the proposed Rights Issue
“Underwritten Shares”	not less than 705,236,876 Rights Shares and not more than 705,369,672 Rights Shares
“Untaken Shares”	those (if any) of the Rights Shares in respect of which valid applications under the PALs and EAFs have not been received on or before the Latest Time for Acceptance
“HK\$”	Hong Kong dollar, the currency of Hong Kong
“%” or “per cent.”	percentage or per centum

In case of inconsistency, the English text of this circular shall prevail over its Chinese text.

TERMINATION OF THE UNDERWRITING AGREEMENT

If at any time on or before the Latest Time for Termination:

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (ii) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic ^(Note), terrorism, strike or lock-out; or
- (v) any other material adverse change in the business or the financial or trading position or prospects of the Group as a whole whether or not *ejusdem generis* with any of the foregoing; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (vi) the Prospectus Documents when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a reasonably prudent investor not to apply for its assured entitlements of Rights Shares under the Rights Issue; or
- (vii) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (viii) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the 2020 Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue; or
- (ix) any moratorium, suspension or material restriction on trading of the shares on the Stock Exchange due to exceptional financial circumstances or otherwise,

Note: Epidemic includes the outbreak of novel coronavirus.

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

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate forthwith provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the proposed Rights Issue will not proceed.

As at the Latest Practicable Date, the Board has not received any notice from the Underwriter of its intention to terminate the Underwriting Agreement due to the recent outbreak of novel coronavirus or any others reasons.

If the Underwriter or the Company terminates the Underwriting Agreement, the proposed Rights Issue will not proceed. A further announcement would be made by the Company if the Underwriting Agreement is terminated by the Underwriter or the Company.



MERDEKA FINANCIAL GROUP LIMITED

領智金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

Executive Directors:

Mr. Cheung Wai Yin, Wilson

(Chairman and Chief Executive Officer)

Ms. Tsang Kwai Ping

Independent non-executive Directors:

Ms. Yeung Mo Sheung, Ann

Ms. Ng Ka Sim, Casina

Mr. Wong Wing Kit

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head Office and Principal Place
of Business in Hong Kong:*

Room 1108, 11/F,

Wing On Centre

111 Connaught Road Central

Central, Hong Kong

27 March 2020

To the Shareholders

Dear Sir or Madam,

- (I) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4)
RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE;**
- (II) CONNECTED TRANSACTION — SUBSCRIPTION OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; AND**
- (III) CONNECTED TRANSACTION — PROPOSED AMENDMENTS
TO THE TERMS OF THE 2008 CONVERTIBLE BONDS**

INTRODUCTION

References are made to (a) the 2020 Announcement and the 2008 CB Transfer Announcement in relation to, among other things, (i) the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder; and (ii) the proposed transfer of the 2008 Convertible Bonds in the principal amount of HK\$55.00 million from Ivana to Team Sunny pursuant to

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the 2008 CB Sale and Purchase Agreement; and (b) the announcement of the Company dated 20 March 2020 in relation to the supplemental agreements for the Subscription Agreement and the 2008 CB Sale and Purchase Agreement.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder, and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you, among other things, (i) further information on the proposed Rights Issue, the Subscription Agreement, the 2008 CB Terms Amendments and the 2008 CB Transfer and the transactions contemplated respectively thereunder; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iv) financial information and other general information of the Group; and (v) the notice of the EGM to be convened for the purpose of considering and, if thought fit, approving the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder, including but not limited to the issue of the Team Sunny Convertible Bonds, the allotment and issue of the Team Sunny Conversion Shares and the 2008 Conversion Shares, and the grant of the Team Sunny Specific Mandate and the 2008 CB Specific Mandate.

(I) PROPOSED RIGHTS ISSUE

The Company proposes to implement the proposed Rights Issue on the basis of four (4) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.110 per Rights Share, to raise not less than approximately HK\$115.37 million before expenses (assuming no Outstanding Share Options being exercised), and not more than approximately HK\$115.38 million before expenses (assuming all Outstanding Share Options being exercised) by issuing not less than 1,048,802,876 Rights Shares and not more than 1,048,935,672 Rights Shares.

On 10 January 2020 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue. On 31 January 2020, 21 February 2020 and 13 March 2020 respectively, the Company and the Underwriter entered into extension letters and the parties thereto mutually agreed to revise the timetable of the proposed Rights Issue and except for the extension of the timetable, all other terms of the Underwriting Agreement remain the same. Further details of the Rights Issue are set out below:

Issue statistics

Basis of the Rights Issue	:	Four (4) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK\$0.110 per Rights Share

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Number of Shares in issue as at the Latest Practicable Date	: 262,200,719 Shares
Number of Rights Shares	: Not less than 1,048,802,876 Rights Shares (assuming no Outstanding Share Options being exercised) and not more than 1,048,935,672 Rights Shares (assuming all Outstanding Share Options being exercised)
Aggregate nominal value of the Rights Shares	: Not less than HK\$10,488,028.76 and not more than HK\$10,489,356.72
Number of Rights Shares underwritten by the Underwriter	: All the Rights Shares other than those provisionally allotted to and undertaken to be subscribed by Team Sunny pursuant to the Team Sunny Irrevocable Undertaking, being not less than 705,236,876 Rights Shares and not more than 705,369,672 Rights Shares
Enlarged number of Shares upon completion of the Rights Issue	: Not less than 1,311,003,595 Shares and not more than 1,311,169,590 Shares

As at the Latest Practicable Date, there are (i) 33,199 Outstanding Share Options which are exercisable from 30 May 2012 to 29 May 2022 and entitle the Options Holders to subscribe for 33,199 Shares under the Share Option Scheme; and (ii) 2008 Convertible Bonds in the aggregate principal amount of HK\$124,068,000, which 130,597,895 Shares will be issued upon exercise of the conversion rights under the 2008 Convertible Bonds in full at the conversion price of HK\$0.95 per 2008 Conversion Share. Each of the CB Holders has provided the CB Holders' Irrevocable Undertakings.

Save as disclosed above, as at the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Assuming no Shares are issued or repurchased from the Latest Practicable Date up to and including the Record Date, 1,048,802,876 Rights Shares will be allotted and issued upon completion of the proposed Rights Issue, representing (i) 400.00% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 80.00% of the total number of issued Shares as enlarged by the allotment and issue of the Rights Shares.

Assuming no Shares are issued or repurchased, other than as a result of the issue of 33,199 new Shares upon exercise of the Outstanding Share Options in full by the Options Holders, from the Latest Practicable Date up to and including the Record

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Date, 1,048,935,672 Rights Shares will be allotted and issued upon completion of the proposed Rights Issue, representing (i) approximately 400.05% of the existing issued share capital of the Company; and (ii) approximately 80.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the issue of 33,199 new Shares upon full exercise of the Outstanding Share Options.

The Subscription Price:

- (a) represents a discount of approximately 5.17% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) represents a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) is equivalent to the average closing price of HK\$0.110 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (d) represents a premium of approximately 2.80% over the average closing price of HK\$0.107 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (e) represents a premium of approximately HK\$0.165 over the unaudited net liabilities value per Share of approximately HK\$0.055 based on the published unaudited consolidated net liabilities of the Company of approximately HK\$13.57 million as at 30 September 2019 and the issued share capital of 244,809,415 Shares as at 30 September 2019;
- (f) represents a discount of approximately 1.79% to the theoretical ex-rights price of HK\$0.112 per Share based on the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (g) represents a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 6.67%, represented by the theoretical diluted price of approximately HK\$0.112 per Share to the benchmarked price of approximately HK\$0.120 per Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.120 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the 2020 Announcement of approximately HK\$0.106 per Share).

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The Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the latest business performance and financial position of the Group; and (iii) the reasons for and benefits of proposed Rights Issue as discussed in the section headed "Reasons for and benefits of the proposed Rights Issue and use of proceeds" in this circular.

Considering the Shares have been trading on the Stock Exchange in the price range between HK\$0.084 and HK\$0.190 with an average of HK\$0.127 in the past 6 months prior to the Last Trading Day, i.e. from 10 July 2019 to the Last Trading Day (up to 10 January 2020) (the "**Review Period**"), the Subscription Price of HK\$0.110 represents a discount of approximately 13.39% to the average closing price of the Shares of HK\$0.127 and would demonstrate a reasonable discount to the Shareholders who wish to participate in the proposed Rights Issue. The Directors considered that the Review Period is an appropriate benchmark to reflect the prevailing market conditions and recent market sentiment.

The Directors also observed that it is common for listed issuers in Hong Kong to set the subscription price in a rights issue at a discount to the prevailing closing prices in order to increase the attractiveness of the rights issue. Therefore, the Directors consider that offering a discount to the market price of the Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole. On the other hand, the trading liquidity of the Shares continued to be thin during the Review Period, with an average daily trading volume of the Shares of approximately 337,149 Shares, representing approximately 0.13% of the total number of issued Shares as at the Last Trading Day.

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A comparison between the average trading volume of the Shares per trading day during the month and its percentage as compared to the total number of issued Shares for each month during the Review Period; and the average daily turnover of the listed securities in Hong Kong (the Main Board and GEM of the Stock Exchange) and its percentage as compared to total market capitalization of the listed securities in Hong Kong (the Main Board and GEM of the Stock Exchange) for each month during the Review Period, are tabulated as follows:

		Average trading volume of the Shares	Total number of the issued Shares of the end of the month	% of average daily trading volume of the Shares to the total number of the issued Shares	Average daily turnover of the listed securities in Hong Kong	% of average daily turnover to total market capitalization of listed securities in Hong Kong	Number of trading days in each month
	Total monthly trading volume of the Shares	Shares per trading day during the month	(Notes 2 and 4)	(Note 3)	HK\$ million		
2019							
July (from 10 July to 31 July)	14,717,160	919,823	204,009,415	0.45%	68,741	0.21%	16
August	14,939,934	679,088	244,809,415	0.28%	86,393	0.29%	22
September	2,484,951	118,331	244,809,415	0.05%	75,841	0.25%	21
October	4,577,137	217,959	244,809,415	0.09%	75,894	0.24%	21
November	3,426,299	163,157	244,809,415	0.07%	79,572	0.22%	21
December	1,129,079	56,454	262,200,719	0.02%	75,818	0.20%	20
2020							
January (up to and including the Last Trading Day i.e. 10 January 2020)	1,880,569	268,653	262,200,719	0.10%	103,934	0.29% (Note 5)	7

Notes:

1. Total monthly trading volume of the Shares divided by number of trading days in each month.
2. Based on the number of Shares as stated in the Company's monthly return on movements in securities for the end of each month throughout the Review Period and up to the Last Trading Day and assuming the consolidation of every ten (10) issued and unissued shares of par value of HK\$0.001 each in the share capital of the Company into one (1) consolidated share of par value of HK\$0.01 each which became effective on 19 August 2019 having been taken place (the "Share Consolidation").
3. Average trading volume of the Shares per trading day during the month divided by total number of the issued Shares of the end of the month
4. During the Review Period, (i) the completion of the placing of 408,000,000 new shares (which were subsequently consolidated into 40,800,000 shares on 19 August 2019) took place on 6 August 2019 (the "Placing"); and (ii) 17,391,304 Shares were issued upon exercise of conversion right to the convertible bonds issued on 21 April 2015 in the principal amount of HK\$40 million on 17 December 2019.

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5. For illustrative purpose only, the figures of the average daily turnover and the total market capitalization of the listed securities are extracted from the HKEx monthly market highlights. For calculation of the percentage of the average daily turnover to the total market capitalization of the listed securities, only monthly turnover, number of trading days and month-end total market capitalization are available from the HKEx monthly market highlights. The relevant figures for January 2020 up to and including the Last Trading Day are not available for computation.

Source: the website of the Stock Exchange (www.hkex.com.hk)

As disclosed in the “**HKEx Monthly Market Highlights**” for the Review Period, the percentage of the average daily trading turnover as compared to total market capitalisation of listed securities in Hong Kong (including Main Board and GEM listed issuers) during the Review Period ranged from approximately 0.20% to approximately 0.29% with an average of approximately 0.24%, while the percentage of the average daily trading volume of the Shares was below 0.10% of the total number of the issued Shares throughout the Review Period, save for the percentage in July 2019, August 2019 and January 2020 which are exceptionally high as compared to other months. The percentage of average daily trading volume of the Shares as compared to the total number of the issued Shares for each month during the Review Period ranging from approximately 0.02% to 0.45% while the average of approximately 0.15% indicated that the trading volume of the Shares had been thin throughout the Review Period.

In view of the fluctuation in the percentage of the average daily trading volume of the Shares in July 2019, August 2019 and January 2020 which are exceptionally high as compared to other months, the Directors were not aware of any particular matters which might have a material impact on the Share price and trading volume save for (i) the announcements of the Company dated 12 July 2019, 15 July 2019 and 17 July 2019 in relation to the Placing and the Share Consolidation respectively; (ii) the announcement of the Company dated 22 August 2019 in relation to the expansion of the Group’s financial services; and (iii) the 2020 Announcement in relation to, among other things, the Rights Issue, the Subscription and the 2008 CB Terms Amendments, the Directors were not aware of any other public announcements made by the Company and non-public information that were price sensitive in nature.

The relative low liquidity of the Shares may imply that potential investors may seek for a deeper discount on the issue price when the Company issues new Shares as compared to those listed companies with high trading liquidity. In fact, the liquidity of the Shares was also taken into account during the negotiation process between the Company and the Underwriter in relation to the proposed Rights Issue, alongside with the recent unsatisfactory financial performance of the Company. Therefore, the Company determined the Subscription Price at the current level in order to accommodate the investment sentiment of the potential investors and acceptable commercial terms with the Underwriter given the relative low liquidity of the Shares.

In addition, given the imminent needs for the Company to raise an estimated proceeds of approximately HK\$110.00 million (reasons are set out in the section headed “Reasons for and benefits of the proposed Rights Issue and use of proceeds” in this circular) and the prevailing trading price of the Shares during the Review Period,

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the proposed Rights Issue would require a ratio of at least 4 Rights Shares for 1 existing Share under the Subscription Price in order to raise the estimated proceeds. The Directors believe that a discount of approximately 13.39% to the average closing price of the Shares in the past 6 months prior to the Last Trading Day and a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day would be sufficiently attractive for the Shareholders to participate in the proposed Rights Issue and also at the same time enable the Group to procure an underwriter for the proposed Rights Issue.

The Directors (including the independent non-executive Directors whose view is set out in the Letter from the Independent Board Committee contained in this circular) consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the proposed Rights Issue, including the Subscription Price, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market; and (ii) the proposed Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical market price of the Shares.

The estimated net subscription price per Rights Share (assuming no further issue of new Shares or repurchase of Shares from the Latest Practicable Date up to and including the Record Date) after deducting the related expenses of the proposed Rights Issue will be approximately HK\$0.106.

Qualifying Shareholders

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

Shareholders whose Shares are held by nominee companies (or which are deposited in CCASS) should note that the Board will regard a nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies (or which are deposited in CCASS) are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

In order to be registered as members of the Company on the Record Date, a Shareholder must lodge the relevant transfer(s) of Share(s) (with the relevant share certificates) with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Tuesday, 21 April 2020.

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The last day of dealing in the Shares on cum-rights basis is Friday, 17 April 2020. The Shares will be dealt with on an ex-rights basis from Monday, 20 April 2020.

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

Rights of Overseas Shareholders

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

As at the Latest Practicable Date, based on the register of members of the Company, the Overseas Shareholders are as follows:

Number of Overseas Shareholders	Jurisdiction of the registered address of the Overseas Shareholders	Number of Shares held
5	The United States of America	539

Each of the Overseas Shareholders represents less than 1% of the total issued Shares as at the Latest Practicable Date.

The Company has made enquiries pursuant to Rule 17.41(1) of the GEM Listing Rules regarding the feasibility of extending the Rights Issue to the Overseas Shareholders (if any). The Directors were informed by the Company's legal adviser as to the laws of the United States of America that the Prospectus or documents related to the Rights Issue must be registered in the United States of America or comply with certain requirements under applicable exemptions before it may be extended to the Overseas Shareholder in the United States of America. The Directors are of the view that it is necessary and expedient to exclude such Overseas Shareholder in the United States of America for the purpose of the Rights Issue and such Overseas Shareholder will be regarded as an Non-Qualifying Shareholder as the extension of the Rights Issue to such Non-Qualifying Shareholder would, or might, in the absence of compliance with registration or other exemption requirements or other special formalities, be unlawful or impracticable and the cost to be incurred and time required for complying with the registration requirements would outweigh the possible benefits to the Company and the Non-Qualifying Shareholder.

The basis for excluding the Non-Qualifying Shareholders(s), if any, from the Rights Issue will be set out in the Prospectus. The Company will send the Prospectus (without the PAL and the EAF) and a letter explaining the circumstances in which the Non-Qualifying Shareholders are not permitted to participate in the Rights Issue to the Non-Qualifying Shareholders for their information only.

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Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold entitlement of Non-Qualifying Shareholders to the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders will be made available for excess applications by Qualifying Shareholders under the EAF(s).

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 8 April 2020 to Thursday, 16 April 2020 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Wednesday, 22 April 2020 to Tuesday, 28 April 2020 (both dates inclusive) for determining the Shareholders' entitlements to the Rights Issue.

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

Basis of provisional allotment

The basis of the provisional allotment shall be four (4) Rights Shares for every one (1) existing Share in issue and held by the Qualifying Shareholders at the close of business on the Record Date, being not less than 1,048,802,876 Rights Shares and not more than 1,048,935,672 Rights Shares at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

Fractions of the Rights Shares

On the basis of provisional allotment of four (4) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the proposed Rights Issue.

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Odd lots matching services

In order to alleviate the difficulties arising from the existence of odd lots (if any) of the Rights Shares arising from the proposed Rights Issue, Merdeka Securities Limited has been appointed to provide matching service for odd lots of the Rights Shares arising from the Rights Issue at the relevant market price per Share for the period from Tuesday, 26 May 2020 to Monday, 15 June 2020 (both dates inclusive). Shareholders of odd lots of the Rights Shares who wish to acquire odd lots of the Rights Shares to make up a full board lot, or to dispose of their holdings of odd lots of the Rights Shares should contact Mr. Chow Man Ho of Merdeka Securities Limited at Room 1108, 11/F., Wing On Centre, 111 Connaught Road Central, Central, Hong Kong (telephone number (852) 2868 1063) during this period. Holders of odd lots of the Rights Shares should note that odd lots matching services of the sale and purchase of odd lots of the Rights Shares is on best effort basis and not guaranteed.

Status of the Rights Shares

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

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Monday, 25 May 2020. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Monday, 25 May 2020 by ordinary post to the applicants at their own risk, to their registered addresses.

Excess application for the Rights Shares

Under the proposed Rights Issue, Qualifying Shareholders may apply, by way of excess application, for (i) any unsold entitlements of the Non-Qualifying Shareholders; and (ii) any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application for excess Rights Shares can be made by the Qualifying Shareholders only and by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar no later than 4:00 p.m. on Friday, 15 May 2020.

Applications for excess Rights Shares may be made by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate any excess Rights Shares at their discretion on a fair

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and equitable basis on the following principles:

- (i) any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of the excess Rights Shares applied for under each application;
- (ii) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
- (iii) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their nil-paid Rights Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- (iv) pursuant to Rule 10.31(3)(b) of the GEM Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by any controlling shareholder or its associates (together, the “**Relevant Shareholders**”), whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders’ applications for excess Rights Shares to the extent that the total number of excess Rights Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

In the event that the Board noted unusual patterns of excess applications and had reason to believe that any application may have been made with the intention to abuse the mechanism, such application for excess Rights Shares may be rejected at the sole discretion of the Board.

Shareholders with their Shares held by a nominee company (or which are deposited in CCASS) should note that the Board will regard such nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually save and except for the beneficial owner(s) which the Company may permit in its absolute discretion. Shareholders with their Shares held by a nominee company (or which are deposited in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names on or prior to the Record Date for the purpose of the Rights Issue. Shareholders who would like to have their names registered on the register of members of the Company on the Record Date, must lodge all necessary documents with the Registrar for registration by no later than 4:30 p.m. on Tuesday, 21 April 2020.

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Team Sunny has undertaken that it will make excess application by means of EAF(s) for 154,910,000 Rights Shares which are not taken up by Qualifying Shareholders (excluding the Rights Shares provisionally allotted to and undertaken to be subscribed by Team Sunny pursuant to the Team Sunny Irrevocable Undertaking).

Application for listing of the Rights Shares

The Company will apply to the GEM Listing Committee for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. The nil-paid Rights Shares shall have the same board lot size as the Shares, i.e. 20,000 Shares in one board lot.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC.

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

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

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

Conditions of the proposed Rights Issue

The Rights Issue is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with the terms thereof.

In addition, according to Rule 10.29(1) of the GEM Listing Rules, the proposed Rights Issue is conditional on the approval by the Independent Shareholders at the EGM by passing the necessary resolution(s).

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THE UNDERWRITING AGREEMENT

The Underwriting Agreement

On 10 January 2020 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to fully underwrite all Underwritten Shares, subject to the terms and conditions of the Underwriting Agreement, other than those Rights Shares provisionally allotted to and undertaken to be subscribed by Team Sunny pursuant to Team Sunny Irrevocable Undertaking.

The principal terms and conditions of the Underwriting Agreement are as follows:

Date	:	10 January 2020 (after trading hours) (as amended and supplemented by the extension letters dated 31 January 2020, 21 February 2020 and 13 March 2020)
Underwriter	:	Head & Shoulders Securities Limited
Number of Rights Shares	:	Not less than 1,048,802,876 Rights Shares (assuming no Outstanding Share Options being exercised) and not more than 1,048,935,672 Rights Shares (assuming all Outstanding Share Options being exercised)
Underwriting commitment of the Underwriter	:	All the Rights Shares other than those provisionally allotted to and undertaken to be subscribed by Team Sunny pursuant to the Team Sunny Irrevocable Undertaking, being not less than 705,236,876 Rights Shares (assuming no Outstanding Share Options being exercised) and not more than 705,369,672 Rights Shares (assuming all Outstanding Share Options being exercised)
		Accordingly, taking into account the Team Sunny Irrevocable Undertaking and the CB Holders' Irrevocable Undertakings, the Rights Issue is fully underwritten
Underwriting Commission	:	2.0% of the aggregate Subscription Price in respect of the maximum number of the Underwritten Shares

The Company has entered into the extension letters on 31 January 2020, 21 February 2020 and 13 March 2020 respectively with the Underwriter, pursuant to which the Company and the Underwriter mutually agreed to revise the timetable for implementation of the Rights Issue and except for the extension of the timetable, all other terms of the Underwriting Agreement remain the same.

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The Underwriter is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO whose ordinary course of business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, the Underwriter and its associates do not hold any Shares, and the Underwriter and its ultimate beneficial owners are Independent Third Parties and not connected with the Company and its connected persons and complied with Rule 10.24A(1) of the GEM Listing Rule.

As at the Latest Practicable Date, the Underwriter is wholly owned by Endless Source Limited, which is in turn owned as to 50% by Dr. Choi Chiu Fai Stanley ("**Dr. Choi**") and as to 50% by Ms. Cheung Fung Kuen Maggie who is the spouse of Dr. Choi.

Save for (i) the Underwriting Agreement, the provision of company secretarial services to 2 private companies which are owned as to 50% each by Dr. Choi and Ms. Cheung Fung Kuen Maggie by the Group, the provision of company secretarial and financial advisory services to International Entertainment Corporation (stock code: 1009) (a company listed on the Stock Exchange which is owned as to approximately 55.82% by Dr. Choi) ("**IEC**") by the Group; and (ii) certain amount of share options of IEC was granted to Mr. Wong's wholly-owned private company on 9 July 2018, the Company and its connected persons have no other relationship (i.e. business or otherwise) with the Underwriter and its ultimate beneficial owners as at the Latest Practicable Date.

In addition, as disclosed in the announcement of the Company dated 12 July 2019, the Underwriter and the Company entered into a placing agreement in relation to the placing of up to 408,000,000 Shares (which were subsequently consolidated into 40,800,000 Shares on 19 August 2019) under general mandate and the placing was completed on 6 August 2019.

The terms of the Underwriting Agreement, including the underwriting commission of 2.0%, were determined after arm's length negotiation between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. Given the unsatisfactory financial position of the Group, thin trading volume of the Shares and the required funding size of the proposed Rights Issue, it was difficult to procure underwriter with favourable terms to the Company. The Company has approached three financial institutions including the Underwriter concerning the Rights Issue based on the current proposed structure and out of the three institutions, the Underwriter quoted a reasonable underwriting commission rate while one of the financial institutions did not express its interest for such role. Having considered (i) the underwriting commission offered by the Underwriter is comparable to that offered by other financial institutions in the market; and (ii) the experience and financial resources of the Underwriter for underwriting such securities, the Directors (including the independent non-executive Directors whose view is set out in the Letter from the

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Independent Board Committee contained in this circular) consider the entering into of the Underwriting Agreement with the Underwriter and the terms of the Underwriting Agreement (including the underwriting commission) to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (a) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Prospectus Posting Date;
- (b) the posting of the Prospectus Documents to the Qualifying Shareholders by the Prospectus Posting Date and the posting of the Prospectus and a letter in the agreed form to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;
- (c) the GEM Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in their nil-paid and fully-paid forms) by no later than the business day prior to the first day of their dealings;
- (d) the Underwriting Agreement not being terminated or rescinded by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (e) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;
- (f) the compliance with and performance of all the undertakings and obligations of Team Sunny, or any of its nominee(s), under the Team Sunny Irrevocable Undertaking;
- (g) the compliance with and performance of all the undertakings and obligations of all the CB Holders under the CB Holders' Irrevocable Undertakings;
- (h) there being no event which would have rendered any of the warranties given by the Company under the Underwriting Agreement untrue or incorrect in any material respect occurring prior to the Latest Time for Termination;

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- (i) the Shares remaining listed on GEM of the Stock Exchange at all times prior to the settlement date and the listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 10 trading days at any time prior to the Latest Time for Acceptance; and
- (j) compliance with the requirements under the applicable laws and regulations of Hong Kong and the Cayman Islands.

Save for the condition (e) which can be waived by the Underwriter, none of the above conditions can be waived. If any of the conditions referred to above is not fulfilled, or waived (where applicable) by the Latest Time for Termination, the proposed Rights Issue will not proceed.

As at the Latest Practicable Date, none of the conditions set out above has been satisfied or waived.

Termination of the Underwriting Agreement

If at any time on or before the Latest Time for Termination:

- (i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (ii) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities)

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occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

- (iii) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic ^(Note), terrorism, strike or lock-out; or
- (v) any other material adverse change in the business or the financial or trading position or prospects of the Group as a whole whether or not *ejusdem generis* with any of the foregoing; or
- (vi) the Prospectus Documents when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a reasonably prudent investor not to apply for its assured entitlements of Rights Shares under the Rights Issue; or
- (vii) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (viii) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the 2020 Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue; or
- (ix) any moratorium, suspension or material restriction on trading of the shares on the Stock Exchange due to exceptional financial circumstances or otherwise,

Note: Epidemic includes the outbreak of novel coronavirus.

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

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate forthwith provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the proposed Rights Issue will not proceed.

As at the Latest Practicable Date, the Board has not received any notice from the Underwriter of its intention to terminate the Underwriting Agreement due to the recent outbreak of novel coronavirus or any others reasons.

If the Underwriter or the Company terminates the Underwriting Agreement, the proposed Rights Issue will not proceed. A further announcement would be made by the Company if the Underwriting Agreement is terminated by the Underwriter or the Company.

Irrevocable undertakings from Team Sunny and the CB Holders

As at the Latest Practicable Date, Team Sunny (a company which is wholly and ultimately owned by Mr. Wong) is beneficially interested in an aggregate of 47,164,000 Shares, representing approximately 17.99% of the issued share capital of the Company. Pursuant to the Team Sunny Irrevocable Undertaking, Team Sunny has given an irrevocable undertaking in favour of the Company and the Underwriter, that (i) it will subscribe, or procure its nominee(s) to subscribe, for 188,656,000 Rights Shares which comprise the full acceptance of its provisional entitlement in respect of the 47,164,000 Shares beneficially held by it; (ii) it will not dispose of the 47,164,000 Shares comprising the current shareholding in the Company owned by Team Sunny and such Shares, will remain beneficially owned by it up to and including the Record Date; (iii) it will lodge its acceptance of the 188,656,000 Rights Shares, which will be the number of Rights Shares provisionally allotted to it nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents; and (iv) it will apply for 154,910,000 excess Rights Shares in excess of its entitlement under the Rights Issue in accordance with the terms of the Prospectus and EAF(s).

As at the Latest Practicable Date, (i) Ivana, Mr. Jin and Mr. Shang are the holders of the 2008 Convertible Bonds in the respective principal amount of HK\$110,000,000, HK\$7,034,000 and HK\$7,034,000 in aggregate, which 115,789,473, 7,404,211 and 7,404,211 Shares respectively will be issued upon exercise of the conversion rights under the 2008 Convertible Bonds in full at the conversion price of HK\$0.95 per 2008 Conversion Share. Pursuant to the CB Holders' Irrevocable Undertakings, each of the CB Holders has irrevocably undertaken to the Company and the Underwriter, that (i) he/it will not exercise any of the conversion rights attaching to the 2008 Convertible

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Bonds held by him/it up to and including the Record Date; and (ii) that the 2008 Convertible Bonds held by him/it will remain registered in the name of and beneficially owned by him/it up to and including the Record Date.

The purpose in obtaining the CB Holders' Irrevocable Undertakings is to fix the number of the issued Shares (other than the Shares which may fall to be allotted and issued upon the exercise of the Outstanding Shares Options, which is relatively insignificant) as at the Record Date, and thus the number of the Rights Shares to be allotted and issued. For instance, in the absence of the CB Holders' Irrevocable Undertakings, the number of issued Shares as at the Record Date may substantially differ from the number of the issued Shares as at the Last Trading Day given that an additional 130,597,895 Shares may be allotted and issued upon exercise of the conversion rights attached to the 2008 Convertible Bonds in full by the CB Holders.

As the terms of the Underwriting Agreement and the amount of the commission were determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the scale of the Rights Issue, the provision of the irrevocable undertaking by each of the CB Holders would fix the number of Rights Shares to be underwritten by the Underwriter in the Underwriting Agreement and lower the commission expense incurred by the Company.

Given that, subject to the fulfillment of the conditions precedent, the 2008 CB Transfer Completion shall only take place on the fifth (5th) Business Day after completion of the Rights Issue or the date of termination or lapse of the Rights Issue (whichever is the earlier) (or such later date as the parties may agree in writing), the very purpose in obtaining the CB Holders' Irrevocable Undertakings can still be served notwithstanding the 2008 CB Transfer.

As at the Latest Practicable Date, the Company has not received any notice from Mr. Cheung in relation to his intention for subscribing for the Rights Shares.

Save for the Team Sunny Irrevocable Undertaking and the CB Holders' Irrevocable Undertakings, as at the Latest Practicable Date, the Board has not received any information from any other Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them.

Reasons for and benefits of the proposed Rights Issue and use of proceeds

The Group is principally engaged in (i) financial services business including the securities brokerage services, provision of corporate finance advisory services, asset management business, money lending services and financial leasing business; (ii) corporate consulting business including company secretarial services, accounting and financial reporting services and management consulting services; (iii) trading business; and (iv) information technology business.

The estimated net proceeds of the proposed Rights Issue will be not less than approximately HK\$110.80 million (assuming no new Shares having been allotted and issued from the exercise of the Outstanding Share Options on or before the Record

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Date), and not more than approximately HK\$110.81 million (assuming 33,199 new Shares having been allotted and issued upon full exercise of the Outstanding Share Options by the Options Holders on or before the Record Date). The estimated net subscription price per Rights Share after deducting the related expenses of the Rights Issue is expected to be approximately HK\$0.106. The Company intends to apply the net proceeds from the proposed Rights Issue as to (i) approximately HK\$55.00 million for a partial repayment of the 2008 Convertible Bonds to Mr. Cheung; (ii) approximately HK\$12.64 million for repayment of the Mr. Cheung Advance; (iii) approximately HK\$14.86 million for repayment of the 2014 PN; and (iv) the remaining amount of approximately HK\$28.30 million of the net proceeds for general working capital of the Group and facilitate the Group to capture potential investment opportunities which may arise in future.

As at the Latest Practicable Date, the Company is indebted to Mr. Cheung an aggregate amount of approximately HK\$122.64 million, being the 2008 Convertible Bonds with a principal amount of HK\$110.00 million and the Mr. Cheung Advance of approximately HK\$12.64 million. Given that (i) the maturity date of the 2008 Convertible Bonds has already been extended for three times as mentioned in the 2008 CB Circulars (as defined below in this circular) and the Mr. Cheung Advance was meant to be short-term bridge loans, the Company has been seeking alternative financings for settling the debt to Mr. Cheung. In addition, the 2014 PN reached its maturity date in 2017 and it is the Company's obligation to settle the 2014 PN as soon as the circumstances allow. Upon completion of the proposed Rights Issue, Ivana (i) will remain the registered holder of the 2008 Convertible Bonds in the principal amount of HK\$55.00 million if the 2008 CB Transfer Completion does not take place or (ii) will cease to hold any of the 2008 Convertible Bonds if the 2008 CB Transfer Completion has taken place.

Upon the 2008 CB Terms Amendments becoming effective, the maturity date of the 2008 Convertible Bonds will be further extended to 12 August 2023. Having said that, the Fourth Supplemental Deed was entered into between the Company and the CB Holders, in particular, Ivana, on the understanding between the parties and the representation made by the Company that the Company will carry out the proposed Rights Issue and part of the net proceeds arising therefrom in the amount of HK\$55 million will be applied for the partial repayment of the 2008 Convertible Bonds to Ivana. Against such backdrop, a holistic approach should be adopted in assessing the funding need of the Company to carry out the proposed Rights Issue i.e. balancing the terms and repayment schedule of all the Group's debts, the willingness of extension by the creditors, the feasible funding size for the proposed Rights Issue etc. It is always the Group's strategy to redress the financial position of the Group and improve the quality of the Group's financial resources through reducing the Group's gearing ratio. Given that the significant amount of liability indebted to Mr. Cheung, the maturity date of the 2008 Convertible Bonds has already been extended for three times and Mr. Cheung Advance was meant to be short-term bridge loans to support the short-term liquidity of the Group, the Company is of the view that it is indispensable to repay part of Mr. Cheung's debts (to the extent possible) and also the 2014 PN which is due and payable as soon as the circumstances allow. Therefore, the Board considers that the

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proposed Rights Issue is imminent for the Group to reduce its gearing ratio and allocate resources on profitable business segments which will be beneficial to the Shareholders.

As at the Latest Practicable Date, the outstanding balance of Mr. Cheung Advance is approximately HK\$12.64 million. Mr. Cheung Advance does not have any term, interest or security and it is repayable on demand to Mr. Cheung. Mr. Cheung's first advance to the Company was made in April 2018 (the "**First Mr. Cheung Advance**") and subsequently, Mr. Cheung had provided various advances to the Company when the cash level of the Company reached a minimal level. The last advance provided by Mr. Cheung was in April 2019 (the "**Last Mr. Cheung Advance**") and throughout the period between the First Mr. Cheung Advance and Last Mr. Cheung Advance, the advances were all already utilised on the general working capital of the Group, including but not limited to, wages, rental expenses, legal and professional expenses and expenses related to daily business operations and the Company had settled Mr. Cheung Advance from time to time when the Company had additional cash. Given that (i) it is always the Company's practice and intention to settle Mr. Cheung Advance when situation allows as abovementioned; and (ii) Mr. Cheung Advance is repayable on demand (which means Mr. Cheung can demand the full repayment of the Mr. Cheung Advance at any time at his sole discretion) while the 2008 Convertible Bonds has a certain repayment date and the CB Holders agreed to extend the maturity date of the 2008 Convertible Bonds to August 2023, therefore, repaying Mr. Cheung Advance can relieve the uncertainty of the Group's repayment of debt's schedule, which is fair and reasonable and is in the interest of the Group.

As disclosed in the circular of the Company dated 29 January 2014, the 2014 PN was issued to Hero Win Development Limited (the "**2014 Vendor**") as the consideration for acquisition of the entire issued share capital of Ever Hero Group Limited pursuant to the terms and conditions of the conditional sale and purchase agreement dated 6 September 2012 (the "**2014 Acquisition**"). The 2014 Vendor is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Kong Lung Cheung, Jeff ("**Mr. Kong**"). Each of the 2014 Vendor and Mr. Kong are Independent Third Parties and Mr. Kong and his associates have no business relationship with the Company and its connected persons except for the 2014 Acquisition. As at the Latest Practicable Date, the amount of the outstanding interests incurred from the 2014 PN was approximately HK\$7.06 million (comprises approximately HK\$3.06 million as the accumulated interest at maturity and approximately HK\$4 million as default interest) and to the best of the Director's knowledge, information and belief, having made all reasonable enquiries, each of the 2014 Vendor and Mr. Kong is still an Independent Third Party. Save for the 2014 Acquisition, Mr. Kong and his associates have no other business relationship with the Company and its connected persons as at the Latest Practicable Date.

The 2014 PN in the principal amount of HK\$51 million issued by the Company was due on 4 April 2017. The Company has used its best endeavors to repay the 2014 PN since the maturity date of the 2014 PN when the financial condition of the Company allows. As at the maturity date of the 2014 PN, the outstanding amount of

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the 2014 PN was approximately HK\$26.64 million (including approximately HK\$3.06 million as the accumulated interests for the 2014 PN). As at the Latest Practicable Date, the outstanding amount of the 2014 PN is approximately HK\$14.86 million, comprising of approximately HK\$7.06 million as the accrued interests and approximately HK\$7.8 million as principal. Due to the minimal cash level and the significant amount of debts incurred by the Group by then, the Company was not able to settle the outstanding amount of the 2014 PN and given the 2014 Vendor and the then executive Director and managing Director, Mr. Lau Chi Yan, Pierre, has met for long, the 2014 Vendor understands the financial difficulties faced by the Group and agrees that it will refrain from taking action to recover the outstanding amount for the moment and the Company shall settle the outstanding amount of the 2014 PN as soon as the Company improves its financial condition.

The Board has considered alternative possible financing methods (including bank borrowings and placing of Shares) to raise fund. However, the Group has been loss making for the recent financial years and as noted from the third quarterly report for the nine months ended 30 September 2019, the Group recorded net liabilities position. Given the Group's financial position, the Company was unable to obtain any debt financing at terms acceptable to the Company and debt financing may not be feasible for the Group as such mean (i) will further deteriorate the net liabilities position of the Group which expose the Group to higher financial risk; (ii) will further increase finance costs of the Company; and (iii) is normally for fixed term and the failure in renewal of the term would materially affect the liquidity of the Company particularly when the Company has made long term investments.

As opposed to the proposed Rights Issue, placing of new Shares under general mandate can only raise funds in smaller size and does not allow the Shareholders to maintain their respective shareholding in the Company. In addition, the Company has already utilised its general mandate to issue Shares by way of placing on 12 July 2019. The Board considered that if the Company were offering a greater discount to new subscriber(s) who are not existing Shareholders, it would further cause dilution impact to the existing Shareholders and such arrangement would not be in the interest of the Shareholders as they cannot participate. The Board considers that the Rights Issue effected on a pro-rata basis gives all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and the Subscription Price at a price lower than the current market level is to encourage the Qualifying Shareholders to participate in development of the Company, whereas open offer does not provide the flexibility to the Shareholders who wish to subscribe for the Rights Share to increase their shareholding interests in the Company by acquiring additional rights entitlements in the open market or to the Shareholders who opt not to subscribe for the Rights Shares to reduce their shareholding interests in the Company by disposing their nil-paid Rights Shares during the prescribed period of time for economic benefits.

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Therefore, the Board considers that the Rights Issue represents an opportunity for the Company to increase its liquidity, strengthen its capital base and enhance its financial position by meeting its immediate funding needs through repayment of the aforementioned existing debt as a continuous effort of the Board to improve the financial position of the Company.

As further noted from the third quarterly report for the nine months ended 30 September 2019, the Group has strengthened its financial service business in 2019. In August 2019, the Group, through Merdeka Corporate Finance Limited, a wholly-owned subsidiary of the Company, has obtained a license from the Securities and Futures Commission of Hong Kong to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO and expanded its financial service business into the provision of advisory services on corporate finance. In addition, the Group has also completed the acquisition of the remaining 49% share interest in Merdeka Investment Management Limited (formerly known as Heng Asset Management Limited) (“**Merdeka Investment**”) on 4 November 2019, which then became a wholly-owned subsidiary of the Company which carries out Type 4 (advising on securities) and Type 9 (asset management) regulated activities as defined under the SFO. As at the Latest Practicable Date, Merdeka Investment is the investment manager of an open-ended Cayman Islands investment fund, with current assets under management of approximately USD100 million and an investment scope including but not limited to, investing on private equity, secondary market, fixed income products etc. Also, Merdeka Investment is in preliminary discussion with 2 potential investors and/or private funds to act as investment manager/advisor to provide discretionary investment management solutions in return for management/advisory fees. However, no concrete terms and fund size has been agreed between Merdeka Investment and the potential clients as at the Latest Practicable Date. It is the strategy of the Board to actively seek for business opportunities in relation to the financial service industry, including but not limited to, businesses related to Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and if suitable opportunities arise, the Group also has the intention to expand into the financial technology industry in order to capture the potential growth of such segment.

On 14 August 2019, the Group has invested a minority stake of YAS Digital Limited, a Hong Kong-based regional insurance technology company making insurance digital and more hyper-personalized in markets and as a stepping stone for the Group’s entry into the financial technology industry. As all the applicable percentage ratios under the GEM Listing Rules are lower than 5%, it does not constitute a notifiable transaction on the part of the Company under the GEM Listing Rules.

On 20 March 2020, Joy Sunny Investment Limited, a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with two independent third parties (collectively, the “**Vendors**”) regarding the Group’s intention to acquire certain amount of shares of YAS Digital Limited owned by the Vendors at a consideration subject to further negotiation by the parties thereto. Details

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of which are set out in the announcement of the Company dated 20 March 2020. Save for that, as at the Latest Practicable Date, the Company has not identified other investment opportunities.

The expected funding needs for the Company in the next 12 months

The Company's expected funding needs for the next 12 months from the Latest Practicable Date is approximately HK\$26.40 million, which is equivalent to the estimated general working capital for the Group's business operation of approximately HK\$2.20 million per month. Such funding needs are estimated on the basis of the following key assumptions or factors: (i) the passing of the resolutions for the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder at the EGM; (ii) no early redemption by the holders of the 2008 Convertible Bonds and the Team Sunny Convertible Bonds; and (iii) no material change to the political, legal, fiscal, market or economic conditions in the regions in which the Group's business operation is based.

The Directors are of the opinion that, after due and careful enquiry and taking into account the present internal financial resources available to the Group and taking into account the completion of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments, the Group has sufficient working capital for its business for at least the next twelve months from the date of this circular. As at the Latest Practicable Date, the Company has no definitive plans for any further equity fund raising activities. However, should the Company identify any investment opportunity which is in line with its investment strategy and can provide remunerative returns, or should any extra funding needs arise in the next 12 months, the Company may consider other funding methods to finance such investment and/or such funding needs.

Taking into account (i) the Company's obligations to repay the amount due to Mr. Cheung (to the extent possible) and the due promissory notes; (ii) the proposed Rights Issue as a continuous effort of the Board to improve the financial position of the Company and would minimize the future finance costs of the Company as compared to debt financing; (iii) the Rights Issue will allow all the Qualifying Shareholders the equal opportunity to subscribe for their respective pro-rata provisional entitlement of the Rights Shares and hence avoids dilution in their shareholdings in the Company and participate in the enlargement of the capital base of the Company, while continue to participate in the possible future development of the Group should they wish to do so; and (iv) the Rights Issue as an important and viable financing alternative for the Company to cater for immediate funding needs while allowing the Company to preserve the existing resources of the Group for business operations of the existing businesses of the Group and capturing any potential investment opportunities thereby enhancing the overall value of the Shares, the Board considers that it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue.

RISK FACTORS

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

Business risk relating to the Group

As at the Latest Practicable Date, the Group is principally engaged in (i) financial services business including the securities brokerage services, provision of corporate finance advisory services, asset management business, money lending services and financial leasing business; (ii) corporate consulting business including company secretarial services, accounting and financial reporting services and management consulting services; (iii) trading business; and (iv) information technology business.

(i) Financial services business

The Group's financial services business in relation to securities brokerage services, provision of corporate finance advisory services and asset management business are highly dependent on the activeness of the financial market in Hong Kong. Any sudden downturn in the global economic and sudden change in political environment, which are beyond the control of the Group, may adversely affect the financial market sentiment. Severe fluctuation in market and economic sentiments may also lead to a prolonged period of sluggish market activities which would in turn incur adverse impact on the business and operating performance of the Group. As such, the revenue and profitability of the Group may fluctuate and there is no assurance that the Group will be able to maintain our historical financial results under difficult or unstable economic conditions.

In addition, the Hong Kong financial market in which the Group operate is highly regulated. There are changes in rules and regulations from time to time in relation to the regulatory regime for the financial services industry, including but not limited to, the SFO, the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time, the GEM Listing Rules, the trading rules of the Stock Exchange and the Takeovers Code. Any such changes might result in an increase in the cost of compliance, or might restrict the business activities of the Group. In case the Group fails to comply with the applicable rules and regulations from time to time, it might result in fines, restrictions on the Group's activities or even suspension or revocation of some or all of the licences for carrying on the business activities of the Group. Accordingly, the business operation and financial results the might be materially and adversely affected.

Regarding to the Group's financial leasing business and money lending business, these two segments are subject to risks that a customer or counterparty may fail to perform its contractual obligations or that the value of collateral held to secure the obligations might be inadequate. While the Group has internal policies and procedures

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designed to manage such risks, these policies and procedures may not be fully effective. Any material non-payment or non-performance by a customer or counterparty could adversely affect the Group's financial position, results of operations and cash flows. In addition, both businesses are highly pegged with the fluctuation of interest rates and change of monetary policies, which may be affected due to the economic, political and social conditions both locally and globally and are beyond the Group's control.

(ii) Corporate consulting business

The Group's corporate consulting business segment may be affected by, among other things, demand for its services, its capacity to undertake new projects, the number of listed companies and corporate actions conducted by them in Hong Kong as well as other external factors which may be outside the control of the Group.

Also, we materially rely on our staff to provide reliable and quality corporate consulting services to our clients, and believe that our experienced staff have developed strong relationships with our clients through their ability to provide personalised services through understanding clients' needs. There is however no guarantee that our staff will or are willing to continue to serve our Group which might negatively influence our client base and business relationship with them.

Market competition is another key factor affecting our business. Apart from the large multi-national corporate consultancy institutions with global network and local presence in Hong Kong, the Group face local competition from branded medium-sized and well-established corporate consultancy firms, which offer similar range of services as our Group. The Group may not be able to compete effectively and successfully with the competitors and its results of operations may be adversely affected should such competition is being intensified.

(iii) Trading business

Trading business continues to provide a stable source of revenue to the Group. The business is running steadily but competitive with a thin profit margin, the Group is expanding its trading business into more variety of consumer products. The Group's trading outlet is located in Sheung Shui, where is nearer to its customers visiting Hong Kong from the PRC. The variety of the Group's trading products has been enlarged to confectioneries and pharmacy products and sourced locally and from overseas, such as Japan and other Asia countries. Any amendment or addition to existing laws and regulations of such countries may affect future profitability of the operation.

Given the profit margin is minimal, any further decrease in market price or increase in competition will further reduce profit margin of the business. The Group has been actively seeking to secure appropriate suppliers at reasonable cost. Before that is achieved there is a risk that the Group may not be able to operate the trading business at sufficient profit margin continuously under a competitive environment.

LETTER FROM THE BOARD

Furthermore, as the targeted customers of the Group are those visiting Hong Kong from the PRC, if hostility between Hong Kong civilians and PRC visitors continue to rise and intensify, it could result in a negative impact on the tourism and retail industries in Hong Kong which could deter PRC tourists from visiting Hong Kong.

The outbreak of novel coronavirus

The World Health Organization has declared the novel coronavirus outbreak a public health emergency of international concern on 31 January 2020. Hong Kong's Department of Health has introduced the compulsory quarantine arrangement to persons arriving at Hong Kong from foreign places on 19 March 2020, and noticed the public should go out less and reduce social activities, and maintain appropriate social distance with other people as far as possible. Hong Kong has also restricted travel from the PRC by suspending train services and closing certain borders with the PRC. The number of flights from the PRC has been reduced significantly and person travel permits for people from the PRC have also been suspended.

All these additional virus-control policies will hit the Hong Kong tourism industry hard. Due to the big reduction in the number of PRC tourists visiting Hong Kong, it is expected that there is a sharp decline in revenue of the trading business of the Group as it relies heavily on the PRC tourists consumption. As stated in the section "Latest Developments" in Hong Kong Economy, which is a website providing updated information on the Hong Kong economy monitored by Hong Kong government economist, retail sales volume continued to decline sharply by 21.0% year-on-year in December 2019, as the impact of the local social incidents on consumption and tourism-related activities remained severe. For the fourth quarter of 2019 as a whole, the volume of retail sales fell by 24.1% year-on-year, representing the largest quarterly decline on record. Recently, the business environment for retail trade has become even more difficult, with the threat of the novel coronavirus infection heavily weighing on inbound tourism and local consumption sentiment. The near-term outlook for retail sales depends critically on how the situation of the novel coronavirus infection will evolve and therefore, the trading business of the Group remains uncertain.

If the number of PRC tourists to Hong Kong continues to decrease, the trading business of the Group could be adversely affected.

(iv) Information technology business

The Group's information technology business is minimal. Given the fact that information technology segment is under rigorous competition throughout the world. There is no assurance that the Group will be able to anticipate the timing and scale of its competitors' activities and initiatives or to successfully counteract them, which could harm the business of the Group. Increased competition and the need for the Group to respond to activities of competitors could generate additional staff cost, result in price reduction and reduced profit margins and/or loss of market share, any of which could adversely affect the Group's performances.

LETTER FROM THE BOARD

As set out in the third quarterly report of the Company for the nine months ended 30 September 2019, the trading business is contributed from the trading outlet located in Sheung Shui. Despite the revenue from trading business is the major contributor to the Group's revenue, the competition of the trading business is fierce which lead to a thin gross profit margin and a segment loss was recorded for the nine months ended 30 September 2019.

Following the expansion of the Group's financial services scope, including (i) the completion of the acquisition of the entire interest in Merdeka Professional Services Limited (formerly known as Veda Corporate Services Limited) and its subsidiaries, the revenue contributed from corporate consulting business for the nine months ended 30 September 2019 was approximately HK\$6.3 million and a segment profit was approximately HK\$3.3 million; (ii) the commencement of the provision of advisory services on corporate finance; and (iii) management/advisory fees to be received by Merdeka Investment upon taking an investment manager role of an investment fund, which are business in solution to provision of services that incur less operation costs in nature, it will exert a positive effect to the profit level of the Group in whole.

Despite the outbreak of novel coronavirus, the Board is of the view that the expansion in its service scope in financial industry since 2019 could compensate the low profit margin of the trading business due to intense competition, hence the overall business performance of the Group would not be significantly influenced.

(II) SUBSCRIPTION OF THE TEAM SUNNY CONVERTIBLE BONDS UNDER TEAM SUNNY SPECIFIC MANDATE

The Board announces that on 10 January 2020 (after trading hours), the Company entered into the Subscription Agreement with Team Sunny pursuant to which Team Sunny has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Team Sunny Convertible Bonds in the principal amount of HK\$39,805,651 (which are convertible into Team Sunny Conversion Shares at the Team Sunny Conversion Price of HK\$0.110 per Share (subject to adjustments)) for the Debt Settlement. The subscription amount payable by Team Sunny under the Subscription Agreement shall be satisfied by way of offsetting (i) the principal amount of HK\$8,000,000 under the 2019 PN payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off); and (ii) HK\$31,805,651 of all the outstanding principal amount and part of the accrued interest under Mr. Wong Facilities payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off). As at the Latest Practicable Date, the outstanding principal amount and accrued interest under Mr. Wong Facilities amount to approximately HK\$30,530,000 and approximately HK\$1,340,000 respectively. On 24 January 2020, Mr. Wong has further provided a facility in the principal amount of HK\$3,000,000 with an interest rate of 5% per annum to the Company for its general working capital ("**Mr. Wong 3rd Facility**"). The Company has drawn down Mr. Wong 3rd Facility on 24 January 2020 and it is repayable on demand to Mr. Wong.

LETTER FROM THE BOARD

On 10 January 2020, the Company and Team Sunny entered into the Subscription Agreement with an aggregate amount of HK\$39,805,651 for the purpose of Debt Settlement and for the intention to relieve the short term financial burden of the Company and also to fix the number of Team Sunny Conversion Shares which provides a concrete illustration to the Shareholders regarding the shareholding structure of the Company upon the completion of the Subscription which is in the interest of the Shareholders and Company as a whole. Yet, after the entering into of the Subscription Agreement, the Company's cash level has again reached a minimal level that the Company needed to approach Mr. Wong for the Mr. Wong 3rd Facility. The purpose for obtaining the Mr. Wong 3rd Facility is to help the Company to fulfil its working capital requirement prior to the completion of the Rights Issue, such that Mr. Wong 3rd Facility was negotiated on normal commercial terms and is repayable on demand to Mr. Wong (similar to the terms under the Mr. Wong Facilities). As at the Latest Practicable Date, Mr. Wong does not have intention to issue the repayment notice to the Company in relation to the Mr. Wong 3rd Facility.

On 20 March 2020, the Company and Mr. Wong entered into a supplemental agreement to the Subscription Agreement (i) to explicitly carve out the 2008 CB Terms Amendments as an adjustment event to the Team Sunny Conversion Price under the Subscription Agreement; and (ii) provide that the amount HK\$31,805,651 of the debt under Mr. Wong Facilities for Debt Settlement shall consist of all the outstanding principal amount in the sum of HK\$30,530,000 and part of the outstanding accrued interest thereon of HK\$1,275,651 under Mr. Wong Facilities. Save for the above, all other terms and conditions of the Subscription Agreement shall remain in full force and effect. Details of which are set out in the announcement of the Company dated 20 March 2020.

The principal terms of the Team Sunny Convertible Bonds are set out below.

Issuer	: The Company
Subscriber	: Team Sunny, which is principally engaged in investment holding.
	As at the Latest Practicable Date, Team Sunny is a substantial shareholder of the Company and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the entire issued share capital of the Company
Issue price	: 100% of the principal amount
Principal amount	: HK\$39,805,651
Conversion price	: HK\$0.110 per Team Sunny Conversion Share, subject to adjustments
Adjustment events	: The Team Sunny Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events:

LETTER FROM THE BOARD

(a) *Consolidation or sub-division of the Shares*

If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Team Sunny Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

(b) *Capitalisation of profits or reserves*

If and whenever the Company shall issue (other than in lieu of the whole or part of a cash dividend and other than issue that would amount to a capital distribution) any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Team Sunny Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{A + B}$$

where:

A = the aggregate nominal amount of the issued Shares immediately before such issue; and

B = the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for such issue.

LETTER FROM THE BOARD

(c) *Capital distribution*

If and whenever the Company shall make any capital distribution to the Shareholders (in their capacity as such) (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Team Sunny Conversion Price in force immediately prior to such distribution or grant shall be reduced by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the next preceding day of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by the independent auditors, of the portion of the capital distribution or of such right which is attributable to one Share. For avoidance of doubt, if the capital distribution is distributions in cash the fair market value shall be the cash value and determination by the independent auditors is not required.

LETTER FROM THE BOARD

Provided that (aa) if in the opinion of an independent auditors, the use of the fair market value as aforesaid produces a result which is significantly inequitable, such independent auditors may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and (bb) the provisions of this paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for the capital distribution or grant.

LETTER FROM THE BOARD

Note: Capital distribution (without prejudice to the generality of that phrase) includes distributions in cash or specie. Any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if it is paid out of the aggregate of the net profits (less losses) accrued and attributable to the Shareholders for all financial periods after 31 December 2018 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each financial period ended 31 December. Capital distribution in cash means distribution of cash of the Company to the Shareholders out of the share capital or share premium of the Company.

The rights granted to the Shareholders to acquire for cash assets of the Company will not be treated as capital distributions in cash. In general, cash assets are assets consisting of cash and items readily convertible to cash e.g. marketable securities, and any grant of rights to Shareholders to acquire the abovementioned assets will not be treated as capital distributions in cash. However, the Company has no intention to grant such rights to Shareholders to acquire cash assets of the Company, therefore the particular type of cash assets for Shareholders to acquire cannot be determined as at the Latest Practicable Date.

The adjustment mechanism for capital distribution under the 2008 Convertible Bonds does not have the provision that if the capital distribution is distribution in cash, the fair market value shall be the cash value and determination by the independent auditors is not required. The 2008 Convertible Bonds were not amended for the inclusion of such provision in relation to the requirement of the engagement of independent auditors to determine the fair market value of the distribution in case of distribution in cash as the amendments to the terms of the 2008 Convertible Bonds under the Fourth Supplemental Deed were restricted to the extension of the maturity date of the 2008 Convertible Bonds and the revision of the 2008 Conversion Price in order to minimise the legal costs for the amendments and simplify the negotiations with the CB Holders and distribution in cash out of share capital or share premium was not a corporate action which would occur frequently.

For the avoidance of doubt, the 2008 Convertible Bonds includes distribution in cash under the adjustment events related to capital distribution.

LETTER FROM THE BOARD

(d) *Issue of Shares for subscription by way of rights*

If and whenever the Company shall offer to Shareholders new Shares for subscription by way of rights, or shall grant to Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 80% of the market price on the date of the announcement of the terms of the offer or grant, the Team Sunny Conversion Price shall be adjusted by multiplying the Team Sunny Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{A + B}{A + C}$$

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price per Share; and

C = the aggregate number of Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall be effective from the commencement of the day next following the record date for the offer or grant.

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Provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the holders of the Team Sunny Convertible Bonds (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) as if it had exercised the conversion rights under the Team Sunny Convertible Bonds registered in their holder of the Team Sunny Convertible Bonds holds out of the total principal amount of the Team Sunny Convertible Bonds outstanding at the time of the proposed redemption.

(e) (aa) *Issue of convertible or exchangeable securities*

If and whenever the Company shall issue wholly for cash any securities convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration per Share (as defined in this paragraph (e) below) initially receivable for such securities is less than 80% of the market price on the date of the announcement of the terms of issue of such securities, the Team Sunny Conversion Price shall be adjusted by multiplying the Team Sunny Conversion Price in force immediately prior to the issue by the following fraction:

$$\frac{A + B}{A + C}$$

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price per Share; and

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C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

(bb) ***Modification of rights of convertible or exchangeable securities***

Save and except for the 2008 CB Terms Amendments, if and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this sub-paragraph (e) are modified so that the total Effective Consideration per Share (as defined below) initially receivable for such securities shall be less than 80% of the market price on the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Team Sunny Conversion Price shall be adjusted by multiplying the Team Sunny Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

A = the number of Shares in issue immediately before the date of such modification;

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B = the number of Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of the Team Sunny Conversion Price provided that corresponding adjustment has already been made to the Team Sunny Conversion Price in respect of such an event.

For the purposes of this paragraph (e), the “**total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

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- (f) *Issue of Shares being made wholly for cash at a price less than 80% of the market price per Share*

If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 80% of the market price on the date of the announcement of the terms of such issue, the Team Sunny Conversion Price shall be adjusted by multiplying the Team Sunny Conversion Price in force immediately before the date of such announcement by the following fraction:

$$\frac{A + B}{A + C}$$

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

- (g) If and whenever the Company shall issue Shares for the acquisition of asset at a total Effective Consideration per Share (as defined in this paragraph (g) below) which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Team Sunny Conversion Price shall be adjusted in such manner as may be determined by the independent auditors. Such adjustment shall become effective on the date of issue.

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For the purpose of this paragraph (g) “**total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “**total Effective Consideration per Share**” shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.

The Company has taken into consideration and considers that given the Subscription Price of the proposed Rights Issue represents a premium of approximately 3.77% over the average closing price of HK\$0.106 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the day immediately preceding the Last Trading Day but not at a price less than 80% of the market price per Share, therefore the proposed Rights Issue would not trigger the adjustment events to the Team Sunny Conversion Price.

- Interest rate : Zero coupon
- Team Sunny
Conversion Shares : Based on the principal amount of the Team Sunny Convertible Bonds of HK\$39,805,651, the Team Sunny Convertible Bonds is convertible into 361,869,554 Team Sunny Conversion Shares at the initial conversion price of HK\$0.110 per Conversion Share (subject to adjustments)
- Conversion period : The period commencing from the expiry of the Record Date or termination or lapse of the Rights Issue, whichever is the earlier up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Team Sunny Convertible Bonds

To the best information, knowledge and belief of the Directors after making necessary enquiry, as at the Latest Practicable Date, Team Sunny has no intention to exercise the Team Sunny Convertible Bonds upon the commencement of the conversion period

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In addition, as the conversion period for the Team Sunny Convertible Bonds will commence from the expiry of the Record Date or termination or lapse of the Rights Issue, whichever is the earlier, no Team Sunny Conversion Shares will be issued on or before the Record Date and therefore all the Team Sunny Conversion Shares (if issued) will not be entitled to participate in the Rights Issue

- Conversion rights and restrictions : The holder of the Team Sunny Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Team Sunny Convertible Bonds registered in its name into the Team Sunny Conversion Shares provided further that (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Team Sunny Convertible Bonds is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the Team Sunny Convertible Bonds may be converted; and (ii) the exercise of the conversion right attached to the Team Sunny Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the GEM Listing Rules
- Early redemption at the option of the Company : The Company shall be entitled at its sole discretion, by giving not less than seven (7) days' notice to the holders of the Team Sunny Convertible Bonds, propose to the holders to redeem the outstanding Team Sunny Convertible Bonds (in multiples of HK\$1,000,000 or such lesser amount as may represent the entire principal amount thereof) an amount equivalent to 100% of the principal amount of such outstanding Team Sunny Convertible Bonds at any time after the date of issue of the Team Sunny Convertible Bonds up to and including the date falling seven (7) days immediately before the maturity date of the Team Sunny Convertible Bonds

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Ranking of Team Sunny Conversion Shares	: The Team Sunny Conversion Shares, when allotted and issued, shall rank <i>pari passu</i> in all respects with the Shares in issue on the relevant conversion date including the right to all dividends or other distributions, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the relevant conversion date
Maturity date	: the date falling on the third anniversary of the date of issue of the Team Sunny Convertible Bonds
Voting rights	: Team Sunny shall not have any right to attend or vote in any general meeting of the Company
Transferability	: Subject to compliance with the GEM Listing Rules, the Team Sunny Convertible Bonds may be transferred or assigned in whole or in part in integral multiples of HK\$1,000,000 by Team Sunny to any party, save and except that the Team Sunny Convertible Bonds shall not be transferred to a connected person of the Company unless with the prior written consent of the Company and the Exchange and full compliance with the GEM Listing Rules
Listing	: No application will be made by the Company for the listing of the Team Sunny Convertible Bonds on the Stock Exchange. Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Team Sunny Conversion Shares
Security	: The obligations of the Company under the Team Sunny Convertible Bonds are unsecured

LETTER FROM THE BOARD

Conversion Shares

Upon full conversion of the Team Sunny Convertible Bonds at the Team Sunny Convertible Bonds Subscription Price of HK\$0.110 each (subject to adjustments), a maximum of 361,869,554 Team Sunny Conversion Shares will be allotted and issued which represents:

- (i) approximately 138.01% of the issued share capital of the Company as at the Latest Practicable Date (i.e. total of 262,200,719 Shares);
- (ii) approximately 138.01% of the issued share capital of the Company as at the date of the 2020 Announcement (i.e. total of 262,200,719 Shares);
- (iii) approximately 27.60% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) (i.e. total of 1,311,003,595 Shares);
- (iv) approximately 21.63% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion right attached to the Team Sunny Convertible Bonds in full (i.e. total of 1,672,873,149 Shares); and
- (v) approximately 15.73% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion right attached to the Team Sunny Convertible Bonds in full and the outstanding 2008 Conversion Shares upon the exercise of the conversion right attached to the outstanding 2008 Convertible Bonds in full (i.e. total of 2,300,764,058 Shares).

Conversion Price

The Team Sunny Conversion Price of HK\$0.110 (subject to adjustments) per Team Sunny Conversion Share:

- (a) represents a discount of approximately 5.17% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) represents a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (c) is equivalent to the average closing price of approximately HK\$0.110 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (d) represents a premium of approximately 2.80% over the average closing price of approximately HK\$0.107 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (e) represents a premium of approximately HK\$0.165 over the unaudited net liabilities value per Share of approximately HK\$0.055 based on the published unaudited consolidated net liabilities of the Company of approximately HK\$13.57 million as at 30 September 2019 and the issued share capital of 244,809,415 Shares as at 30 September 2019.

The Team Sunny Conversion Price of HK\$0.110 (subject to adjustments) per Team Sunny Conversion Share was arrived at after arm's length negotiations between the Company and Team Sunny with reference to (i) the factors of determining the Subscription Price of the Rights Issue, including but not limited to, the market price of the Shares under the prevailing market conditions and the Review Period; (ii) the latest business performance and financial position of the Group; and (iii) the reasons for and benefits of the Subscription as discussed in the section headed "Reasons for the Subscription".

In addition, the Team Sunny Conversion Price of HK\$0.110 equals to the Subscription Price and represents a fair treatment to all Qualifying Shareholders who take up their entitlements in the Rights Issue so as to maintain their shareholding interests in the Company and participate in the future growth of the Group, which is also in line with factors the Board taken into consideration when determining the Subscription Price.

The Directors (including the independent non-executive Directors whose view is set out in the Letter from the Independent Board Committee contained in this circular) consider that the Team Sunny Conversion Price pursuant to the Subscription Agreement and the reasons for and benefits of the Subscription are fair and reasonable and are in the interests of the Shareholders as a whole.

Conditions precedent

The completion of the Subscription Agreement is conditional upon:

- (i) the passing by the Independent Shareholders of relevant resolutions at the EGM in compliance with the requirements of the GEM Listing Rules approving (a) the Subscription Agreement and the transactions contemplated thereunder; and (b) the issue of the Team Sunny Convertible Bonds and the grant of the Team Sunny Specific Mandate for the allotment and issue of the Team Sunny Conversion Shares to Team Sunny in accordance with the terms of the Subscription Agreement;

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- (ii) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;
- (iii) all necessary consents and approvals required to be obtained on the part of Team Sunny in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;
- (iv) the GEM Listing Committee granting listing of and permission to deal in the Team Sunny Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Team Sunny Convertible Bonds;
- (v) none of the warranties given by the Company thereunder having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect; and
- (vi) none of the warranties given by Team Sunny thereunder having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

The Company shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (i), (ii), (iv) and (v) above as soon as practicable and in any event on or before the Subscription Long Stop Date. Team Sunny shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (iii) and (vi) above as soon as practicable and in any event on or before the Subscription Long Stop Date. The conditions precedent set out in conditions (i), (ii), (iii) and (iv) above are incapable of being waived. Team Sunny may at any time by notice in writing to the Company waive the condition set out in condition (v) above. The Company may at any time by notice in writing to Team Sunny to waive the condition set out in condition (vi) above.

In the event that any of the conditions precedent referred to above is not fulfilled or waived (to the extent it is capable of being waived) on or before the Subscription Long Stop Date, the Subscription Agreement shall cease and determine and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Subscription Agreement save in respect of any antecedent breach of any obligation thereof.

As at the Latest Practicable Date, none of the conditions set out above has been satisfied or waived.

Completion

The completion of the Subscription Agreement shall take place at or before 4:00 p.m. on the third Business Day (or such other date as agreed by the Company and Team Sunny) after fulfilment of all the conditions precedent set out above.

LETTER FROM THE BOARD

Reasons for the Subscription

The subscription amount payable by Team Sunny under the Subscription Agreement shall be satisfied by way of offsetting (i) the principal amount of HK\$8,000,000 under the 2019 PN payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off) and (ii) HK\$31,805,651 of which consisting of all the outstanding principal amount of HK\$30,530,000 and part of the accrued interest of HK\$1,275,651 under Mr. Wong Facilities payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off).

As at the date of the 2020 Announcement, the Group had the following loans and borrowings indebted to Mr. Wong:

- (i) On 28 February 2019, the Company issued the 2019 PN with principal amount of HK\$8,000,000 as a consideration for the acquisition of Merdeka Professional Services Limited (formerly known as Veda Corporate Services Limited) and its subsidiaries, to Mr. Wong. The 2019 PN bears interest at 2% per annum and the maturity date of the 2019 PN is 28 February 2020. As at the date of the 2020 Announcement, the outstanding principal amount of the 2019 PN is HK\$8,000,000 and the interest payable by the Company will be HK\$160,000. On 28 February 2020, Mr. Wong executed an extension letter and agree to extend the maturity date of the 2019 PN from 28 February 2020 to the date of completion of the Subscription or the date on which the Subscription lapses, whichever is the earlier, and the Company shall repay all interest accrued on the outstanding principal amount of the 2019 PN on the fifth business day immediately after the date on which the Company has completed the proposed Rights Issue or the date on which the proposed Rights Issue and the Underwriting Agreement are terminated or lapsed, whichever is the earlier.
- (ii) The Directors had always been facing an insufficient cash position for the Group and it was estimated that the Group's business operation would require a monthly working capital of approximately HK\$2.20 million. Due to the tight liquidity and the significant liability that the Company was already indebted to Mr. Cheung, the Board had then approached Mr. Wong, who is the substantial Shareholder and on 28 September 2018, Mr. Wong entered into 1st loan agreement with the Company in which Mr. Wong agreed to grant a loan facility to the Company in the principal amount of up to HK\$25,000,000 at an interest rate of 5.125% per annum with an availability period from 28 September 2018 up to 30 September 2019 for the purpose of providing working capital to the Group. The loan will mature after twelve months from the drawdown date. The first drawdown notice was given to Mr. Wong on 28 September 2018 and the aggregate amount drawn down by the Company throughout the availability period was HK\$20,530,000. As at the Latest Practicable Date, the outstanding principal amount of Mr. Wong

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1st Facility is HK\$20,530,000 and the accrued interest is approximately HK\$1,140,000. The Company has not pledged any of its assets as security under Mr. Wong 1st Facility.

- (iii) On 30 October 2019, Mr. Wong entered into 2nd loan agreement with the Company in which Mr. Wong agreed to grant a loan facility to the Company in the principal amount of HK\$10,000,000 at an interest rate of 5.0% per annum for the purpose of acquiring the remaining 49% share interest in Merdeka Investment (the “**Merdeka Investment Acquisition**”). The loan will mature on 29 October 2020. As at the Latest Practicable Date, the outstanding principal amount of Mr. Wong 2nd Facility is HK\$10,000,000 and the accrued interest is approximately HK\$200,000. The Company has not pledged any of its assets as security under Mr. Wong 2nd Facility. To the best of the Director’s knowledge, information and belief having made all reasonable enquiries, B-Innovare Limited, the vendor of the Merdeka Investment Acquisition, and its ultimate beneficial owners have no relationship or any arrangement with Mr. Wong.

The Board considers that (i) the 2019 PN, which bears an interest rate of 2% per annum and will mature on the date of completion of the Subscription or the date which the Subscription lapses, whichever is the earlier; and (ii) both of Mr. Wong 1st Facility and Mr. Wong 2nd Facility, which bear an interest rate of 5.125% per annum and 5.0% per annum respectively, represent a heavy financial burden to the Group. In view of the above, the Board has reviewed and explored different approaches to settle the 2019 PN and Mr. Wong Facilities (together with part of the accrued interest) and in order to reduce the amount of interest expense incurred by the Group per annum, the Board had decided to issue the Team Sunny Convertible Bonds to settle the 2019 PN and Mr. Wong Facilities (together with part of the accrued interest) as (i) the Team Sunny Convertible Bonds do not bear any interest burden to the Group and will be able to minimize the short term financial burden to the Group; (ii) the principal amount of the 2019 PN and Mr. Wong Facilities (together with part of the accrued interest) will be fully settled upon the completion of the Subscription Agreement; and (iii) the issue of the Team Sunny Convertible Bonds does not have an immediate dilution effect on the shareholding of the Company.

The Board has considered alternative possible financing methods (including bank borrowings and placing of Shares) to raise fund, or utilise the proceeds from the proposed Rights Issue to settle the 2019 PN and Mr. Wong Facilities. However, (i) the Group has been loss making for the recent financial years and as noted from the third quarterly report for the nine months ended 30 September 2019, the Group recorded net liabilities position and hence the Company was unable to obtain any debt financing at terms acceptable to the Company and debt financing may not be feasible for the Group as such mean (a) will further deteriorate the net liabilities position of the Group which expose the Group to higher financial risk; (b) will further increase finance costs of the Company; and (c) is normally for fixed term and the failure of renewal of the term would materially affect the liquidity of the Company particularly when the Company has made long term investments; (ii) placing of new Shares under general mandate can

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only raise funds in smaller size and does not allow the Shareholders to maintain their respective shareholding in the Company. In addition, the Company has already utilised its general mandate to issue Shares by way of placing on 12 July 2019; and (iii) the size of the proposed Rights Issue is already large as compared to the Company's existing market capitalization and the Directors are of the view that if part of the proceeds from the proposed Rights Issue have to be applied to settle the amount owed by the Company to Mr. Wong, the size of the proposed Rights Issue have to be further enlarged which could reduce the motivation for the existing Shareholders to participate in the proposed Rights Issue and most importantly, the Company considers that it would be difficult to secure an underwriter with favorable terms. Therefore, the Directors are of the view that settling the 2019 PN and Mr. Wong Facilities (together with part of the accrued interest) by issuing a 3-year zero coupon convertible bonds (i.e. the Team Sunny Convertible Bonds) is in the best interests of the Company and the Shareholders as a whole.

In view of the above, the Directors (including the independent non-executive Directors whose view is set out in the Letter from the Independent Board Committee contained in this circular) are of the view that the terms of Subscription Agreement are on normal commercial terms and the issue of the Team Sunny Convertible Bonds are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Team Sunny Specific Mandate

The Team Sunny Conversion Shares will be issued pursuant to the Team Sunny Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

(III) PROPOSED AMENDMENTS TO THE TERMS OF THE 2008 CONVERTIBLE BONDS

References are made to the announcements of the Company dated 23 October 2007, 30 May 2011, 4 July 2011, 9 July 2014, 19 September 2014, 20 January 2017 and 7 March 2017 and the circulars of the Company dated 30 May 2008, 15 June 2011, 3 September 2014 and 20 February 2017 (the “**2008 CB Circulars**”) in relation to the issue of, and the subsequent amendments made to, the 2008 Convertible Bonds in the aggregate principal amount of HK\$776,880,000 convertible into Shares at the initial conversion price of HK\$0.10 per 2008 Conversion Share (subject to adjustment as provided in the terms and conditions of the 2008 Convertible Bonds) as part of the consideration for the acquisition of forest concessions in Papua, Indonesia on 12 August 2008.

The 2008 Convertible Bonds are unsecured, interest-free and were originally mature on 12 August 2011. Unless converted into the Shares, the outstanding principal amount of the 2008 Convertible Bonds would be redeemed in full on maturity. By three supplemental deeds dated 30 May 2011, 9 July 2014 and 20 January 2017 respectively, among other changes on the terms of the 2008 Convertible Bonds, the maturity date of the 2008 Convertible Bonds and its conversion period have been extended to 12 August 2020. The

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conversion price of the 2008 Convertible Bonds has been adjusted from HK\$0.095 per 2008 Conversion Share to HK\$0.95 per 2008 Conversion Share with effect from 19 August 2019 upon the consolidation of the shares of the Company.

As at the Latest Practicable Date, Ivana, Mr. Jin and Mr. Shang are the holders of the 2008 Convertible Bonds in the respective outstanding principal amount of HK\$110,000,000, HK\$7,034,000 and HK\$7,034,000, which 115,789,473, 7,404,211 and 7,404,211 Shares respectively will be issued upon exercise of the conversion rights under the 2008 Convertible Bonds in full at the conversion price of HK\$0.95 per 2008 Conversion Share.

As at the Latest Practicable Date, save as disclosed above, the Company does not have any business relationship with Mr. Jin and Mr. Shang and each of them is an Independent Third Party and not connected with the Company and its connected persons as defined under the GEM Listing Rules.

Fourth supplemental deed relating to the Convertible Bonds

The Board announces that on 10 January 2020 (after trading hours), the Company and the CB Holders entered into the Fourth Supplemental Deed, pursuant to which the Company and the CB Holders conditionally agreed to amend certain terms of the 2008 Convertible Bonds such that: (a) the maturity date of the 2008 Convertible Bonds be extended for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the conversion price of the 2008 Convertible Bonds be revised from HK\$0.95 per 2008 Conversion Share to HK\$0.110 per 2008 Conversion Share with effect from 13 August 2020 (subject to adjustments).

To the best information, knowledge and belief of the Directors after making necessary enquiry, save for Ivana, which is a company controlled and owned by a trust founded by Mr. Cheung, the Chairman, an executive Director and the chief executive officer of the Company, each of the CB Holders is an Independent Third Party and not connected with the Company and its connected persons.

Ivana is principally engaged in investment holding.

Conditions precedent

The Fourth Supplemental Deed is conditional upon the following conditions:

- (a) the Stock Exchange granting its approval for the 2008 CB Terms Amendments;
- (b) the passing of an ordinary resolution at the EGM in accordance with the articles of association of the Company and the GEM Listing Rules by the Independent Shareholders approving the Fourth Supplemental Deed and the transactions contemplated thereunder including the grant of the 2008 CB Specific Mandate; and

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- (c) the GEM Listing Committee having granted the listing of, and permission to deal in, the 2008 Conversion Shares to be issued upon exercise of conversion rights attached to the 2008 Convertible Bonds.

The 2008 CB Terms Amendments shall take effect immediately when all the conditions set out above have been fulfilled. If any of the conditions above are not fulfilled before 30 April 2020, the parties to the Fourth Supplemental Deed shall not be bound to proceed with the transactions contemplated under the Fourth Supplemental Deed and the Fourth Supplemental Deed shall cease to have any effect.

For the avoidance of doubt, the Fourth Supplemental Deed is not conditional upon the completion of the Rights Issue. As such, the 2008 CB Terms Amendments will continue to proceed if the proposed Rights Issue fails to complete.

Apart from the 2008 CB Terms Amendments, all other terms of the 2008 Convertible Bonds shall remain unchanged and valid. A summary of the principal terms of the 2008 Convertible Bonds as amended pursuant to the 2008 CB Terms Amendments are as follows:

Issuer	:	The Company
Outstanding principal amount	:	HK\$124,068,000
Issue price	:	100% of the principal amount
Interest	:	Zero coupon
Conversion period	:	Subject to the restrictions specified below, the CB Holders shall be entitled to convert the 2008 Convertible Bonds into the 2008 Conversion Shares at any time during the period commencing from the date of issue of the 2008 Convertible Bonds until the date that falls on the fifth day immediately before the maturity date.

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- Restrictions in conversion : There is no right for any CB Holder(s) to convert any principal amount of the 2008 Convertible Bonds held by the CB Holder(s) and the Company shall not issue any 2008 Conversion Shares thereof if, upon such conversion and issue of the 2008 Conversion Shares, the Company will be in breach of the minimum public float requirement as stipulated under the GEM Listing Rules. Subject to the above, the CB Holder(s) shall have the right to convert any principal amount of the 2008 Convertible Bonds held by the CB Holder(s), at any time during the conversion period. Pursuant to the Takeovers Code, if applicable after conversion, the CB Holder(s) should, and should procure its/their parties acting in concert within the meaning of the Takeovers Code, to comply with their respective obligations under the Takeovers Code, including the mandatory offer obligations under Rule 26.1 of the Takeovers Code, within the timeframe prescribed by the Takeovers Code, or where applicable, obtain a whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code should such obligations arise.
- Conversion Price : HK\$0.95 per 2008 Conversion Share with effect from 19 August 2019 up to and including 12 August 2020; and HK\$0.110 per 2008 Conversion Share with effect from 13 August 2020 to the maturity date of the 2008 Convertible Bonds, subject to adjustments.

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Adjustment events : The 2008 Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events:

(i) ***Consolidation or sub-division of the Shares;***

If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the 2008 Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount:

$$\frac{A}{B}$$

where

A is the nominal amount of one Share immediately after such consolidation or sub-division; and

B is the nominal amount of one Share immediately before such consolidation or sub-division.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

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(ii) *Capitalisation of profits or reserves;*

If and whenever the Company shall issue (other than in lieu of the whole or part of a cash dividend and other than issue that would amount to a capital distribution) any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the 2008 Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation.

$$\frac{A}{A + B}$$

where

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

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(iii) *Capital distribution;*

If and whenever the Company shall make any capital distribution to the Shareholders (in their capacity as such), the 2008 Conversion Price in force immediately prior to such distribution or grant shall be reduced by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the market price on the date on which the capital distribution is publicly announced or (failing any such announcement) the date next preceding the date of the capital distribution; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by the independent accountants, of the portion of the capital distribution which is attributable to one Share,

provided that if in the opinion of the independent accountants, the use of the fair market value as aforesaid produces a result which is significantly inequitable, such independent accountant may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution.

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Note: Capital distribution (without prejudice to the generality of that phrase) includes distributions in cash or specie and any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution unless if it does not, when taken together with any dividend or distribution in cash or distribution of assets in specie previously made or paid in respect of any financial period of the Company after 31 December 2016, exceed an amount equal to the aggregate of the net profits (less net losses) attributable to the Shareholders for all financial periods after 31 December 2016 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each financial period ended 31 December; or the rate of that dividend or distribution, together with all other dividends or distributions on the class of capital in question charged or provided for in the accounts of the Company for the financial periods in question, does not exceed such aggregate rate of dividend or distribution on such class of capital for the last preceding financial period. Capital distribution in cash means distribution of cash of the Company to the Shareholders out of the share capital or share premium of the Company.

(iv) Issue of Shares for subscription by way of rights

If and whenever the Company shall offer to all or substantially all Shareholders as a class for subscription by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any new Shares, in each case at a price which is less than 80% of the market price on the last dealing day preceding the date of the announcement of the terms of the offer or grant, the 2008 Conversion Price shall be adjusted by multiplying the 2008 Conversion Price in force immediately on the last dealing day preceding the date of the announcement by the following fraction:

$$\frac{A + B}{A + C}$$

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where

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the rights, or for the options or warrants or other rights issued by way of rights, and for the total number of Shares comprised therein would purchase at such market price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the offer or grant.

Such adjustment shall become effective on the date of the issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

Provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the CB Holders (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) as if it had exercised the conversion rights under the 2008 Convertible Bonds registered in its name in full on the day immediately preceding the record date for such offer or grant.

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The Company has taken into consideration and considers that given that the Subscription Price of the proposed Rights Issue represents a premium of approximately 3.77% over the average closing price of HK\$0.106 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the day immediately preceding the Last Trading Day but not at a price less than 80% of the market price per Share, therefore the proposed Rights Issue would not trigger the adjustment events to the 2008 Conversion Price.

(v) (aa) *Issue of Shares upon conversion or exchange*

If and whenever the Company shall issue wholly for cash any securities (other than the 2008 Convertible Bonds pursuant to the instrument constituting the 2008 Convertible Bonds) which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration (as defined below) per Share initially receivable for such securities is less than 80% of the market price on the last dealing day preceding the date of the announcement of the terms of issue of such securities, the 2008 Conversion Price shall be adjusted by multiplying the 2008 Conversion Price in force immediately prior to the issue by the following fraction:

$$\frac{A + B}{A + C}$$

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where

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the total Effective Consideration (as defined below) receivable by the Company for the Shares to be issued upon conversion or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such market price per Share; and
- C is the maximum number of Shares to be issued upon conversion into or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of the issue of such securities.

The Company has taken into consideration and considers that given the Team Sunny Conversion Price represents a premium of approximately 3.77% over the average closing price of HK\$0.106 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the day immediately preceding the Last Trading Day but not at a price less than 80% of the market price per Share, therefore the issue of the Team Sunny Convertible Bonds would not trigger the adjustment events to the 2008 Conversion Price pursuant to 2008 Convertible Bonds instrument (as amended and supplemented by, among others, the Fourth Supplemental Deed).

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(bb) *Modification of rights of conversion or exchange*

If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned above in this sub-paragraph (v) are modified so that the total Effective Consideration (as defined below) per Share initially receivable for such securities shall be less than 80% of the market price on the last dealing day preceding the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the 2008 Conversion Price shall be adjusted by multiplying the 2008 Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the total Effective Consideration (as defined below) receivable by the Company for the Shares to be issued upon conversion or exchange, or upon exercise of the right of subscription attached to the securities so modified, would purchase at such market price per Share or, if lower, the existing conversion, exchange or subscription price; and
- C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate,

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but giving credit in such manner as the independent accountants (whom the Company undertakes to engage for the purpose of this paragraph) shall, acting as an expert, consider appropriate (if at all) for any adjustment under this paragraph.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (v), the “**total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

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(vi) *Issue of Shares other than by way of rights*

If and whenever the Company shall issue (otherwise than as mentioned in (iv) above) wholly for cash any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in (iv) above) options, warrants or other rights to subscribe for or purchase Shares, in each case at a price per Share which is less than 80% of the market price on the last dealing day preceding the date of the announcement of the terms of such issue, the 2008 Conversion Price shall be adjusted by multiplying the 2008 Conversion Price in force immediately before the date of such announcement by the following fraction:

$$\frac{A + B}{C}$$

where

- A is the number of Shares in issue immediately before the date of the relevant announcement;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such market price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

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Such adjustment shall become effective on the date of the issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- Early redemption : The Company may at any time during the period commencing from the date of issue of the 2008 Convertible Bonds to the maturity date of the 2008 Convertible Bonds to redeem the whole or part of the outstanding 2008 Convertible Bonds of the CB Holder(s) on a pro rata basis.
- Ranking of Conversion Shares : 2008 Conversion Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant conversion date.
- Maturity date : The date falling on the fifteenth anniversary of the issue date, such date being a business day and if such date not being a business day, the immediately next business day, i.e. 12 August 2023.
- Voting rights : The CB Holder(s) shall not have any right to attend or vote in any general meeting of the Company by virtue of their being CB Holder(s).
- Transferability : The 2008 Convertible Bonds are transferable from the date of issue of the 2008 Convertible Bonds until the date that falls on the tenth Business Day prior to the maturity date, subject to the terms and conditions of the 2008 Convertible Bonds. If the 2008 Convertible Bonds are transferred to a connected person (except the transfer of the 2008 Convertible Bonds to the holding company or subsidiary of the CB Holder), the Company shall immediately notify the Stock Exchange and all such transfer shall be made subject to prior approval of the Stock Exchange and full compliance with the GEM Listing Rules.
- Status : General, unsecured obligations of the Company ranking equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company except for the obligations accorded preference by mandatory provisions of applicable laws.

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Listing : No application will be made for the listing of the 2008 Convertible Bonds on the Stock Exchange. Application will be made to the GEM Listing Committee for the listing of, and permission to deal in, the 2008 Conversion Shares arising from the conversion of the outstanding 2008 Convertible Bonds.

Conversion Price

The 2008 Conversion Price of HK\$0.110 (subject to adjustments) per 2008 Conversion Share:

- (a) represents a discount of approximately 5.17% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) represents a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) is equivalent to the average closing price of approximately HK\$0.110 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (d) represents a premium of approximately 2.80% over the average closing price of approximately HK\$0.107 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (e) represents a premium of approximately HK\$0.165 over the unaudited net liabilities value per Share of approximately HK\$0.055 based on the published unaudited consolidated net liabilities of the Company of approximately HK\$13.57 million as at 30 September 2019 and the issued share capital of 244,809,415 Shares as at 30 September 2019.

The 2008 Conversion Price of HK\$0.110 (subject to adjustments) was arrived at after arm's length negotiations between the Company and the CB Holders with reference to the recent trading prices of the Shares on the Stock Exchange.

Upon effective of the 2008 CB Terms Amendments:

- (i) if the outstanding 2008 Convertible Bonds are fully converted at the adjusted 2008 Conversion Price of HK\$0.110 each (subject to adjustments), a maximum of 1,127,890,909 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding

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2008 Convertible Bonds in full, which represents approximately 430.16% of the existing issued share capital of the Company as at the Latest Practicable Date;

- (ii) if the outstanding 2008 Convertible Bonds are fully converted at the adjusted 2008 Conversion Price of HK\$0.110 each (subject to adjustments), a maximum of 1,127,890,909 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding 2008 Convertible Bonds in full, which represents approximately 430.16% of the existing issued share capital of the Company as at the date of the 2020 Announcement;
- (iii) assuming completion of the proposed Rights Issue (such that part of the principal amount of the 2008 Convertible Bonds in the amount of HK\$55.00 million has been repaid to Mr. Cheung) and if the outstanding 2008 Convertible Bonds are fully converted at the adjusted 2008 Conversion Price of HK\$0.110 each (subject to adjustments), a maximum of 627,890,909 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding 2008 Convertible Bonds in full which represents:
 - (a) approximately 239.47% of the existing issued share capital of the Company as at the Latest Practicable Date (i.e. total of 262,200,719 Shares);
 - (b) approximately 239.47% of the existing issued share capital of the Company as at the date of the 2020 Announcement (i.e. total of 262,200,719 Shares);
 - (c) approximately 47.89% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) (i.e. total of 1,311,003,595 Shares);
 - (d) approximately 37.53% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion rights attached to the Team Sunny Convertible Bonds in full (i.e. total of 1,672,873,149 Shares); and
 - (e) approximately 27.29% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares), the allotment and issue of the Team Sunny Conversion Shares and the outstanding 2008 Conversion Shares upon

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the exercise of the conversion rights attached to the Team Sunny Convertible Bonds and the outstanding 2008 Convertible Bonds respectively in full (i.e. total of 2,300,764,058 Shares).

The 2008 CB Specific Mandate

The 2008 Conversion Shares will be issued pursuant to the 2008 CB Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

Reasons For the 2008 CB Terms Amendments

The 2008 CB Terms Amendments effectively allow the Group to refinance the debts under the 2008 Convertible Bonds under the similar financial terms for a further three-year period. Since the existing conversion price of the 2008 Convertible Bonds is much higher than the prevailing market price of the Share, the chance of conversion of the 2008 Convertible Bonds is remote. As the adjusted 2008 Conversion Price will serve as an incentive for the CB Holders to exercise their conversion rights attached to the 2008 Convertible Bonds into 2008 Conversion Shares, the financial position of the Group will be strengthened with the conversion of debt into equity capital and the pressure on the Company's liquidity and cash flow can be reduced. Also, as the 2008 Convertible Bonds is zero coupon, it will not incur any interest burden for the Group for the next three years. Save for the 2008 CB Terms Amendments, other terms and conditions of the 2008 Convertible Bonds remain unchanged and valid.

The Directors (including the independent non-executive Directors whose view is set out in the Letter from Independent Board Committee contained in this circular) consider that the terms and conditions of the Fourth Supplemental Deed are fair and reasonable and the 2008 CB Terms Amendments are in the interests of the Company and the Shareholders as a whole. No proceeds will be received by the Company as a result of the 2008 CB Terms Amendments.

The 2008 CB Transfer

Reference is made to the 2008 CB Transfer Announcement and the announcement of the Company date 20 March 2020 in relation to the supplemental agreement to the 2008 CB Sale and Purchase Agreement.

The Board announces that on 21 January 2020, the Company has received a notice from Ivana in relation to the proposed transfer of the 2008 Convertible Bonds in the principal amount of HK\$55.00 million from Ivana to Team Sunny pursuant to the 2008 CB Sale and Purchase Agreement.

The Board would like to emphasize that, as disclosed in the 2020 Announcement, the Company only intends to utilise the proceeds from the proposed Rights Issue in the amount of HK\$55.00 million for a partial repayment of the 2008 Convertible Bonds to Mr. Cheung (i.e. the 2008 Convertible Bonds registered under the name of Ivana). Hence, the Company will strictly follow the disclosure and will not utilise the net proceeds to redeem the 2008 Sale Convertible Bonds to be transferred from Ivana to

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Team Sunny anyhow. The Company will also publicly announce the completion of the partial redemption of HK\$55.00 million of the 2008 Convertible Bonds registered in the name of Ivana after such redemption.

The terms of the 2008 Convertible Bonds (subject to the 2008 CB Terms Amendments) will remain unchanged upon the 2008 CB Transfer Completion.

Save for the Team Sunny Irrevocable Undertaking, there is no arrangements, written or otherwise, express or implied between Team Sunny, Mr. Wong and their respective associates with (i) Ivana, Mr. Cheung and their respective associates; and/or (ii) the Company and its connected persons in relation to the Rights Issue.

The 2008 CB Sale and Purchase Agreement:

On 20 March 2020, Ivana and Team Sunny entered into a supplemental agreement to the 2008 CB Sales and Purchase Agreement to postpone the completion date of the 2008 CB Transfer to the fifth Business Days after the completion of the Rights Issue or the date of termination or lapse of the Rights Issue (whichever is the earlier) (or such later date as the parties may agree in writing).

The principal terms of the 2008 CB Sale and Purchase Agreement are set out as follows:

Date : 21 January 2020 (as amended and supplemented on 20 March 2020)

Vendor : Ivana Investments Limited

As at the Latest Practicable Date, Ivana is a company controlled and owned by a trust founded by Mr. Cheung, the Chairman, an executive Director and the chief executive officer of the Company, Ivana is therefore a connected person of the Company under the GEM Listing Rules.

Purchaser : Team Sunny International Holdings Limited

As at the Latest Practicable Date, Team Sunny is wholly and ultimately owned by Mr. Wong and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the issued share capital of the Company. Accordingly, Team Sunny is a connected person of the Company under the GEM Listing Rules.

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Subject Matter

Pursuant to the 2008 CB Sale and Purchase Agreement, Team Sunny has conditionally agreed to acquire and Ivana has conditionally agreed to sell part of the 2008 Convertible Bonds issued by the Company in the principal amount of HK\$55.00 million free from all encumbrances and together with all rights attaching thereto at the 2008 CB Transfer Completion and thereafter.

Consideration

Pursuant to the 2008 CB Sale and Purchase Agreement, the consideration of the 2008 Sale Convertible Bonds shall be HK\$50.00 million which shall be satisfied in the following manner:

- (i) HK\$5.00 million being part payment of the consideration shall be payable by Team Sunny to Ivana (or its nominee(s)) in cash at the 2008 CB Transfer Completion; and
- (ii) the remaining balance of the consideration of HK\$45.00 million shall be payable by Team Sunny to Ivana (or its nominee(s)) in cash within twelve (12) months from the date of the 2008 CB Transfer Completion (or such other date as shall be agreed in writing among the parties thereto).

Conditions precedent

The 2008 CB Transfer Completion is conditional upon and subject to the satisfaction of the following conditions:

- (a) the 2008 CB Terms Amendments having become effective;
- (b) the 2008 CB Transfer being in full compliance with the terms and conditions of the 2008 Convertible Bonds and the instrument of the 2008 Convertible Bonds;
- (c) all necessary consents, licences and approvals required to be obtained on the part of Ivana in respect of the 2008 CB Sale and Purchase Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect; and
- (d) all necessary consents, licences and approvals required to be obtained on the part of Team Sunny in respect of the 2008 CB Sale and Purchase Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect.

Team Sunny shall use its best endeavour to procure the fulfillment of the condition (d). Ivana shall use its best endeavour to procure the fulfillment of the conditions (a), (b) and (c). All conditions set out above are incapable of being waived. If the conditions set out above have not been satisfied on or before on 30 April 2020, or

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such later date as Ivana and Team Sunny may agree in writing, the 2008 CB Sale and Purchase Agreement shall cease and terminate (save and except clauses in relation to restriction on announcements, notices, costs and stamp duty and governing law and jurisdiction which shall continue to have full force and effect) and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breach.

As at the Latest Practicable Date, none of the conditions set out above has been satisfied or waived.

For the avoidance of doubt, the 2008 CB Terms Amendments is not conditional upon the proposed Rights Issue having become unconditional. The 2008 CB Terms Amendments will not worsen the indebtedness position of the Company, on the other hand, an extension of the maturity date of the 2008 Convertible Bonds for a further term of three years is in favour of the Company instead.

Completion

Pursuant to the supplemental agreement dated 20 March 2020 entered into between Ivana and Team Sunny in relation to the 2008 CB Transfer, if the above conditions precedent have been fulfilled, the 2008 CB Transfer Completion shall take place on the fifth Business Day after the completion of the Rights Issue or the date of termination or lapse of the Rights Issue (whichever is the earlier) (or such later date as the parties may agree in writing).

Following the 2008 CB Transfer Completion, (i) Team Sunny will become the registered holder of the 2008 Convertible Bonds in the principal amount of HK\$55.00 million; and (ii) Ivana will not hold any 2008 Convertible Bonds if completion of the proposed Rights Issue has taken place, or will hold 2008 Convertible Bonds in the principal amount of HK\$55.00 million if the proposed Rights Issue is lapsed.

For the avoidance of doubt, the Company will ensure that HK\$55 million of the proceeds from the proposed Rights Issue will be used to redeem the 2008 Convertible Bonds in the amount of HK\$55 million registered in the name of Ivana within four Business Days from the completion of the Rights Issue and that no proceeds from the Rights Issue will be used to redeem any 2008 Convertible Bonds transferred to Team Sunny. The Company will make relevant disclosure/publication after the redemption accordingly.

Conversion Shares

Upon the 2008 CB Terms Amendments having become effective, a maximum of 500,000,000 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the 2008 Sale Convertible Bonds with a principal amount of HK\$55.00 million, which represents:

- (a) approximately 190.69% of the issued share capital of the Company as at the Latest Practicable Date (i.e. total of 262,200,719 issued number of Shares);

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- (b) approximately 190.69% of the issued share capital of the Company as at the date of the 2020 Announcement (i.e. total of 262,200,719 issued number of Shares);
- (c) approximately 38.14% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) (i.e. total of 1,311,003,595 issued number of Shares);
- (d) approximately 29.89% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares (i.e. total of 1,672,873,149 issued number of Shares);
- (e) approximately 23.01% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Shares Options being exercised and no other issue or repurchase of Shares), the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion right attached to the Team Sunny Convertible Bonds in full and the 500,000,000 2008 Conversion Shares upon full conversion of the Sale 2008 Convertible Bonds (i.e. total of 2,172,873,149 issued number of Shares); and
- (f) approximately 21.73% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares), the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion right attached to the Team Sunny Convertible Bonds in full and all the outstanding 2008 Conversion Shares (i.e. 627,890,909 2008 Conversion Shares) upon the exercise of the conversion rights attached to the 2008 Convertible Bonds in full (i.e. total of 2,300,764,058 issued number of Shares).

For illustrative purpose only, in the event that the proposed Rights Issue lapses, upon the 2008 CB Terms Amendments having become effective, a maximum of 1,000,000,000 2008 Conversion Shares will be allotted and issued upon the exercise in full of the conversion which attached to the 2008 Convertible Bonds owned by Ivana with a principal amount of HK\$110.00 million. The maximum of 500,000,000 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the 2008 Sale Convertible Bonds with a principal amount of HK\$55.00 million, which represents (assuming no Outstanding Shares Options being exercised and no other issue or repurchase of Shares):

- (a) approximately 190.69% of the issued share capital of the Company as at the Latest Practicable Date (i.e. total of 262,200,719 issued number of Shares);

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- (b) approximately 190.69% of the issued share capital of the Company as at the date of the 2020 Announcement (i.e. total of 262,200,719 issued number of Shares);
- (c) approximately 80.12% of the issued share capital of the Company as to be enlarged by the completion of allotment and issue of the Team Sunny Conversion Shares (i.e. total of 624,070,273 issued number of Shares);
- (d) approximately 44.48% of the issued share capital of the Company as to be enlarged by the completion of the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion rights attached to the Team Sunny Convertible Bonds in full and the 500,000,000 2008 Conversion Shares upon full conversion of the Sale 2008 Convertible Bonds (i.e. total of 1,124,070,273 issued number of Shares); and
- (e) approximately 28.54% of the issued share capital of the Company as to be enlarged by the completion of the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion rights attached to the Team Sunny Convertible Bonds in full and all the outstanding 2008 Conversion Shares (i.e. 1,127,890,909 2008 Conversion Shares) upon the exercise of the conversion rights attached to the 2008 Convertible Bonds in full (i.e. total of 1,751,961,182 issued number of Shares).

As at the Latest Practicable Date, the Company has not received any notice from Mr. Cheung in relation to his intention to exercise the conversion rights attached to the 2008 Sale Convertible Bonds in the event that the proposed Rights Issue lapses.

Reasons for the 2008 CB Transfer

The Company was informed by Mr. Cheung that Ivana entered into the 2008 CB Sale and Purchase Agreement with Team Sunny based on both parties' commercial negotiation which began after the publication of the 2020 Announcement and in particular, due to Mr. Cheung's personal investment sentiment on the Company, the prolonged holding of the 2008 Convertible Bonds by Ivana since 2012 and also the recent adverse economic situation in Hong Kong.

The Company would like to emphasize that it was the intention for the Company to enter into the Subscription Agreement with Team Sunny for purpose of offsetting the 2019 PN and Mr. Wong Facilities (together with part of the accrued interest) as mentioned in the section **"(II) SUBSCRIPTION OF THE TEAM SUNNY CONVERTIBLE BONDS UNDER TEAM SUNNY SPECIFIC MANDATE"** and the 2008 CB Sale and Purchase Agreement was merely a transaction conducted between Ivana and Team Sunny which is not initiated by the Company. Hence, the Company considers that both 2008 CB Sale and Purchase Agreement and Subscription Agreement are not related to each other.

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EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purposes only, set out below the shareholding structure of the Company as at the Latest Practicable Date, and the effect on the shareholding structure of the Company upon completion of (i) the proposed Rights Issue in the manner contemplated under the Underwriting Agreement; (ii) the allotment and issue of the Team Sunny Conversion Shares pursuant to the Subscription Agreement; and (iii) the 2008 CB Terms Amendments, the 2008 CB Transfer Completion and the allotment and issue of all the 2008 Conversion Shares is as follow:

Scenario 1: Assuming no Outstanding Share Options being exercised and that there is no change in the number of issued Shares from the date of this circular up to the Record Date.

	As at the Latest Practicable Date		Assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full		Assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate and Team Sunny pursuant to the Team Sunny Irrevocable Undertaking) have taken up any entitlements of the Rights Shares		(i) Assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate and Team Sunny pursuant to the Team Sunny Irrevocable Undertaking) have taken up any entitlements of the Rights Shares and (ii) the allotment and issue of the Team Sunny Conversion Shares ^(note 3)		(i) Assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate and Team Sunny pursuant to the Team Sunny Irrevocable Undertaking) have taken up any entitlements of the Rights Shares; (ii) the allotment and issue of the Team Sunny Conversion Shares; and (iii) the completion of 2008 CB Terms Amendments, the 2008 CB Transfer Completion and allotment and issue of all the 2008 Conversion Shares ^(note 4)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Shareholders										
Team Sunny ^(note 1)	47,164,000	17.99	235,820,000	17.99	390,730,000	29.80	752,599,554	44.99	1,252,599,554	54.44
Cheung Wai Yin, Wilson ^(note 2)	55,781	0.02	278,905	0.02	55,781	0.00	55,781	0.00	55,781	0.00
Option holders	—	—	—	—	—	—	—	—	—	—
CB Holders (Mr. Jin and Mr. Shang)	—	—	—	—	—	—	—	—	127,890,909	5.56
Underwriter	—	—	—	—	705,236,876	53.80	705,236,876	42.16	705,236,876	30.65
Other public Shareholders	214,980,938	81.99	1,074,904,690	81.99	214,980,938	16.40	214,980,938	12.85	214,980,938	9.35
Total	262,200,719	100.00	1,311,003,595	100.00	1,311,003,595	100.00	1,672,873,149	100.00	2,300,764,058	100.00

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Scenario 2: Assuming new Shares have been allotted and issued on or before the Record Date pursuant to the full exercise of all Outstanding Share Options but otherwise no other Shares have been allotted and issued on or before the Record Date.

	As at the Latest Practicable Date		Assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full		Assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate and Team Sunny pursuant to the Team Sunny Irrevocable Undertaking) have taken up any entitlements of the Rights Shares		(i) Assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate and Team Sunny pursuant to the Team Sunny Irrevocable Undertaking) have taken up any entitlements of the Rights Shares and issue of the Team Sunny Conversion Shares ^(note 3)		(ii) Assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares on or before the Record Date, and that no Qualifying Shareholders (except the Underwriter and its associate and Team Sunny pursuant to the Team Sunny Irrevocable Undertaking) have taken up any entitlements of the Rights Shares; (ii) the allotment and issue of the Team Sunny Conversion Shares; and (iii) the completion of 2008 CB Terms Amendments, the 2008 CB Transfer Completion and the allotment and issue of all the 2008 Conversion Shares ^(note 4)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Shareholders										
Team Sunny ^(note 1)	47,164,000	17.99	235,820,000	17.99	390,730,000	29.80	752,599,554	44.99	1,252,599,554	54.44
Cheung Wai Yin, Wilson ^(note 2)	55,781	0.02	278,905	0.02	55,781	0.00	55,781	0.00	55,781	0.00
Option holders	33,199	0.01	165,995	0.01	33,199	0.00	33,199	0.00	33,199	0.00
CB Holders (Mr. Jin and Mr. Shang)	—	—	—	—	—	—	—	—	127,890,909	5.56
Underwriter	—	—	—	—	705,369,672	53.80	705,369,672	42.16	705,369,672	30.66
Other public Shareholders	214,980,938	81.98	1,074,904,690	81.98	214,980,938	16.40	214,980,938	12.85	214,980,938	9.34
Total	262,233,918	100.00	1,311,169,590	100.00	1,311,169,590	100.00	1,673,039,144	100.00	2,300,930,053	100.00

Notes:

- (1) Team Sunny is owned as to 100% by Mr. Wong whose is deemed to be interested in 47,164,000 Shares pursuant to the Part XV of the SFO. Upon completion of the Subscription and the 2008 CB Transfer, Team Sunny will hold Team Sunny Convertible Bonds in the principal amount of HK\$39,805,651 (which are convertible into Team Sunny Conversion Shares at the Team Sunny Conversion Price of HK\$0.110 per Share (subject to adjustments)) and 2008 Convertible Bonds in the principal amount of HK\$55.00 million (which are convertible into 2008 Conversion Shares at the 2008 Conversion Price of HK\$0.110 per Share (subject to adjustments)).
- (2) Mr. Cheung Wai Yin, Wilson is the Chairman, an executive Director and the chief executive officer of the Company and personally interested in 55,781 Shares. Upon completion of the proposed Rights Issue and the 2008 CB Transfer, Mr. Cheung, through Ivana, will not hold any 2008 Convertible Bonds.
- (3) The shareholding structure is prepared for illustrative purpose only. There is no right for Team Sunny to convert any principal amount of the Team Sunny Convertible Bonds held by Team Sunny and the Company shall not issue any Team Sunny Conversion Shares thereof if, upon such conversion and issue of the Team Sunny Conversion Shares, the Company will not be able to comply with the minimum public float requirement as stipulated under Rule 11.23 of the GEM Listing Rules.

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- (4) The shareholding structure is prepared for illustrative purpose only. There is no right for any CB Holder(s) and/or Team Sunny to convert any principal amount of the 2008 Convertible Bonds held by the CB Holder(s) and/or Team Sunny and the Company shall not issue any 2008 Conversion Shares thereof if, upon such conversion and issue of the 2008 Conversion Shares, the Company will be in breach of the minimum public float requirement as stipulated under the GEM Listing Rules.

The CB Holder(s) shall have the right to convert any principal amount of the 2008 Convertible Bonds held by the CB Holder(s), at any time during the conversion period. Pursuant to the Takeovers Code, if applicable after conversion, the CB Holder(s) should, and should procure its/their parties acting in concert within the meaning of the Takeovers Code, to comply with their respective obligations under the Takeovers Code, including the mandatory offer obligations under Rule 26.1 of the Takeovers Code, within the timeframe prescribed by the Takeovers Code, or where applicable, obtain a whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code should such obligations arise. Team Sunny shall have the right to convert any principal amount of the Team Sunny Convertible Bonds and the 2008 Sale Convertible Bonds upon CB Transfer Completion into Team Sunny Conversion Shares and the 2008 Conversion Shares respectively, at any time during the conversion period. If applicable, Team Sunny should, and should procure its/their parties acting in concert within the meaning of the Takeovers Code, to comply with their respective obligations under the Takeovers Code, including the mandatory offer obligations under Rule 26.1 of the Takeovers Code, within the timeframe prescribed by the Takeovers Code, or where applicable, obtain a whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code should such obligations arise.

- (5) These scenarios are for illustrative purpose only. Under the Underwriting Agreement, the Underwriter has undertaken that it shall use its reasonable endeavours to ensure that (i) each of the subscribers or purchasers of the Untaken Shares procured by it shall be third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with any Directors, chief executive or substantial Shareholders of the Company or its subsidiaries or any of their respective associates; (ii) the public float requirements under the GEM Listing Rules shall be fulfilled by the Company upon completion of the Rights Issue; and (iii) any subscription or purchase of the Untaken Shares by the Underwriter and each of the subscribers or purchasers procured by the Underwriter shall not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Underwriter and the subscribers or purchasers procured by the Underwriter upon completion of the Rights Issue. Save for the Team Sunny Irrevocable Undertaking and assuming none of the Qualifying Shareholders take up the Rights Shares to be provisionally allotted to them, the Underwriter shall underwrite a maximum amount of 705,369,672 Rights Shares, representing approximately 53.80% of the enlarged share capital of the Company upon completion of the Rights Issue. To ensure the compliance of the public float requirements under the GEM Listing Rules can be fulfilled by the Company and without triggering any mandatory general offer obligation under Rule 26 of the Takeovers Code, the Underwriter will enter into sub-underwriting agreement with at least one sub-underwriter. The Underwriter advised that as at the Latest Practicable Date, they have approached one sub-underwriter and is negotiating on the underlying commercial terms and expect that the sub-underwriting agreement will be entered on or before the publication of the prospectus of the proposed Rights Issue.
- (6) Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

LETTER FROM THE BOARD

EQUITY FUND RAISING EXERCISES OF THE COMPANY IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company did not raise funds on any issue of equity securities raising activities during the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement	Event	Net proceeds raised	Intended use of net proceeds	Actual use of net proceeds
12 July 2019	Placing of new Shares under general mandate	approximately HK\$6.26 million	(i) approximately HK\$3.10 million as to salary, Director's fee and mandatory provident fund schemes; (ii) approximately HK\$1.50 million as to rent and rates; and (iii) approximately HK\$1.66 million as to maintain and expand in financial services business	Fully utilised as intended

POSSIBLE ADJUSTMENTS RELATING TO THE OUTSTANDING SHARE OPTIONS

As at the Latest Practicable Date, there are 33,199 Outstanding Share Options. All the 33,199 Outstanding Share Options are exercisable from 30 May 2012 to 29 May 2022. Save for 33,199 Outstanding Share Options and the 2008 Convertible Bonds, there are no outstanding derivatives, options, warrants or securities in issue which confer any rights to subscribe for, convert or exchange into Shares.

Adjustments to the exercise prices and numbers of the Outstanding Share Options will be required under the Share Option Scheme as a result of the Rights Issue. An independent financial adviser of the Company will be appointed to certify the necessary adjustments to the exercise prices and numbers of the Outstanding Share Options. Further announcement relating to such adjustments will be made by the Company in this regard as and when appropriate.

GEM LISTING RULES IMPLICATIONS

Since the proposed Rights Issue will increase the issued share capital or the market capitalisation of the Company by more than 50% within the 12 months period immediately preceding the date of the 2020 Announcement, and in accordance with Rule 10.29(1) of the GEM Listing Rules, the proposed Rights Issue is conditional on the approval by the Independent Shareholders at the EGM by passing the necessary resolution(s) on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the proposed Rights Issue and the transactions contemplated thereunder.

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As at the Latest Practicable Date, there is no controlling Shareholder as defined under the GEM Listing Rules. Mr. Cheung, being the Chairman, an executive Director and the chief executive officer of the Company, is the legal and beneficial owner of 55,781 Shares, representing approximately 0.02% of the entire issued share capital of the Company as at the Latest Practicable Date. As such, Mr. Cheung and his associates shall abstain from voting in favour of the proposed Rights Issue and the transactions contemplated thereunder at the EGM.

CONNECTED TRANSACTIONS

Subscription Agreement

As at the Latest Practicable Date, Team Sunny (a company which is wholly and ultimately owned by Mr. Wong) is a substantial shareholder of the Company and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the entire issued share capital of the Company. Accordingly, Team Sunny is a connected person of the Company and the Subscription constitutes a connected transaction under Rule 20.22(6) of the GEM Listing Rules and will be subject to reporting and announcement requirements, as well as the approval of the Independent Shareholders at the EGM by way of poll.

As the 2008 CB Transfer is a transaction between Ivana and Team Sunny, in addition to Mr. Wong, Team Sunny and their respective associates, Mr. Cheung, Ivana and their respective associates will also abstain from voting in respect of the resolution(s) approving the Subscription Agreement and the Team Sunny Specific Mandate at the EGM.

2008 CB Terms Amendments

Pursuant to Rule 34.05 of the GEM Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. An application for the said approval will be made by the Company to the Stock Exchange.

As Ivana is a company controlled and owned by a trust founded by Mr. Cheung, the Chairman, an executive Director and the chief executive officer of the Company, Ivana is therefore a connected person of the Company under the GEM Listing Rules. The 2008 CB Terms Amendments under the Fourth Supplemental Deed constitute a connected transaction of the Company. Therefore, the Fourth Supplemental Deed and the transactions contemplated thereunder (including but not limited to the 2008 CB Terms Amendments and the allotment and issue of the 2008 Conversion Shares upon exercise of the conversion rights attached to the amended 2008 Convertible Bonds) and the grant of the 2008 CB Specific Mandate are subject to reporting and announcement requirements, as well as approval by the Independent Shareholders at the EGM under the GEM Listing Rules. Mr. Cheung and Ivana together with their respective associates will abstain from voting in respect of the resolution(s) approving the 2008 CB Terms Amendments at the EGM.

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Given that 2008 CB Transfer Completion is conditional on the satisfaction of the conditions relating to the 2008 CB Terms Amendments having become effective and the grant of the 2008 CB Specific Mandate and the consent from the Stock Exchange, each of Mr. Wong and Team Sunny, together with their respective associates will also abstain from voting in respect of the resolution(s) approving the 2008 CB Terms Amendments and the 2008 CB Specific Mandate at the EGM. As at the Latest Practicable Date, Team Sunny (a company which is wholly and ultimately owned by Mr. Wong) is a substantial shareholder of the Company and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the issued share capital of the Company.

An application will be made to the Stock Exchange for its approval of: the listing of, and permission to deal in, (i) the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the proposed Rights Issue; (ii) the Team Sunny Conversion Shares pursuant to the terms and conditions of the Team Sunny Convertible Bonds; and (iii) the 2008 Conversion Shares pursuant to the terms and conditions of the outstanding 2008 Convertible Bonds (as amended by the Fourth Supplemental Deed).

The 2008 CB Transfer

According to the 2008 Convertible Bonds instrument, if the 2008 Convertible Bonds are transferred to a connected person (except the transfer of the 2008 Convertible Bonds to the holding company or subsidiary of the CB Holders) of the Company or its associate(s) (as defined in the GEM Listing Rules), the Company shall immediately notify the Stock Exchange and all such transfer shall be made subject to prior approval of the Stock Exchange and full compliance with the GEM Listing Rules. As Team Sunny is a substantial shareholder of the Company and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the entire issued share capital of the Company as at the Latest Practicable Date, Team Sunny is therefore a connected person of the Company under the GEM Listing Rules and accordingly, the 2008 CB Transfer is conditional on the approval by the Stock Exchange and an application for the said approval will be made by the Company to the Stock Exchange.

GENERAL

Mr. Cheung, who is the Chairman, an executive Director and the chief executive officer of the Company, has abstained from voting in the Board meeting for approving the proposed Rights Issue and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder. Save as mentioned above, none of the Directors has any material interest in the transactions contemplated under the proposed Rights Issue, Subscription Agreement and the 2008 CB Terms Amendments respectively who are required to abstain from voting in the Board meeting in respect of the proposed Rights Issue, Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder.

LETTER FROM THE BOARD

The Independent Board Committee has been established, comprising all the independent non-executive Directors, to advise the Independent Shareholders in relation to the Rights Issue, Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder, including but not limited to the issue of the Team Sunny Convertible Bonds, the allotment and issue of the Team Sunny Conversion Shares and the 2008 Conversion Shares, and the grant of the Team Sunny Specific Mandate and the 2008 CB Specific Mandate.

The Team Sunny Conversion Shares and the 2008 Conversion Shares will be issued under the Team Sunny Specific Mandate and the 2008 CB Specific Mandate respectively to be sought at the EGM.

Subject to the approval of the proposed Rights Issue by the Independent Shareholders at the EGM, the Prospectus Documents containing further information regarding, among other things, the proposed Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and PAL(s) and EAF(s) are expected to be despatched to the Qualifying Shareholders on or before Wednesday, 29 April 2020. The Company will despatch the Prospectus to the Non-Qualifying Shareholders for their information only, but the Company will not send the PAL and EAF to the Non-Qualifying Shareholders.

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

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

The Shares are expected to be dealt in on an ex-rights basis from Monday, 20 April 2020. Dealings in the Rights Shares in nil-paid form are expected to take place from Tuesday, 5 May 2020 to Tuesday, 12 May 2020 (both days inclusive). Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the proposed Rights Issue is subject are fulfilled (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the proposed Rights Issue may not become unconditional or may not proceed.

Completion of the subscription of the Team Sunny Convertible Bonds is subject to the satisfaction of the conditions precedent set out in the Subscription Agreement. Accordingly, the issue of the Team Sunny Convertible Bonds may or may not proceed.

LETTER FROM THE BOARD

The 2008 CB Transfer Completion is subject to the satisfaction of the conditions precedent set out in the 2008 CB Sale and Purchase Agreement. Accordingly, the 2008 CB Transfer may or may not proceed.

If any of the conditions precedent to the completion under the Fourth Supplemental Deed are not satisfied, the Fourth Supplemental Deed will lapse and the 2008 CB Terms Amendments will not proceed.

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

EGM

The notice convening the EGM is set out on pages EGM-1 to EGM-5 of this circular. The EGM will be convened on Thursday, 16 April 2020 at 11:00 a.m. at 1/F., China Building, 29 Queen's Road Central, Central, Hong Kong, Hong Kong for the purpose of, considering and, if thought fit, approving the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. 11:00 a.m. on Tuesday, 14 April 2020). Completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Ms. Yeung Mo Sheung, Ann, Ms. Ng Ka Sim, Casina and Mr. Wong Wing Kit, has been established to advise the Independent Shareholders as to whether the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. Messis Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

You are advised to read carefully the letter from the Independent Board Committee and the letter from the Independent Financial Adviser set out on pages 90 to 91 and pages 92 to 133 respectively of this circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that although the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments are not in the ordinary course of business of the Group, the terms of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder at the EGM.

Accordingly, the Directors believe that the terms of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder are fair and reasonable and in the interests of the Group and the Shareholders as a whole, therefore, the Directors recommend the Independent Shareholders to vote in favour of the proposed resolutions approving the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular. In case of any inconsistency between the English and Chinese versions of this circular, the English version will prevail.

Yours faithfully,
By order of the Board
MERDEKA FINANCIAL GROUP LIMITED
Cheung Wai Yin, Wilson
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this circular.



MERDEKA FINANCIAL GROUP LIMITED

領智金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

27 March 2020

To the Independent Shareholders

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4)
RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE;
(II) CONNECTED TRANSACTION — SUBSCRIPTION OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; AND
(III) CONNECTED TRANSACTION — PROPOSED AMENDMENTS
TO THE TERMS OF THE 2008 CONVERTIBLE BONDS**

We refer to the circular of the Company dated 27 March 2020 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder 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 and to advise the Independent Shareholders how to vote at the EGM. Messis Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of its advice together with the principal factors and reasons it has taken into consideration on giving its advice, are contained in its letter set out on pages 92 to 133 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by, and the advice of Messis Capital, we considered that although the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments are not in the ordinary course of business of the Group, the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the proposed Rights Issue, Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Ms. Yeung Mo Sheung, Ann

Ms. Ng Ka Sim, Casina
Independent Non-executive Directors

Mr. Wong Wing Kit

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



27 March 2020

*To: The Independent Board Committee and the Independent Shareholders
of Merdeka Financial Group Limited*

Dear Sir/Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF
FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE; (II) CONNECTED TRANSACTION —
SUBSCRIPTION OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
AND (III) CONNECTED TRANSACTION — PROPOSED AMENDMENTS
TO THE TERMS OF THE 2008 CONVERTIBLE BONDS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the proposed Rights Issue; (ii) subscription of the Team Sunny Convertible Bonds under Team Sunny Specific Mandate; and (iii) the proposed amendments to the terms of the 2008 Convertible Bonds, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 27 March 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

References is made to the announcement of the Company dated 10 January 2020 in relation to (i) the proposed Rights Issue; (ii) subscription of the Team Sunny Convertible Bonds under Team Sunny Specific Mandate; and (iii) the proposed amendments to the terms of the 2008 Convertible Bonds.

Proposed Rights Issue

The Company proposes to implement the proposed Rights Issue on the basis of four (4) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.110 per Rights Share, to raise not less than approximately HK\$115.37 million before expenses (assuming no Outstanding Share Options being exercised), and not more than approximately HK\$115.38 million before expenses (assuming all Outstanding Share Options being exercised) by issuing not less than 1,048,802,876 Rights Shares and not more than 1,048,935,672 Rights Shares. The estimated net proceeds from the proposed Rights Issue will be not less than

LETTER FROM INDEPENDENT FINANCIAL ADVISER

approximately HK\$110.80 million and not more than approximately HK\$110.81 million. The estimated net subscription price per Rights Share after deducting the related expenses of the proposed Rights Issue is expected to be approximately HK\$0.106. The Company intends to apply the net proceeds from the proposed Rights Issue as to (i) approximately HK\$55.00 million for the partial repayment of the 2008 Convertible Bonds to Mr. Cheung; (ii) approximately HK\$12.64 million for repayment of the Mr. Cheung Advance; (iii) approximately HK\$14.86 million for repayment of the 2014 PN; and (iv) the remaining amount of approximately HK\$28.30 million for general working capital of the Group and facilitate the Group to capture potential investment opportunities which may arise in future.

Since the proposed Rights Issue will increase the issued share capital or the market capitalisation of the Company by more than 50% within the 12 months period immediately preceding the date of the 2020 Announcement, in accordance with Rule 10.29(1) of the GEM Listing Rules, the proposed Rights Issue is conditional on the approval by the Independent Shareholders at the EGM by passing the necessary resolution(s) on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the proposed Rights Issue and the transactions contemplated thereunder.

Subscription of the Team Sunny Convertible Bonds under Team Sunny Specific Mandate

On 10 January 2020 (after trading hours), the Company entered into the Subscription Agreement with Team Sunny pursuant to which Team Sunny has conditionally agreed to subscribe and the Company has conditionally agreed to issue the Team Sunny Convertible Bonds in the principal amount of HK\$39,805,651 (which are convertible into Team Sunny Conversion Shares at the Team Sunny Conversion Price of HK\$0.110 per Share (subject to adjustments)) for the Debt Settlement. The subscription amount payable by Team Sunny under the Subscription Agreement shall be satisfied by way of offsetting (i) the principal amount of HK\$8,000,000 under the 2019 PN payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off); and (ii) all the outstanding principal amount of HK\$30,530,000 and part of the accrued interest of HK\$1,275,651 in an aggregate amount of HK\$31,805,651 under Mr. Wong Facilities payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off).

As at the Latest Practicable Date, Team Sunny (a company which is wholly and ultimately owned by Mr. Wong) is a substantial shareholder of the Company and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the entire issued share capital of the Company. Accordingly, Team Sunny is a connected person of the Company and the Subscription constitutes a connected transaction under Rule 20.22(6) of the GEM Listing Rules and will be subject to reporting and announcement requirements, as well as the approval of the Independent Shareholders at the EGM by way of poll.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Proposed amendments to the terms of the 2008 Convertible Bonds

On 10 January 2020 (after trading hours), the Company and the CB Holders entered into the Fourth Supplemental Deed, pursuant to which the Company and the CB Holders conditionally agreed to amend certain terms of the 2008 Convertible Bonds such that (a) the maturity date of the 2008 Convertible Bonds be extended for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the conversion price of the 2008 Convertible Bonds be revised from HK\$0.95 per 2008 Conversion Share to HK\$0.110 per 2008 Conversion Share with effect from 13 August 2020 (subject to adjustments). Save for the 2008 CB Terms Amendments, all other terms of the 2008 Convertible Bonds shall remain unchanged and valid.

As Ivana is a company controlled and owned by a trust founded by Mr. Cheung, the Chairman, an executive Director and the chief executive officer of the Company, Ivana is therefore a connected person of the Company under the GEM Listing Rules. The 2008 CB Terms Amendments under the Fourth Supplemental Deed constitute a connected transaction of the Company. Therefore, the Fourth Supplemental Deed and the transactions contemplated thereunder (including but not limited to the 2008 CB Terms Amendments and the allotment and issue of the 2008 Conversion Shares upon exercise of the conversion rights attached to the amended 2008 Convertible Bonds) and the grant of the 2008 CB Specific Mandate are subject to reporting and announcement requirements, as well as approval by the Independent Shareholders at the EGM under the GEM Listing Rules. Mr. Cheung and Ivana together with their respective associates will abstain from voting in respect of the resolution(s) approving the 2008 CB Terms Amendments at the EGM.

The Independent Board Committee, comprising all of the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the proposed Rights Issue, Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder, including but not limited to the issue of the Team Sunny Convertible Bonds, the allotment and issue of the Team Sunny Conversion Shares and the 2008 Conversion Shares, and the grant of the Team Sunny Specific Mandate and the 2008 CB Specific Mandate.

We, Messis Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder, are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the financial advisor nor the independent financial adviser to the Company and the independent board committee of the Company. Apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 17.96 of the GEM Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Company, the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also 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 advisers and/or the Directors, which have been provided to us.

The Directors jointly and severally 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, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or 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, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, or their respective subsidiaries or associates. We have not considered the taxation implication on the Group or the Shareholders as a result of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been

LETTER FROM INDEPENDENT FINANCIAL ADVISER

extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion in respect of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments, we have taken into account the principal factors and reasons set out below:

The proposed Rights Issue

1. *Background of and reasons for the proposed Rights Issue*

A. Business and financial overview of the Group

The Group is principally engaged in (i) financial services business including the securities brokerage services, provision of corporate finance advisory services, asset management business, money lending services and financial leasing business; (ii) corporate consulting business including company secretarial services, accounting and financial reporting services and management consulting services; (iii) trading business; and (iv) information technology business. Set out below are the financial results of the Group extracted from the annual report of the Company for the year ended 31 December 2018 (“**Annual Report 2018**”) and the third quarterly report of the Company for the nine months ended 30 September 2019 (“**Q3 Report 2019**”):

Consolidated income statement of the Group

	For the nine months ended		For the year ended	
	30 September		31 December	
	2019	2018	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	395,056	406,362	559,785	430,184
Gross profit	11,876	9,775	15,166	31,265
Loss for the period/year	(24,985)	(36,016)	(119,704)	(3,332)

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Segment revenue of the Group

	For the nine months ended 30 September		For the year ended 31 December	
	2019	2018	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Corporate consulting business	6,293	—	—	—
Financial services business	5,388	56,042	73,812	104,155
Trading business	383,375	349,815	485,469	325,217
Information technology business	—	505	504	812
	<u>395,056</u>	<u>406,362</u>	<u>559,785</u>	<u>430,184</u>

For the year ended 31 December 2018

Revenue increased from approximately HK\$430 million for the year ended 31 December 2017 (“FY17”) to approximately HK\$560 million for the year ended 31 December 2018 (“FY18”), which increased by approximately HK\$130 million or 30%. This was mainly due to the combine of (i) increase in revenue in the trading business, which increased by approximately HK\$160 million; and (ii) a decrease in revenue in the financial service business, which decreased by approximately HK\$30 million.

Trading business is one of the core businesses of the Group which contributed over 70% of the Group’s revenue for FY17 and FY18. According to the Annual Report 2018, during FY18, the Group is expanding its trading business into more variety of consumer products. The Group’s trading outlet is located in Sheung Shui, which is located near to its customers visiting Hong Kong from the PRC. The variety of the Group’s trading products has been enlarged to confectioneries and pharmacy products and sourced locally and from overseas, such as Japan and other Asia countries. In respect of the financial services business, it includes the provision of financial leasing services, money lending services, securities brokerage services and asset management business for FY18. As stated in the Annual Report 2018, during FY18, the financial leasing services business in the PRC faced various competitions from other financial leasing companies of different sizes in the PRC. Only few financial leasing contracts with a narrow interest margin were concluded together with some material financial leasing contracts matured during the year under review that led to lesser interest income recognised.

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Gross profit decreased by approximately HK\$16 million from approximately HK\$31 million for FY17 to approximately HK\$15 million for FY18. According to the Annual Report 2018, as the entry barrier of the trading business is low leading to fierce competition, the gross profit margin is comparatively low. Net loss for FY18 was approximately HK\$120 million, which increased significantly from approximately HK\$3 million for FY17. According to the Annual Report 2018, the net loss was mainly attributable from (i) the tightening fiscal policy and stricter lending conditions affected the financial leasing market in the PRC leading to the decrease in both turnover and gross margin; and (ii) the provision for impairment loss on other receivables.

For the nine months ended 30 September 2019

For the nine months ended 30 September 2019, revenue decreased slightly by approximately HK\$11 million or 3% from approximately HK\$406 million for the nine months ended 30 September 2018 to approximately HK\$395 million. Gross profit increased by approximately 21%, which increased from approximately HK\$9.8 million for the nine months ended 30 September 2018 to approximately HK\$11.9 million for the nine months ended 30 September 2019. The decrease in revenue was mainly due to the combine of (i) a decrease in revenue of approximately HK\$51 million in the financial services business; (ii) an increase in revenue of approximately HK\$34 million in the trading business; and (iii) an increase in revenue of approximately HK\$6 million in the corporate consulting business. According to the Q3 Report 2019, the significant decrease in revenue in the financial services business was due to the stricter lending conditions in the PRC, the financial leasing market was seriously affected. As for the trading business, according to the Q3 Report 2019, the Group's trading outlet is located in Sheung Shui, which is the most convenient location for the PRC visitors to shop for confectioneries, daily and pharmacy products, the revenue generated from the trading business was comparatively stable. Moreover, as stated in the Q3 Report 2019, the Group grasped the opportunity in the development of the corporate governance and compliance industry by completion of the acquisition of the corporate consulting business in February 2019, which will further enhance the revenue stream of the Group in the foreseeable future.

Net loss for the nine months ended 30 September 2019 was approximately HK\$25 million, which decreased from a net loss of approximately HK\$36 million for the nine months ended 30 September 2018. From the Q3 Report 2019, the decrease in net loss was mainly due to the decrease in segment loss in the financial services business and a segment profit from the corporate consulting business, which was acquired in February 2019. The segment loss in the financial services business decreased from approximately HK\$17 million for the nine months ended 30 September 2018 to approximately HK\$0.6 million for the nine months ended 30 September 2019. While the segment profit of the corporate consulting business was approximately HK\$3 million for the nine months ended 30 September 2019.

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Near term outlook

In terms of the near term outlook of the Group's financial performance, we note that the recent outbreak of the novel coronavirus may have a significant impact on the tourism sector and the retail sector in Hong Kong. From a press release published by the Hong Kong Tourism Board in February 2020, Hong Kong received 3.2 million visitor arrivals in January 2020, representing a daily average of 100,000, a 53% drop from 200,000 in the first half of 2019. The Mainland and short-haul markets were the most affected, recording a drop of over 50%. In particular, as a result of the outbreak of the novel coronavirus, some airlines had suspended flights to Hong Kong and reduced services overall, while the Hong Kong Government has implemented a number of measures restricting the flow of people between Hong Kong and the Mainland, which aggravated the number of visitors to plunge to 65,000 a day in late January 2020. The Group considers that its trading business relies heavily on PRC tourist and hence expects that the trading business might experience a sharp decline in revenue. Despite that, the Group's near term overall performance might not be significantly affected, as the profit margin of the Group's trading business is thin due to intense competition and the Company has expanded its service scope into the corporate consulting business in February 2019, which recognised a segment profit for the nine months ended 30 September 2019, and also strengthened its service scope of the financial services business by expanding to include the provision of advisory services on corporate finance in 2019.

Consolidated statement of financial position of the Group

	As at	As at 31 December	
	30 September	2018	2017
	2019		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(audited)
Non-current assets	29,353	14,180	257,870
Current assets	615,989	683,368	1,966,381
Non-current liabilities	119,795	106,592	169,140
Current liabilities	539,116	580,197	1,913,951
Net current assets	76,873	103,171	52,430
Net assets (liabilities)	(13,569)	10,759	141,160

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As at 31 December 2018

Non-current assets and current assets decreased from approximately HK\$258 million and HK\$1,966 million as at 31 December 2017, respectively to approximately HK\$14 million and HK\$683 million as at 31 December 2018, respectively. The decrease in non-current assets and current assets were due to the decrease in finance lease receivables. Current liabilities decreased from approximately HK\$1,914 million as at 31 December 2017 to approximately HK\$580 million as at 31 December 2018, mainly due to the decrease in bank borrowings due within one year. Net assets decreased from approximately HK\$141 million as at 31 December 2017 to approximately HK\$11 million as at 31 December 2018, mainly due to the significant net loss for FY18.

As at 30 September 2019

Current assets decreased from approximately HK\$683 million as at 31 December 2018 to approximately HK\$616 million as at 30 September 2019, mainly due to the combined effect of (i) the large increase in trade receivables; and (ii) the significant decrease in finance lease receivables. Current liabilities decreased slightly from approximately HK\$580 million as at 31 December 2018 to approximately HK\$539 million as at 30 September 2019. Net assets decreased from approximately HK\$11 million as at 31 December 2018 to net liabilities of approximately HK\$14 million as at 30 September 2019, mainly due to the loss for the nine months ended 30 September 2019. We note that though trade receivables largely increased from approximately HK\$2 million as at 31 December 2018 to approximately HK\$282 million as at 30 September 2019, trade payables also increased significantly from approximately HK\$14 million as at 31 December 2018 to approximately HK\$291 million as at 30 September 2019. For illustrative purpose only, the trade receivable turnover days and the trade payables turnover days for the nine months ended 30 September 2019 were approximately 98 days and 109 days, respectively (calculated by the average of the balances of trade receivables/payables as at 31 December 2018 and 30 September 2019, divided by revenue/cost of sales for the nine months ended 30 September 2019, then multiplied by the number of days for the nine months ended 30 September 2019). As discuss with the Company, the relatively long trade receivables and trade payables turnover days were mainly due to the large trade receivables and trade payables balance as at 30 September 2019. As at 30 September 2019, a significant portion of the trade receivables and trade payables were arising from the Group's securities brokerage services. As disclosed in the Q3 Report 2019, approximately HK\$278 million and HK\$286 million of the trade receivables and the trade payables, respectively, were from the securities brokerage services and as advised by the Company, are generally settled two days after the trade date. Excluding the trade receivables and trade payables arising from the securities brokerage services, trade receivables and trade payables were approximately HK\$4 million and HK\$5 million as at 30 September 2019, respectively, and the trade receivables alone, when received, would not be sufficient to cover the settlement of trade payables. Therefore, taking into account the net liabilities and loss making positions of the

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Group as discussed under the paragraph headed “B. Reasons for the proposed Rights Issue and the use of proceeds” below, we consider that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole to conduct the proposed Rights Issue.

B. Reasons for the proposed Rights Issue and the use of proceeds

As stated in the Letter from the Board, the estimated net proceeds of the proposed Rights Issue will be not less than approximately HK\$110.80 million (assuming no new Shares having been allotted and issued from the exercise of the Outstanding Share Options on or before the Record Date), and not more than approximately HK\$110.81 million (assuming 33,199 new Shares having been allotted and issued upon full exercise of the Outstanding Share Options by the Options Holders on or before the Record Date).

The estimated net subscription price per Rights Share after deducting the related expenses of the proposed Rights Issue is expected to be approximately HK\$0.106. The Company intends to apply the net proceeds from the proposed Rights Issue as to (i) approximately HK\$55.00 million for a partial repayment of the 2008 Convertible Bonds to Mr. Cheung; (ii) approximately HK\$12.64 million for repayment of the Mr. Cheung Advance; (iii) approximately HK\$14.86 million for repayment of the 2014 PN; and (iv) the remaining amount of approximately HK\$28.30 million of the net proceeds for general working capital of the Group and facilitate the Group to capture potential investment opportunities which may arise in future.

As stated in the Letter from the Board, the Board considers that the proposed Rights Issue represents an opportunity for the Company to increase its liquidity, strengthen its capital base and enhance its financial position by meeting its immediate funding needs through repayment of the existing debt as a continuous effort of the Board to improve the financial position of the Company. As at the Latest Practicable Date, the Company is indebted to Mr. Cheung an aggregate amount of approximately HK\$122.64 million, being the 2008 Convertible Bonds with a principal amount of HK\$110.00 million and the Mr. Cheung Advance of approximately HK\$12.64 million. Upon completion of the proposed Rights Issue, Ivana (i) will remain the registered holder of the 2008 Convertible Bonds in the principal amount of HK\$55.00 million if the 2008 CB Transfer Completion does not take place or (ii) will not hold any of the 2008 Convertible Bonds if the 2008 CB Transfer has taken place. We note that the 2008 Convertible Bonds has already been extended for three times since the very first maturity date way back in 2011, and the 2008 Convertible Bonds will be maturing in August 2020. In addition, the Mr. Cheung Advance was a short-term bridge loan, which the Company has been seeking alternative financing to settle the Mr. Cheung Advance. We also note that approximately HK\$14.86 million will be utilised to settle the 2014 PN, which was due in 2017 and has also been long outstanding. Therefore, it is the Company’s intention to settle the debts as soon as circumstances allow.

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As part of our due diligence work, we have reviewed the financial position of the Group and note from the Q3 Report 2019 that, as at 30 September 2019, the Group had debts classified as current liabilities of (i) bank borrowings due within one year of approximately HK\$69 million; (ii) promissory notes of approximately HK\$8 million; and (iii) other payables and accruals of approximately HK\$166 million. The Group also had convertible bonds classified as non-current liabilities of approximately HK\$114 million, which wholly represented the 2008 Convertible Bonds as understood from the Company. We note that as disclosed in the Q3 Report 2019, the Company had outstanding 2008 Convertible Bonds and convertible bonds issued on 21 April 2015 (the “**2015 CB**”) of aggregate principal amounts of HK\$124.1 million and HK\$40 million respectively. Further, as disclosed in the Annual Report 2018, at the maturity date, any outstanding principal amount of the 2015 CB will be compulsorily converted into Shares. The compulsory conversion feature of the 2015 CB is, in substance, a prepaid forward purchase of the fixed number of shares of the Company. Accordingly, at the date of initial recognition, the fair value of the 2015 CB was wholly recognised as equity and will not be remeasured subsequently. We note that in contrast to the 2015 CB, the 2008 Convertible Bonds do not have such compulsory conversion feature. As disclosed in the Annual Report 2018, the 2008 Convertible Bonds contain two components, the liability and equity components. Accordingly, the liability component of the 2008 Convertible Bonds is presented as liabilities and the equity component is presented as equity component of convertible bonds under the Company’s equity reserves on its statement of financial position. Therefore, as confirmed by the Company, the convertible bonds as at 30 September 2019 recognised as liabilities of approximately HK\$114 million wholly represented the 2008 Convertible Bonds. As at the Latest Practicable Date, the Company is indebted to Mr. Cheung an aggregate amount of approximately HK\$122.64 million, being the 2008 Convertible Bonds with a principal amount of HK\$110.00 million and Mr. Cheung Advance of approximately HK\$12.64 million. As mentioned earlier, the Company intends to apply the net proceeds from the proposed Rights Issue as to (i) approximately HK\$55.00 million for a partial repayment of the 2008 Convertible Bonds to Mr. Cheung; (ii) approximately HK\$12.64 million for repayment of the Mr. Cheung Advance; (iii) approximately HK\$14.86 million for repayment of the 2014 PN; and (iv) the remaining amount of approximately HK\$28.30 million of the net proceeds for general working capital of the Group and facilitate the Group to capture potential investment opportunities which may arise in future. As confirmed by the Company, the Mr. Cheung Advance does not have any term, interest or security and it is repayable on demand. As understood from the Company, the Mr. Cheung Advance was short-term bridge loans provided by Mr. Cheung throughout 2018 and 2019 for relieving the Group’s working capital stress. We note from the Annual Report 2018 that the Group recorded a net cash outflow of approximately HK\$24 million for FY18, and for comparison, the Group also recorded a net cash outflow of approximately HK\$28 million for FY17. For the six months ended 30 June 2019, as noted from the interim report of the Company for that period, the Group recorded a slight net cash inflow of approximately HK\$5 million only. The Group had bank balances and cash which are not client’s money amounted to approximately HK\$12 million, HK\$17 million and HK\$16 million as at 31 December 2018, 30 June 2019 and 30 September 2019, respectively. As at the Latest Practicable Date, the outstanding balance of Mr. Cheung Advance is approximately HK\$12.64

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million. The Mr. Cheung Advance was utilised for settling wages, rental expenses, legal expenses and other daily operating expenses of the Group. As the Mr. Cheung Advance was short-term bridge loans, the Company had settled the Mr. Cheung Advance from time to time when the Company had additional cash level.

Apart from the Company's intention to apply approximately HK\$55.00 million for partial repayment of the 2008 Convertible Bonds to Mr. Cheung and approximately HK\$12.64 million for repayment of the Mr. Cheung Advance, we note that the Company also proposes to extend the maturity of the 2008 Convertible Bonds to 12 August 2023 under the 2008 CB Terms Amendments. For information purpose, as at the Latest Practicable Date, Ivana, Mr. Jin and Mr. Shang are the holders of the 2008 Convertible Bonds in the respective principal amount of HK\$110,000,000, HK\$7,034,000 and HK\$7,034,000, respectively. Upon completion of the proposed Rights Issue and the 2008 CB Transfer, Mr. Cheung, through Ivana, will not hold any 2008 Convertible Bonds. As understood from the Company, though the maturity of the 2008 Convertible Bonds would be extended under the 2008 CB Terms Amendments, it is always the Group's strategy to redress the financial position of the Group and improve the quality of the Group's financial resources through reducing the Group's gearing ratio. We note that the Group is heavily in debt with net liabilities of approximately HK\$14 million as at 30 September 2019. As discussed with the Company, the Company had also considered bank borrowings as possible alternative financing method to the proposed Rights Issue. We were given to understand that in negotiating with the banks, the Company was acknowledged that collaterals would generally be required in obtaining bank borrowings, and given the financial position of the Group, it might be difficult for the Group to obtain unsecured loans, which would also bear unfavourable interest rates. Given the Group's net liabilities and loss making position, the Company was unable to obtain any debt financing at acceptable interest rates. Further, any debt financing will further deteriorate the net liabilities position and increase the finance costs of the Company. In view of this, we consider that it is beneficial for the Group to aim to redress its financial position to enable the Group to bargain for more favourable interest rates in obtaining debt financing in the future should the need arise. In addition, apart from the loans provided by Mr. Cheung and the Mr. Wong, the Group also had unsettled debts due to Independent Third Parties, such as the 2014 PN which was due in 2017. As understood from the Company, due to the minimal cash level and the significant amount of debts incurred by the Group by then, the Company was not able to settle the outstanding amount of the 2014 PN. As disclosed in the Circular, as at the maturity date of the 2014 PN, the outstanding amount of the 2014 PN was approximately HK\$27 million. We note from the Company's annual report for FY17 that as at 31 December 2017, the Group had bank balances and cash which are not client's money of approximately HK\$36 million. Despite that, the Group was loss making with a net loss of approximately HK\$3 million for FY17, and also recorded a net cash outflow of approximately HK\$28 million for FY17. As such, the Company might not be at a position to settle the 2014 PN in full without incurring any liquidity risk at the then time.

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Though approximately HK\$55 million of the net proceeds from the proposed Rights Issue will be applied for the partial repayment of the 2008 Convertible Bonds which the maturity date will be further extended to 12 August 2023, as discussed with the Company, in managing its debt obligations, the Company has to balance the terms and repayment schedule of all the Group's debts, the willingness of extension by the creditors and the feasible funding size for the proposed Rights Issue. Given such financial condition of the Group, we consider that it is essential for the Group to improve its balance sheet by settling its debts and strengthen its working capital to avoid the Group from getting into possible financial distress. It is also worth mentioning that the 2008 Convertible Bonds had already been extended three times since the very first maturity date way back in 2011. As such, we concur with the Board's view that the proposed Rights Issue is imminent for the Group to reduce its gearing ratio by setting part of its debts and allocate future resources on profitable business segments in order to generate interests to the Shareholders.

Apart from the debt position of the Group as discussed above, we also note that as at 30 September 2019, the Group had bank balances and cash which are not client's money of only approximately HK\$16 million, which was insufficient to settle the aforementioned current liabilities. Furthermore, as at 30 September 2019, the Group was at net liabilities position of approximately HK\$14 million. In respect of financial results, we note that the Group had been loss making for the recent years. For the year ended 31 December 2017, the Group recorded net loss of approximately HK\$3 million and the net loss significantly increased to approximately HK\$120 million for the year ended 31 December 2018. For the nine months ended 30 September 2019, the Group was still loss making and recorded a net loss of approximately HK\$25 million.

As discussed with the Company, we also note that the Company's funding needs for the next 12 months from the Latest Practicable Date is approximately HK\$26.40 million, which is approximately HK\$2.20 million per month. Such funding needs are estimated on the basis of the following key assumptions or factors (i) the passing of the resolutions for the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder at the EGM; (ii) no early redemption by the holders of the 2008 Convertible Bonds and the Team Sunny Convertible Bonds; and (iii) no material change to the political, legal, fiscal, market or economic conditions in the regions in which the Group's business operation is based. We have discussed with the Company the basis of the approximate HK\$2.20 million estimated funding need per month, and reviewed the composition of such estimated funding need, and note that it is estimated based on the Group's major operating cash outflows such as payroll, rental and other operating expenses and had already taken into account that part of the 2008 Convertible Bonds, the Mr. Cheung Advance and the 2014 PN will be settled by utilising the net proceeds from the proposed Rights Issue as disclosed in the Circular. The Company intends to apply approximately HK\$28.30 million for general working capital of the Group and any potential investment opportunities which may arise in future from the net proceeds from the proposed Rights Issue. As discussed with the Company, the Company had not identified any potential investment opportunities as at the Latest Practicable Date. However, should any potential investment opportunity arise, the Company would first

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consider the working capital level of the Group and may consider other funding methods to finance such investment opportunity if required. Based on the foregoing, we consider that the proceeds from the Rights Issue could satisfy the Company's expected funding needs for the next 12 months from the Latest Practicable Date.

As discussed with the Company, as an alternative to the proposed Rights Issue, the Company has also considered fund raising by issuing debt security or debt financing. However, given the Group's loss making and net liabilities position, incurring additional finance costs will further increase the Group's financial burden. Further, the Company had also considered the placing of new Shares under general mandate and open offer. However, placing of new Shares can only raise funds in smaller size and does not allow the Shareholders to maintain their respective shareholding in the Company. In addition, the Company has already utilised its general mandate to issue Shares by way of placing on 12 July 2019. In respect of open offer, it does not provide the flexibility to the Shareholders who wish to subscribe the Rights Share to increase their shareholding interests in the Company by acquiring additional rights entitlements in the open market or to the Shareholders who opt not to subscribe the Rights Shares to reduce their shareholding interests in the Company by disposing their nil-paid Rights Shares during the prescribed period of time for economic benefits.

Based on the above, we concur with the Company's view that it is vital for the Company to increase its liquidity, strengthen its capital base and enhance its financial position by meeting its immediate funding needs through repayment of the long overdue and extended debts, and the proposed Rights Issue represents an opportunity for the Company to do so.

2. *Principal terms of the proposed Rights Issue*

A. Summary of principal terms

The key terms of the proposed Rights Issue are summarised below:

Basis of the Rights Issue:	Four (4) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price:	HK\$0.110 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	262,200,719 Shares

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Number of Rights Shares:	Not less than 1,048,802,876 Rights Shares (assuming no Outstanding Share Options being exercised) and not more than 1,048,935,672 Rights Shares (assuming all Outstanding Share Options being exercised)
Number of Rights Shares underwritten by the Underwriter:	All the Rights Shares other than those provisionally allotted to and undertaken to be subscribed by Team Sunny pursuant to the Team Sunny Irrevocable Undertaking, being not less than 705,236,876 Rights Shares and not more than 705,369,672 Rights Shares
Enlarged number of Shares upon completion of the Rights Issue:	Not less than 1,311,003,595 Shares and not more than 1,311,169,590 Shares

As at the date of the Latest Practicable Date, there are (i) 33,199 Outstanding Share Options which are exercisable from 30 May 2012 to 29 May 2022 and entitle the Options Holders to subscribe for 33,199 Shares under the Share Option Scheme; and (ii) 2008 Convertible Bonds in the aggregate principal amount of HK\$124,068,000, which 130,597,895 Shares will be issued upon exercise of the conversion rights under the 2008 Convertible Bonds in full at the conversion price of HK\$0.95 per 2008 Conversion Share. Each of the CB Holders has provided the CB Holders' Irrevocable Undertakings.

Save as disclosed above, as at the date of the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Assuming no Shares are issued or repurchased on or before the Record Date, 1,048,802,876 Rights Shares to be issued pursuant to the terms of the proposed Rights Issue represents (i) 400% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 80% of the total number of issued Shares as enlarged by the allotment and issue of the Rights Shares.

Assuming no Shares are issued or repurchased, other than as a result of the issue of new Shares upon exercise of the Outstanding Share Options in full by the Options Holders, from the Latest Practicable Date up to and including the Record Date, 1,048,935,672 Rights Shares will be allotted and issued upon completion of the proposed Rights Issue, representing approximately 400.05% of the existing issued share capital of the Company and approximately 80.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the issue of new Shares upon full exercise of the Outstanding Share Options.

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B. Subscription Price

The Subscription Price is HK\$0.110 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the proposed Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

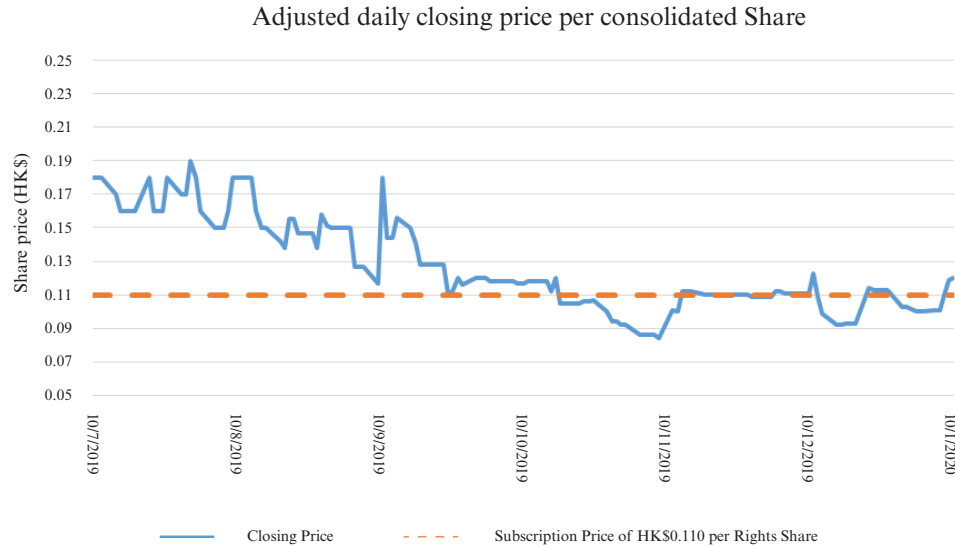
The Subscription Price represents:

- (a) a discount of approximately 5.17% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) is equivalent to the average closing price of HK\$0.110 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 2.80% over the average closing price of HK\$0.107 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (e) a premium of approximately HK\$0.165 over the unaudited net liabilities value per Share of approximately HK\$0.055 based on the published unaudited consolidated net liabilities of the Company of approximately HK\$13.57 million as at 30 September 2019 and the issued share capital of 244,809,415 Shares as at 30 September 2019;
- (f) a discount of approximately 1.79% to the theoretical ex-rights price of HK\$0.112 per Share based on the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (g) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 6.67%, represented by the theoretical diluted price of approximately HK\$0.112 per Share to the benchmarked price of approximately HK\$0.120 per Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.120 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the 2020 Announcement of approximately HK\$0.106 per Share).

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Comparison with historical closing prices

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 10 July 2019 to the Last Trading Day (the “**Review Period**”) (being a period of approximately 6 months prior to and including the Last Trading Day, which is commonly used for analysis purpose to illustrate the general trend of the closing prices and the level of movement of the Shares) and compared with the Subscription Price.



Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

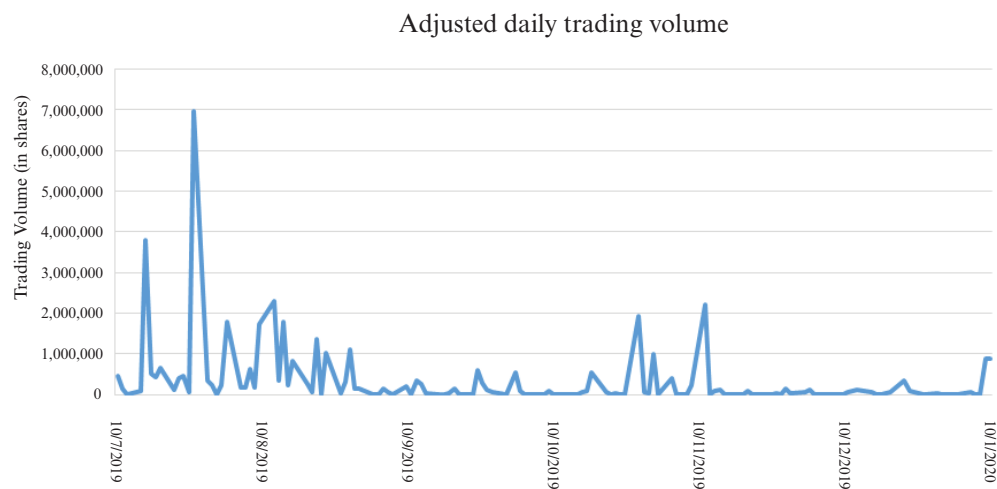
Note: On 19 August 2019, the Company implemented Share consolidation by consolidating every ten (10) issued and unissued Shares of HK\$0.001 each in the share capital of the Company into one (1) consolidated Share of HK\$0.01 each in the share capital of the Company. The daily closing Share price throughout the Review Period had been adjusted to reflect such Share consolidation.

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During the Review Period, the lowest closing price per Share was HK\$0.084 recorded on 8 November 2019, while the highest closing price per Share was HK\$0.190 recorded on 31 July 2019. The average daily closing price per Share was approximately HK\$0.127 per Share. We note that the Subscription Price of HK\$0.110 per Rights Share represents (i) a discount of approximately 42.1% from the highest closing price; (ii) a premium of approximately 31.0% over the lowest closing price; and (iii) a discount of approximately 13.4% from the average daily closing price during the Review Period. We notice that the historical Share price during the Review Period was generally demonstrating a downward trend. In addition, the Subscription Price of HK\$0.110 per Rights Share generally approximate to the daily closing price from October 2019 to the Last Trading Day, being the most recent months prior to the Last Trading Day.

Review on the trading liquidity of the Shares

Set out below is the chart of daily trading volume of the shares during the Review Period:



Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

Note: On 19 August 2019, the Company implemented Share consolidation by consolidating every ten (10) issued and unissued Shares of HK\$0.001 each in the share capital of the Company into one (1) consolidated Share of HK\$0.01 each in the share capital of the Company. The daily trading volume throughout the Review Period had been adjusted to reflect such Share consolidation.

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The table below sets out the trading volume of the Shares during the Review Period:

	Total monthly trading volume of the Shares <i>(Approximate thousand Shares)</i> <i>(Note 1)</i>	Number of trading days	Average daily trading volume of the Shares <i>(Approximate thousand Shares)</i> <i>(Note 1)</i>	Percentage of average daily trading volume to total number of Shares in issue <i>(Note 2)</i>
2019				
July (from 10 July to 31 July)	14,717	16	920	0.45%
August	14,940	22	679	0.28%
September	2,485	21	118	0.05%
October	4,577	21	218	0.09%
November	3,426	21	163	0.07%
December	1,129	20	56	0.02%
2020				
January (up to and including the Last Trading Day)	1,881	7	269	0.10%
Average	6,165	346	0.15%	

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

- On 19 August 2019, the Company implemented share consolidation by consolidating every ten (10) issued and unissued Shares of HK\$0.001 each in the share capital of the Company into one (1) consolidated Share of HK\$0.01 each in the share capital of the Company. The monthly trading volume and average daily trading volume above were adjusted to reflect such Share consolidated.
- Calculated based on the total number of Shares in issue at the end of each month, and adjusted by the share consolidation as mentioned in note 1 above, except for January 2020, where the number of Shares in issue as at the Last Trading Day was used.

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The table below sets out the average daily turnover by value and total market capitalisation of the overall market (main board of the Stock Exchange (“**Main Board**”) and GEM) during July 2019 to January 2020, which approximates to the time of the Review Period:

	Average daily turnover of the overall market (Main Board and GEM) by value (Approx. HK\$ billion)	Total market capitalisation of listed securities (Main Board and GEM) (Approx. HK\$ billion)	Percentage of the average daily turnover of the overall market to the total market capitalisation of listed securities (Main Board and GEM)
2019			
July	68.74	32,085.70	0.21%
August	86.39	29,999.30	0.29%
September	75.84	30,642.70	0.25%
October	75.89	31,791.20	0.24%
November	79.57	35,709.40	0.22%
December	75.82	38,165.00	0.20%
2020			
January	103.93	35,972.50	0.29%
Average	80.88	33,480.83	0.24%

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

From the table of the trading volume of the Shares, the average number of Shares traded per trading day in each month during the Review Period as a percentage of the total number of issued Shares ranged from approximately 0.02% to approximately 0.45%, with an average of approximately 0.15%. As a comparison, the percentage of the average daily turnover of the overall market to the total market capitalisation of listed securities (Main Board and GEM) ranged from approximately 0.20% to approximately 0.29%, and the average was approximately 0.24% during July 2019 to January 2020, which approximates to the time of the Review Period. Although for the Company, the maximum average number of Shares traded per trading day in each month during the Review Period as a percentage of the total number of issued Shares was approximately 0.45%, which was higher than the maximum of the overall market of approximately 0.29%, the liquidity of the Shares were significantly fluctuating during the Review Period. We note that the percentage of average daily trading volume to total number of Shares in issue for July and August 2019 were exceptionally high, with

January 2020 slightly higher when compared with other months during the Review Period. As discussed with the Company, the Directors were not aware of any particular matters which might have a material impact on the Share price and trading volume save for (i) the announcements of the Company dated 12 July 2019, 15 July 2019 and 17 July 2019 in relation to placing of Shares and Share consolidation respectively; (ii) the announcement of the Company dated 22 August 2019 in relation to the expansion of the Group's financial services; and (iii) the 2020 Announcement in relation to, among other things, the Rights Issue, the Subscription and the 2008 CB Terms Amendments, the Directors are not aware of any other public announcements made by the Company and non-public information that were price sensitive in nature.

In most months during the Review Period, such percentage for the Company was mostly near or below 0.10%, while for the overall market, the percentage was relatively stable and near or above 0.20% during July 2019 to January 2020. As such, we consider that the trading volume of the Shares indicates a relatively thin trading liquidity as compared with the overall market during the Review Period. Moreover, the relatively thin trading liquidity in the Shares may impose a difficulty for potential investors or Shareholders to acquire or dispose of the Shares in the open market when they wish to do so, and a discount might be required to increase the attractiveness of the proposed Rights Issue.

Taking into account the declining trend of the Share price and the relatively thin trading volume of the Shares, we consider that it is justifiable for the Subscription Price to be set at a discount to increase the attractiveness of the proposed Rights Issue to the Qualifying Shareholders.

Comparison with recent rights issue transactions

We have conducted, to the best of our endeavour, a research of fully underwritten rights issue transactions announced by companies listed on the Stock Exchange from 1 October 2019 up to the Last Trading Day (being around three-month period prior to the Last Trading Day), and have found, based on such search criteria, 10 rights issue exercises (the “**Rights Issue Comparable**”) for comparison purpose. We consider that the list of Rights Issue Comparable is an exhaustive list and sufficient to provide a fair and representative sample to be taken as a general reference of the prevailing market practices in relation to rights issue under recent market sentiment.

Although the Rights Issue Comparable may be different from the Group in terms of business nature, financial position and funding requirements, the Rights Issue Comparable can serve as a reference for the recent market practice and provide an insight to the reasonableness of the major terms of the Rights Issue.

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The major terms of the Rights Issue Comparable are summarised as below:

Company name (stock code)	Date of initial announcement	Basis of entitlement	Premium/discount of subscription price over/to the		Underwriting commission rate %	Maximum dilution on shareholding % (Note 1)	Excess application Yes/No
			Closing price on the last trading day %	Theoretical ex-rights price %			
Li Bao Ge Group Limited (1869)	29/10/2019	1 for 4	-10.19	-8.32	3.0	20.0	Yes
Eminence Enterprise Limited (616)	6/11/2019	4 for 1	-24.50	-6.10	1.5	80.0	Yes
Wanjia Group Holdings Limited (401)	6/12/2019	2 for 1	-31.43	-11.93	2.5	66.7	Yes
Greenway Mining Group Limited (2133)	13/12/2019	1 for 4	equivalent to the subscription price (Note 4)	equivalent to the subscription price (Note 4)	1.5	20.0	Yes
Victory City International Holdings Limited (539)	18/12/2019	2 for 1	-22.86	-9.09	1.5	66.7	Yes
Elegance Optical International Holdings Limited (907)	23/12/2019	1 for 2	-21.79	-15.66	4.0	33.3	Yes
On Real International Holdings Limited (8245)	24/12/2019	1 for 2	-61.54	-51.61	4.0	33.3	Yes
Wuling Motors Holdings Limited (305)	2/1/2020	1 for 2	-32.20	-23.95	3.0	33.3	Yes
Purapharm Corporation Limited (1498)	3/1/2020	1 for 2	-37.50	-28.60	5.5	33.3	Yes
Neway Group Holdings Limited (55)	10/1/2020	2 for 1	-20.00	-8.68	Nil (Note 2)	66.7	No
		Average	-26.20	-16.39	2.9 (Note 3)	45.3	
		Maximum	equivalent to the subscription price (Note 4)	equivalent to the subscription price (Note 4)	5.5	80.0	
		Minimum	-61.54	-51.61	1.2 (Note 3)	20.0	
The Company		4 for 1	-8.33	-1.79	2.0	80.0	Yes

Notes:

- Maximum dilution effect of each rights issue is calculated as: (number of rights shares to be issued under the basis of entitlement)/(number of shares held for the entitlement for the rights shares under the basis of entitlement + number of rights shares to be issued under the basis of entitlement) × 100%.
- The underwriter of Neway Group Holdings Limited was a connected person.
- Calculated excluding Neway Group Holdings Limited, where the underwriter was a connected person with no underwriting commission.
- The subscription price for Greenway Mining Group Limited (stock code: 2133) is equivalent to its closing price on the last trading day and its theoretical ex-rights price.

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As shown on the above table, the subscription price of the Rights Issue Comparable as compared with the respective closing price on the last trading day ranged from a discount of approximately 61.54% to equivalent to the closing price on the last trading day, with an average of a discount of approximately 26.20%. The Rights Issue Comparable also demonstrated that the 9 out of 10 of the subscription prices were set at a discount to the respective closing price per share on the last trading day. We note that the Company's Subscription Price, which is at a discount of approximately 8.33% to the closing price on the Last Trading Day falls within the range of the Rights Issue Comparable and lower than the average discount of approximately 26.20%.

We also note that the subscription price of the Rights Issue Comparable as compared to the respective theoretical ex-rights price ranged from a discount of approximately 51.61% to equivalent to the closing price on the last trading day, with an average discount of approximately 16.39%. The Company's Subscription Price represents a discount of approximately 1.79% to the theoretical ex-rights price, which falls within such range and is also lower than the average discount of approximately 16.39%.

C. Other terms

Underwriting commission

With reference to the Letter from the Board, the number of Rights Shares to be issued pursuant to the proposed Rights Issue would be not less than 1,048,802,876 Rights Shares and not more than 1,048,935,672 Rights Shares. The Company had entered into the Underwriting Agreement with the Underwriter, which to the best of the Directors' knowledge, the Underwriter and its ultimate beneficial owners are Independent Third Parties and not connected with the Company and its connected persons as defined under the GEM Listing Rules. Pursuant to the Team Sunny Irrevocable Undertaking, Team Sunny has given an irrevocable undertaking in favour of the Company and the Underwriter, that (i) it will subscribe, or procure its nominee(s) to subscribe, for 188,656,000 Rights Shares which comprise the full acceptance of its provisional entitlement in respect of the 47,164,000 Shares beneficially held by it; (ii) it will not dispose of the 47,164,000 Shares comprising the current shareholding in the Company owned by Team Sunny and such Shares, will remain beneficially owned by it up to and including the Record Date; and (iii) it will apply for 154,910,000 excess Rights Shares in excess of its entitlement under the proposed Rights Issue in accordance with the terms of the Prospectus and EAF(s). The number of Rights Shares underwritten by the Underwriter would be all the Rights Shares other than those provisionally allotted to and undertaken to be subscribed by Team Sunny pursuant to the Team Sunny Irrevocable Undertaking, being not less than 705,236,876 Rights Shares and not more than 705,369,672 Rights Shares.

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As stated in the Letter from the Board, the terms of the Underwriting Agreement, including the underwriting commission of 2.0%, were determined after arm's length negotiation between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the proposed Rights Issue, and the current and expected market condition. From the summary of the major terms of the Rights Issue Comparable as listed in the paragraph headed "2. Principal terms of the proposed Rights Issue — B. Subscription Price — Comparison with recent rights issue transactions" above, the underwriting commission rate of the Rights Issue Comparable ranged from nil to 5.5%. Excluding the underwriting commission of nil received by the underwriter of Neway Group Holdings Limited, which is connected person to Neway Group Holdings Limited, the underwriting commission of the Rights Issue Comparable ranged from 1.2% to 5.5%, and the underwriting commission of 2.0% received by the Underwriter falls within the range. Further, as discussed with the Company, given the unsatisfactory financial performance of the Group, the relatively thin trading volume of the Shares during the Review Period and the required funding size of the proposed Rights Issue, it was difficult to procure underwriters with favourable terms to the Company. Therefore, we consider that the underwriting commission of 2.0% payable to the Underwriter is in line with the normal market practice and is fair and reasonable so far as the Company and the Shareholders are concerned.

Application for excess Rights Shares

As mentioned in the Letter from the Board, Qualifying Shareholders may apply, by way of excess application, for (i) any unsold entitlements of the Non-Qualifying Shareholders; and (ii) any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares.

Among the Rights Issue Comparable as set out in the paragraph headed "2. Principal terms of the proposed Rights Issue — B. Subscription Price — Comparison with recent rights issue transactions" above, 9 out of 10 of the Rights Issue Comparable allow for the application of excess rights shares. As such, we consider that it is a market practice for providing application for excess rights shares, and the possibility of applying for excess Rights Shares under the proposed Rights Issue is in normal commercial terms. Furthermore, the proposed Rights Issue has given the opportunity to all Qualifying Shareholders to maintain their proportionate interests in the Company should they wish so by applying for the Rights Shares in full and acquire additional nil-paid Rights Shares in the market, which we consider to be fair and reasonable.

Potential dilution effect of the proposed Rights Issue

The proposed Rights Issue will allow all the Qualifying Shareholders the equal opportunity to subscribe for their respective pro-rata provisional entitlement of the Rights Shares and hence avoids dilution in their shareholdings in the Company. Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market. However, Qualifying Shareholders who do not wish to take up their provisional entitlements and the Non-Qualifying Shareholders will have their shareholdings in the Company diluted upon completion of the proposed Rights Issue.

Among the Rights Issue Comparable as set out in the paragraph headed “2. Principal terms of the proposed Rights Issue — B. Subscription Price — Comparison with recent rights issue transactions” above, the maximum dilution on shareholding ranged from approximately 20.0% to 80.0%, and the maximum dilution under the proposed Rights Issue of approximately 80.0% falls within the upper end of the range. However, considering that:

- (i) the shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the proposed Rights Issues 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 historical and prevailing market price of the Shares;
- (iii) all Qualifying Shareholders will also have the equal opportunity to increase their shareholdings at the Subscription Price of HK\$0.110 per Share through excess Rights Shares application should they wish to do so;
- (iv) it is a common market practice for subscription prices of rights issue exercises to be set at a discount to the prevailing market prices of the relevant shares in order to enhance the attractiveness of the rights issue and to encourage the existing shareholders to participate in the rights issue, as demonstrated by the Rights Issue Comparable, where 9 out of 10 are set at a discount;

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- (v) 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;
- (vi) we note that the Group has been loss making in the recent financial years and had net losses of approximately HK\$3 million, HK\$120 million and HK\$25 million respectively for FY17, FY18 and the nine months ended 30 September 2019, respectively. Given the Group is also in net liabilities position, it might be difficult for the Group to reduce its debt level and improve its financial position in the short term. As such, the proposed Rights Issue would be an opportunity for the Company to strengthen its capital base, improve its financial position and to avoid the Group from getting into possible financial distress;
- (vii) due to the tight liquidity of the Company, both Mr. Cheung and Mr. Wong had made various advances to support the Company's working capital. As discussed with the Company, the expected funding needs for the next 12 months from the Latest Practicable Date is approximately HK\$26.40 million. Since approximately HK\$28.30 million of the net proceeds from the proposed Rights Issue will be apply for the general working capital of the Group, the proposed Rights Issue would strengthen the Company's working capital base and reduce the Company's reliance on Mr. Cheung and Mr. Wong in providing funds continuously to support the operation of the Company; and
- (viii) the proposed Rights Issue is on normal commercial terms and the Subscription Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned,

we are of the opinion that the dilution effect of the proposed Rights Issue is fair and reasonable, so far as the Independent Shareholders are concerned and in the interest of the Company and Shareholders as a whole.

3. Possible financial effects of the proposed Rights Issue

It should be noted that the below are for illustrative purpose only and do not purport to represent how the financial position of the Company will be upon completion of the proposed Rights Issue.

Net tangible assets

Set out in Appendix II to the Circular is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company (the "**Pro Forma Statement**"), which illustrated the effects of the proposed Rights Issue on the unaudited consolidated net tangible assets attributable to owners of the Company as at 30 June 2019, as if the proposed Rights Issue had taken place on 30 June 2019. According to the Pro Forma Statement, the unaudited consolidated net tangible liabilities attributable to owners of the Company as at 30 June 2019 was

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approximately HK\$87 million, and would increase to unaudited consolidated net tangible assets of approximately HK\$23 million immediately after completion of the proposed Rights Issue. The unaudited consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2019 was approximately HK\$0.429, which would increase to unaudited consolidated net tangible assets of approximately HK\$0.019 per Share immediately after completion of the proposed Rights Issue.

Working capital

As stated in the Letter from the Board, approximately HK\$28.30 million of the net proceeds from the proposed Rights Issue would be used for general working capital of the Group. As such, the working capital position of the Group would improve upon completion of the proposed Rights Issue.

Gearing ratio

With reference to the Q3 Report 2019, the gearing ratio of the Group (calculated by total interest-bearing debts, including bank borrowings, convertible bonds and promissory notes of approximately HK\$190.5 million divided by total equity attributable to owners of the Company plus total interest-bearing debts of approximately HK\$112.0 million) as at 30 September 2019 was approximately 1.71 times. Immediately after the completion of the proposed Rights Issue, the capital base of the Company would increase, which would in turn decrease the gearing ratio of the Group.

Considering the possible benefits of the proposed Rights Issue on the liquidity and the overall financial position of the Company as discussed above, we are of the view that the proposed Rights Issue is in the interest of the Company and the Shareholders as a whole.

Recommendation on the proposed Rights Issue

Taking into consideration of the above principal factors and reasons, though not entered into in the ordinary and usual course of business of the Group, we are of the opinion that the terms of the proposed Rights Issue are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the proposed Rights Issue and the transactions contemplated thereunder.

The Subscription Agreement

1. Background of and reasons for entering into the Subscription Agreement

Reference is made to the announcement of the Company dated 10 January 2020. On 10 January 2020 (after trading hours), the Company entered into the Subscription Agreement with Team Sunny pursuant to which Team Sunny has conditionally agreed to subscribe and the Company has conditionally agreed to issue the Team Sunny Convertible Bonds in the principal amount of HK\$39,805,651 (which are convertible into Team Sunny Conversion Shares at the Team Sunny Conversion Price of HK\$0.110 per Share (subject to adjustments)) for the Debt Settlement. The subscription amount payable by Team Sunny under the Subscription Agreement shall be satisfied by way of offsetting (i) the principal amount of HK\$8,000,000 under the 2019 PN payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off); and (ii) all the outstanding principal amount of HK\$30,530,000 and part of the accrued interest of HK\$1,275,651 in an aggregate amount of HK\$31,805,651 under Mr. Wong Facilities payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the Subscription to facilitate the set-off). As at the date of the 2020 Announcement, the outstanding principal amount of the 2019 PN is HK\$8,000,000 and the interest payable by the Company was approximately HK\$160,000. On 28 February 2020, Mr. Wong executed an extension letter and agreed to extend the maturity date of the 2019 PN from 28 February 2020 to the date of completion of the Subscription or the date on which the Subscription lapses, whichever is the earlier, and the Company shall repay all interest accrued on the outstanding principal amount of the 2019 PN on the fifth business day immediately after the date on which the Company has completed the proposed Rights Issue or the date on which the proposed Rights Issue and the Underwriting Agreement are terminated or lapse, whichever is the earlier. As discussed with the Company, the amount of interest payable for the 2019 PN is relatively small, and the Company intends to use its internal cash flows to settle the interest of the 2019 PN.

As at the Latest Practicable Date, Team Sunny (a company which is wholly and ultimately owned by Mr. Wong) is a substantial shareholder of the Company and is beneficially interested in 47,164,000 Shares, representing approximately 17.99% of the entire issued share capital of the Company. Accordingly, Team Sunny is a connected person of the Company and the Subscription constitutes a connected transaction under Rule 20.22(6) of the GEM Listing Rules and will be subject to reporting and announcement requirements, as well as the approval of the Independent Shareholders at the EGM by way of poll.

As stated in the Letter from the Board, the 2019 PN bears an interest rate of 2% per annum and will mature on 28 February 2020, and the Mr. Wong 1st Facility and the Mr. Wong 2nd Facility, bears an interest rate of 5.125% per annum and 5.0% per annum respectively. The Company considers that such debts due to Mr. Wong are a heavy financial burden to the Group. As mentioned in the paragraph headed “The proposed Rights Issue — 1. Background of and reasons for the proposed Rights Issue — B. Reasons for the proposed Rights Issue and the use of proceeds”, as part of our due diligence work, we have reviewed the financial position of the Group as at 30 September 2019. In summary, we note that the

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Group is heavily in debt and had (i) bank borrowings due within one year of approximately HK\$69 million; (ii) promissory notes of approximately HK\$8 million; (iii) other payables and accruals of approximately HK\$166 million; (iv) convertible bonds of approximately HK\$114 million; and (v) bank balances and cash which are not client's money of only approximately HK\$16 million recorded on its consolidated statement of financial position as at 30 September 2019. The Group was also in net liabilities position of approximately HK\$14 million as at 30 September 2019. Further, the Group recorded net losses for FY17, FY18 and the nine months ended 30 September 2019. As advised by the Company, the convertible bonds of approximately HK\$114 million as at 30 September 2019 wholly represented the 2008 Convertible Bonds and we note that approximately HK\$55.00 million from the net proceeds of the proposed Rights Issue would be for partial repayment of the 2008 Convertible Bonds to Mr. Cheung and the maturity of the 2008 Convertible Bonds would be extended to 12 August 2023 under the 2008 CB Terms Amendments. However, the Group would still be heavily in debt and also have to meet other short-term debt obligations, such as the 2019 PN and the Mr. Wong Facilities apart from the 2008 Convertible Bonds.

Further, as understood from the Company, the Board has also considered alternative possible financing methods such as bank borrowings and placing of Shares to raise fund, or utilise the proceeds from the proposed Rights Issue to settle the 2019 PN and Mr. Wong Facilities. However, given the Group has been loss making for the recent financial years and at net liabilities position as discussed above, the Company was unable to obtain any debt financing at acceptable interest rates to the Company. In addition, further bank borrowings with unfavourable interest rates would further increase the finance cost of the Company and might deteriorate the net liabilities position of the Company. In respect of placing of Shares, the Company has already utilised its general mandate to issue Shares by way of placing on 12 July 2019 and the placing of new Shares under general mandate can only raise funds in smaller size and does not allow the Shareholders to maintain their respective shareholding in the Company. In addition, the size of the proposed Rights Issue is already large as compared to the Company's existing market capitalisation, further increasing the size of the proposed Rights Issue to repay the 2019 PN and Mr. Wong Facilities might reduce the motivation for the existing Shareholders to participate in the proposed Rights Issue and to secure underwriters with favourable terms.

The Team Sunny Convertible Bonds, which will be used for the Debt Settlement, are zero coupon bonds which are non-interest bearing, while the 2019 PN and Mr. Wong Facilities are interest bearing. Considering that (i) the Team Sunny Convertible Bonds do not create any interest burden to the Group; (ii) the principal amount of the 2019 PN and the Mr. Wong Facilities (together with part of the accrued interests) will be fully settled upon the completion of the Subscription Agreement; and (iii) the issue of the Team Sunny Convertible Bonds does not have an immediate dilution effect on the shareholding of the Company, we are of the view that the entering into the Subscription Agreement will relieve the financial burden on the Group, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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2. *Principal terms of the Subscription Agreement*

Issuer:	The Company
Subscriber:	Team Sunny, which is principally engaged in investment holding
Issue price:	100% of the principal amount
Principal amount:	HK\$39,805,651
Conversion price:	HK\$0.110 per Team Sunny Conversion Share, subject to adjustments
Interest rate:	Zero coupon
Team Sunny Conversion Shares:	Based on the principal amount of the Team Sunny Convertible Bonds of HK\$39,805,651, the Team Sunny Convertible Bonds is convertible into 361,869,554 Team Sunny Conversion Shares at the initial conversion price of HK\$0.110 per Conversion Share (subject to adjustments)
Maturity date:	the date falling on the third anniversary of the date of issue of the Team Sunny Convertible Bonds

Conversion Price

The Team Sunny Conversion Price of HK\$0.110 (subject to adjustments) per Team Sunny Conversion Share represents:

- (a) a discount of approximately 5.17% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) is equivalent to the average closing price of approximately HK\$0.110 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;

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- (d) a premium of approximately 2.80% over the average closing price of approximately HK\$0.107 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (e) a premium of approximately HK\$0.165 over the unaudited net liabilities value per Share of approximately HK\$0.055 based on the published unaudited consolidated net liabilities of the Company of approximately HK\$13.57 million as at 30 September 2019 and the issued share capital of 244,809,415 Shares as at 30 September 2019.

Team Sunny Conversion Price analysis

We note that the Team Sunny Conversion Price of HK\$0.110 (subject to adjustments) per Team Sunny Conversion Share is the same as the Subscription Price of HK\$0.110 per Rights Share under the proposed Rights Issue. In order to assess the fairness and reasonableness of the Team Sunny Conversion Price, we have performed a review on the daily closing prices from 10 July 2019 to the Last Trading Day, being 10 January 2020 and also the date of the Subscription Agreement (the “**Review Period**”) (being a period of approximately 6 months prior to and including the Last Trading Day, which is commonly used for analysis purpose to illustrate the general trend of the closing prices and the level of movement of the Shares) and compared with the Team Sunny Conversion Price. For details of the analysis, please refer to the paragraph headed “The proposed Rights Issue — 2. Principal terms of the proposed Rights Issue — B. Subscription Price” in this letter. In summary, during the Review Period, the closing price per Share ranged from HK\$0.084 to HK\$0.190, with an average of approximately HK\$0.127. However, the historical Share price during the Review Period was generally demonstrating a downward trend. In addition, the Team Sunny Conversion Price of HK\$0.110 per Share generally approximate to the daily closing price from October 2019 to the Last Trading Day, being the most recent months prior to the Last Trading Day.

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Comparison with other convertible securities subscriptions

To assess the fairness and reasonableness of the terms of the Subscription Agreement, and in particular the Team Sunny Conversion Price and interest rate, we, based on our best endeavour and as far as we are aware of, have identified an exhaustive list of other convertible bonds/notes subscription transactions announced by companies listed on the Stock Exchange (excluding the issuance for acquisition purpose) from 1 October 2019 up to and including the Last Trading Day, being 10 January 2020 and also the date of the Subscription Agreement, and around a three-month period prior to the Last Trading Day (the “**CB Comparables**”), and compared the major terms of the CB Comparables with the Subscription Agreement. Details of our findings are set out in the following table:

Company (stock code)	Announcement date	Approximate year(s) to maturity	Premium/ (discount) of conversion price over/to the closing price on the last trading day prior to/on the date of the respective announcement/ agreement %	Premium/ (discount) of conversion price over/to the five-day average closing price prior to/on the date of the respective announcement/ agreement %	Initial interest rate per annum %
China Touyun Tech Group Limited (1332)	09/10/2019	2	-7.69	-2.91	8.0
Victory City International Holdings Limited (539)	14/10/2019	2	64.56	64.97	5.0
Ban Loong Holdings Limited (30)	14/10/2019	2	-0.77	equivalent to the conversion price (Note)	3.0
Synergis Holdings Limited (2340)	24/10/2019	2	2.04	4.17	7.0
Pacific Basin Shipping Limited (2343)	31/10/2019	6	31.87	36.36	3.0
BC Technology Group Limited (863)	10/11/2019	1	17.1	43.33	5.0
Semiconductor Manufacturing International Corporation (981)	19/11/2019	3	1.23	4.68	Nil
Spring Real Estate Investment Trust (1426)	25/11/2019	3	14.2	12.5	1.8
iDreamSky Technology Holdings Limited (1119)	26/11/2019	5	2.4	5.16	2.5

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Company (stock code)	Announcement date	Approximate year(s) to maturity	Premium/ (discount) of conversion price over/to the closing price on the last trading day prior to/on the date of the respective announcement/ agreement %	Premium/ (discount) of conversion price over/to the five-day average closing price prior to/on the date of the respective announcement/ agreement %	Initial interest rate per annum %
Mongolia Energy Corporation Limited (276)	28/11/2019	5	11.1	15.4	3.0
Shougang Concord International Enterprises Company Limited (697)	29/11/2019	2	-13.04	-15.25	Nil
Bosideng International Holdings Limited (3998)	05/12/2019	5	27.5	29.6	1.0
Dafy Holdings Limited (1826)	08/01/2020	1	12.96	14.45	6.0
		Average	12.57	16.34	3.5
		Maximum	64.56	64.97	8.0
		Minimum	-13.04	-15.25	Nil
The Company		3	-8.33	equivalent to the conversion price (Note)	Nil

Note: the conversion prices for Ban Loong Holdings Limited (stock code: 30) and the Company are equivalent to their respective five-day average closing price prior to/on the date of the respective announcement/agreement.

(a) Conversion price

As illustrated in the table above, among the CB Comparables, the premium/discount of the conversion price to the respective closing price on the last trading day prior to/on the date of the respective announcement/agreement, ranged from a discount of about 13.04% to a premium of about 64.56%, with an average of a premium of around 12.57%. The Team Sunny Conversion Price represents a discount of approximately 8.33% to the closing price on the Last Trading Day, which falls within the range among the CB Comparables. As for the conversion price to the five-day average closing price prior to/on the date of the respective announcement/agreement, it ranged from a discount of approximately 15.25% to a premium of 64.97%, with an average of a premium of approximately 16.34%. For the Company, the Team Sunny Conversion Price is equivalent to the five-day average closing price up to and including the Last Trading Day, which is within the range of the CB Comparables.

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We note that the discount of approximately 8.33% of the Team Sunny Conversion Price to the closing price on the Last Trading Day is lower than the average premium of the CB Comparables of approximately 12.57%, and is at the low end of the CB Comparable range. However, given the unfavourable financial conditions of the Group, a discount of the Team Sunny Conversion Price to the closing price on the Last Trading Day might be required in order to increase the attractiveness of the subscription of the Team Sunny Convertible Bonds. The Group is at a net liabilities position and also loss making in the recent years, which might create difficulty for the Group to repay its short term debts. The 2019 PN and Mr. Wong Facilities, which are both interest-bearing short term debts, would be replaced by the Team Sunny Convertible Bonds upon completion of the Subscription. As compared with the 2019 PN and Mr. Wong Facilities, the Team Sunny Convertible Bonds are non-interest bearing and have a longer repayment term. As such, we consider that it is fair and reasonable for the Team Sunny Conversion Price to have a relatively lower conversion price as compared with the CB Comparables in order to increase the attractiveness of the Subscription and to improve the short term working capital of the Group.

(b) Interest rate

The respective interest rates per annum of the CB Comparables ranged from nil to 8.0%, with an average of approximately 3.5%. The Team Sunny Convertible Bonds carries no interest, which is lower than the average and at the lower end of the CB Comparables range.

Based on the foregoing, although the Team Sunny Conversion Price represents a discount to the closing price on the Last Trading Day and is below the average among the CB Comparables, it still falls within the CB Comparables range and we consider that it is within the market norm. As such, we consider the Subscription Agreement is on normal commercial terms and are fair and reasonable.

Possible impact on the shareholding structure

Upon full conversion of the Team Sunny Convertible Bonds at the Team Sunny Subscription Price of HK\$0.110 each (subject to adjustments), a maximum of 361,869,554 Team Sunny Conversion Shares will be allotted and issued which represents:

- (i) approximately 138.01% of the issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 138.01% of the issued share capital of the Company as at the date of the 2020 Announcement;
- (iii) approximately 27.60% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares);

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- (iv) approximately 21.63% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion right attached to the Team Sunny Convertible Bonds in full; and
- (v) approximately 15.73% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion right attached to the Team Sunny Convertible Bonds in full and the outstanding 2008 Conversion Shares upon the exercise of the conversion right attached to the outstanding 2008 Convertible Bonds in full.

Despite the possible dilution effect upon conversion of the Team Sunny Convertible Bonds, the Team Sunny Convertible Bonds are for the settlement of the 2019 PN payable by the Company to Mr. Wong and the Mr. Wong Facilities, which are both interest bearing. Given the Group has been loss making in the recent years and is at a net liabilities position as mentioned in the paragraph headed “1. Background of and reasons for the Subscription Agreement” in this section, we consider that the non-interest bearing Team Sunny Convertible Bonds will aid relieving the financial burden to the Group and avoid material cash outflow for settling the debts due to Mr. Wong. Therefore, we consider that the possible dilution effect is acceptable in this regard.

3. Possible financial effects of the Subscription

It should be noted that the below are for illustrative purpose only and do not purport to represent how the financial position of the Company will be upon completion of the Subscription.

Net tangible assets

The Team Sunny Convertible Bonds in the principal amount of HK\$39,805,651 shall be satisfied by way of offsetting (i) the principal amount of HK\$8,000,000 under the 2019 PN payable by the Company to Mr. Wong; and (ii) all the outstanding principal amount of HK\$30,530,000 and part of the accrued interest of HK\$1,275,651 in an aggregate amount of HK\$31,805,651 under Mr. Wong Facilities payable by the Company to Mr. Wong. As such, as stated in note 5 to the Pro Forma Statement, it is expected that the Subscription would not have a material impact on the overall net liabilities position of the Group.

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Working capital

As the Team Sunny Convertible Bonds have a maturity date falling on the third anniversary of the date of issue of the Team Sunny Convertible Bonds, which have a longer maturity than the short term 2019 PN and Mr. Wong Facilities, the working capital position of the Group would improve upon completion of the Subscription.

Gearing ratio

Since the Subscription is for the Debt Settlement and would not have a material impact on the overall net liabilities position of the Group as stated in note 5 to the Pro Forma Statement, it is expected that there would be no material impact on the gearing ratio of the Group upon completion of the Subscription.

Considering the possible improvement on the working capital of the Group as discussed above, we are of the view that the Subscription is in the interest of the Company and the Shareholders as a whole.

Recommendation on the Subscription Agreement

Taking into consideration of the above principal factors and reasons, though not entered into in the ordinary and usual course of business of the Group, we are of the opinion that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

The 2008 CB Terms Amendments

1. Background of and reasons for the 2008 CB Terms Amendments

Reference is made to the announcement of the Company dated 10 January 2020. On 10 January 2020 (after trading hours), the Company and the CB Holders entered into the Fourth Supplemental Deed, pursuant to which the Company and the CB Holders conditionally agreed to amend certain terms of the 2008 Convertible Bonds such that (a) the maturity date of the 2008 Convertible Bonds be extended for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the conversion price of the 2008 Convertible Bonds be revised from HK\$0.95 per 2008 Conversion Share to HK\$0.110 per 2008 Conversion Share with effect from 13 August 2020 (subject to adjustments). Save for the 2008 CB Terms Amendments, all other terms of the 2008 Convertible Bonds shall remain unchanged and valid.

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Reference is also made to the 2020 CB Transfer Announcement that on 21 January 2020, the Company has received a notice from Ivana in relation to the proposed transfer of the 2008 Convertible Bonds in the principal amount of the HK\$55.00 million from Ivana to Team Sunny pursuant to the 2008 CB Sale and Purchase Agreement. Pursuant to the 2008 CB Sale and Purchase Agreement, Team Sunny has conditionally agreed to acquire and Ivana has conditionally agreed to sell the 2008 Convertible Bonds issued by the Company in the principal amount of HK\$55.00 million free from all encumbrances and together with all rights attaching thereto at the 2008 CB Transfer Completion and thereafter. The 2008 CB Transfer Completion is conditional upon and subject to the satisfaction of the conditions precedent.

As Ivana is a company controlled and owned by a trust founded by Mr. Cheung, the Chairman, an executive Director and the chief executive officer of the Company, Ivana is therefore a connected person of the Company under the GEM Listing Rules. The 2008 CB Terms Amendments under the Fourth Supplemental Deed constitute a connected transaction of the Company. Therefore, the Fourth Supplemental Deed and the transactions contemplated thereunder (including but not limited to the 2008 CB Terms Amendments and the allotment and issue of the 2008 CB Conversion Shares upon exercise of the conversion rights attached to the amended 2008 Convertible Bonds) and the grant of the 2008 CB Specific Mandate are subject to reporting and announcement requirements, as well as approval by the Independent Shareholders at the EGM under the GEM Listing Rules.

We note that the existing 2008 Conversion Price of the 2008 Convertible Bonds is HK\$0.95 per 2008 Conversion Share, which is way above the prevailing market price of the Share. For reference, the average closing price per Share was approximately HK\$0.110 for the five consecutive trading days up to and including the date of the Fourth Supplemental Deed. In view of this, the CB Holders might be discouraged to convert the 2008 Convertible Bonds. It is also noted that the outstanding principal amount of the 2008 Convertible Bonds is HK\$124,068,000. As mentioned in the paragraphs headed “The proposed Rights Issue — 1. Background of and reasons for the proposed Rights Issue — B. Reasons for the proposed Rights Issue and the use of proceeds” and “The Subscription Agreement — Background of and reasons for entering into the Subscription Agreement”, as part of our due diligence work, we have reviewed the financial position of the Group as at 30 September 2019. In summary, we note that the Group is heavily in debt and had (i) bank borrowings due within one year of approximately HK\$69 million; (ii) promissory notes of approximately HK\$8 million; (iii) other payables and accruals of approximately HK\$166 million; (iv) convertible bonds of approximately HK\$114 million, which wholly represented the 2008 Convertible Bonds; and (v) bank balances and cash which are not client’s money of only approximately HK\$16 million recorded on its consolidated statement of financial position as at 30 September 2019. The Group was also in net liabilities position of approximately HK\$14 million as at 30 September 2019. Further, the Group recorded net losses for FY17, FY18 and the nine months ended 30 September 2019. If the 2008 Convertible Bonds were redeemed upon its maturity, which would be in August 2020, given the weak financial position of the Company, the possible cash outflow for redeeming the 2008 Convertible Bonds might negatively affect the operation and performance of the Company. Further, the 2008 Convertible Bonds bears no interests, and will not incur any cash outflow for interest

LETTER FROM INDEPENDENT FINANCIAL ADVISER

payments for the Group for the next three years. Therefore, we concur with the view of the Company that the 2008 CB Terms Amendments will improve liquidity and strength the financial position of the Group.

2. Principal terms of the Fourth Supplemental Deed

Pursuant to the Fourth Supplemental Deed, (a) the maturity date of the 2008 Convertible Bonds is extended for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the conversion price of the 2008 Convertible Bonds be revised from HK\$0.95 per 2008 Conversion Share to HK\$0.110 per 2008 Conversion Share with effect from 13 August 2020 (subject to adjustments). Save for the 2008 CB Terms Amendments, all other terms of the 2008 Convertible Bonds shall remain unchanged and valid.

The 2008 Conversion Price of HK\$0.110 (subject to adjustments) per 2008 Conversion Share represents:

- (a) a discount of approximately 5.17% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of approximately 8.33% to the closing price of HK\$0.120 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) is equivalent to the average closing price of approximately HK\$0.110 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 2.80% over the average closing price of approximately HK\$0.107 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (e) a premium of approximately HK\$0.165 over the unaudited net liabilities value per Share of approximately HK\$0.055 based on the published unaudited consolidated net liabilities of the Company of approximately HK\$13.57 million as at 30 September 2019 and the issued share capital of 244,809,415 Shares as at 30 September 2019.

Adjusted 2008 Conversion Price analysis

We note that the adjusted 2008 Conversion Price of HK\$0.110 (subject to adjustments) per 2008 Conversion Share is the same as the Subscription Price of HK\$0.110 per Rights Share under the proposed Rights Issue and the Team Sunny Conversion Price. In order to assess the fairness and reasonableness of the 2008 Conversion Price, we have performed a review on the daily closing prices of the Shares from 10 July 2019 to the Last Trading Day, being 10 January 2020 and also the date of the Fourth Supplemental Deed (the “**Review Period**”) (being a period of approximately 6 months prior to and including the Last Trading Day, which is commonly used for analysis purpose to illustrate the general trend of the closing prices and the level of

movement of the Shares) and compared with the adjusted 2008 Conversion Price. For details of the analysis, please refer to the paragraph headed “The proposed Rights Issue — 2. Principal terms of the proposed Rights Issue — B. Subscription Price” in this letter. In summary, during the Review Period, the closing price per Share ranged from HK\$0.084 to HK\$0.190, with an average of approximately HK\$0.127. However, the historical Share price during the Review Period was generally demonstrating a downward trend. In addition, the adjusted 2008 Conversion Price of HK\$0.110 per Share generally approximate to the daily closing price from October 2019 to the Last Trading Day, being the most recent months prior to the Last Trading Day.

Comparison with other convertible securities subscriptions

To assess the fairness and reasonableness of the terms of the Fourth Supplemental Deed, and in particular the adjusted 2008 Conversion Price and interest rate, we, based on our best endeavour and as far as we are aware of, have compared with the relevant terms of other convertible bonds/notes issued by companies listed on the Stock Exchange (excluding the issuance for acquisition purpose) from 1 October 2019 up to and including the Last Trading Day, being 10 January 2020 and also the date of the Fourth Supplemental Deed, and around a three-month period prior to the Last Trading Day. For details of our findings, please refer to the paragraph headed “The Subscription Agreement — 2. Principal terms of the Subscription Agreement — Comparison with other convertible securities subscriptions” in this letter.

In summary, among the CB Comparables, the premium/discount of the conversion price to the respective closing price on the last trading day prior to/on the date of the respective announcement/agreement, ranged from a discount of about 13.04% to a premium of about 64.56%, with an average of a premium of around 12.57%. As for the conversion price to the five-day average closing price prior to/on the date of the respective announcement/agreement, it ranged from a discount of approximately 15.25% to a premium of 64.97%, with an average of a premium of approximately 16.34%. For the adjusted 2008 Conversion Price, it represents a discount of approximately 8.33% to the closing price on the Last Trading Day and equivalent to the five-day average closing price up to and including the Last Trading Day, which are both within the CB Comparables range. In respect of the interest rate, the 2008 Convertible Bonds bears no interests, which is lower than the average and at the lower end of the CB Comparables interest rates range.

Based on the above, we are of the view that the terms of the 2008 CB Terms Amendments under the Fourth Supplemental Deed are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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Possible impact on the shareholding structure

Upon effective of the 2008 CB Terms Amendments:

- (i) if the outstanding 2008 Convertible Bonds are fully converted at the adjusted 2008 Conversion Price of HK\$0.110 each (subject to adjustments), a maximum of 1,127,890,909 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding 2008 Convertible Bonds in full, which represents approximately 430.16% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (ii) if the outstanding 2008 Convertible Bonds are fully converted at the adjusted 2008 Conversion Price of HK\$0.110 each (subject to adjustments), a maximum of 1,127,890,909 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding 2008 Convertible Bonds in full, which represents approximately 430.16% of the existing issued share capital of the Company as at the date of the 2020 Announcement;
- (iii) assuming completion of the proposed Rights Issue (such that part of the principal amount of the 2008 Convertible Bonds in the amount of HK\$55.00 million has been repaid partially of the 2008 Convertible Bonds to Mr. Cheung) and if the outstanding 2008 Convertible Bonds are fully converted at the adjusted 2008 Conversion Price of HK\$0.110 each (subject to adjustments), a maximum of 627,890,909 2008 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding 2008 Convertible Bonds in full which represents:
 - (a) approximately 239.47% of the existing issued share capital of the Company as at the Latest Practicable Date;
 - (b) approximately 239.47% of the existing issued share capital of the Company as at the date of the 2020 Announcement;
 - (c) approximately 47.89% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares);
 - (d) approximately 37.53% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares) and the allotment and issue of the Team Sunny Conversion Shares upon the exercise of the conversion rights attached to the Team Sunny Convertible Bonds in full; and
 - (e) approximately 27.29% of the issued share capital of the Company as to be enlarged by the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase

of Shares), the allotment and issue of the Team Sunny Conversion Shares and the outstanding 2008 Conversion Shares upon the exercise of the conversion rights attached to the Team Sunny Convertible Bonds and the outstanding 2008 Convertible Bonds respectively in full.

Despite the possible dilution effect upon conversion of the 2008 Convertible Bonds, the 2008 CB Terms Amendments effectively allow the Group to refinance the debts under the 2008 Convertible Bonds under the similar financial terms for a further three-year period. Given (i) the existing 2008 Conversion Price of the 2008 Convertible Bonds is much higher than prevailing market price of the Share which might discourage conversion of the 2008 Convertible Bonds and would result in the settlement of the principal amount of HK\$124,068,000 upon maturity in August 2020; and (ii) the Group has been loss making in the recent years and is at a net liabilities position as mentioned in the paragraph headed “1. Background of and reasons for the 2008 CB Terms Amendments” in this section, we consider that the 2008 CB Terms Amendments will improve liquidity and strength the financial position of the Group by avoiding cash outflow for redeeming the 2008 Convertible Bonds. Therefore, we consider that the possible dilution effect is acceptable in this regard.

3. Possible financial effects of the 2008 CB Terms Amendments and the 2008 CB Transfer

It should be noted that the below are for illustrative purpose only and do not purport to represent how the financial position of the Company will be upon completion of the 2008 CB Terms Amendments and the 2008 CB Transfer.

The 2008 CB Terms Amendments

Net tangible assets

The 2008 CB Terms Amendments consists of (a) the proposed extension of the maturity date of the 2008 Convertible Bonds for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the proposed revision of the conversion price of the 2008 Convertible Bonds from HK\$0.95 per Share to HK\$0.110 per Share. As discussed with the Company, it is expected that the 2008 CB Terms Amendments would increase the fair value of the 2008 Convertible Bonds, which would be subject to valuation of independent valuer and review by the independent auditor of the Company.

Working capital

The maturity of the 2008 Convertible Bonds would be extended for a further term of three years from 13 August 2020 to 12 August 2023 under the 2008 CB Terms Amendments. As a result, the level of debts due within one year would decrease and improve the working capital of the Group upon completion of the 2008 CB Terms Amendments.

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Gearing ratio

As discussed above, it is expected that the 2008 CB Terms Amendments would increase the fair value of the 2008 Convertible Bonds, which would be subject to valuation of independent valuer and review by the independent auditor of the Company.

The 2008 CB Transfer

Pursuant to the 2008 CB Sale and Purchase Agreement, the 2008 CB Transfer is merely the proposed transfer of the 2008 Convertible Bonds in the principal amount of HK\$55.00 million from Ivana to Team Sunny. Therefore, it would not affect the net tangible assets, working capital and gearing ratio of the Group.

Considering the possible improvement on the working capital of the Group as discussed above, we are of the view that the 2008 CB Terms Amendments is in the interest of the Company and the Shareholders as a whole.

Recommendation on the 2008 CB Terms Amendments

Taking into consideration of the above principal factors and reasons, though not entered into in the ordinary and usual course of business of the Group, we are of the opinion that the Fourth Supplemental Deed and the 2008 CB Terms Amendments are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the 2008 CB Terms Amendments and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Wallace Cheung
Director

Note: Mr. Wallace Cheung is a licensed person registered with the SFC and a responsible officer of Messis Capital Limited to carry out type 6 (advising on corporate finance) regulatory activity under the SFO and has over 9 years of experience in corporate finance industry.

1. FINANCIAL SUMMARY OF THE GROUP

Details of the audited consolidated financial statements of the Group for the years ended 31 December 2016, 2017 and 2018, and the unaudited consolidated financial statements of the Group for the nine months ended 30 September 2019 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (<http://www.merdeka.com.hk/>).

- (i) The unaudited financial information of the Group for the nine months ended 30 September 2019 is disclosed in the third quarterly report of the Company for the nine months ended 30 September 2019 published on 14 November 2019, from pages 1 to 29:

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/1114/2019111400651.pdf>

- (ii) The audited financial information of the Group for the year ended 31 December 2018 is disclosed in the annual report of the Company for the year ended 31 December 2018 published on 29 March 2019, from pages 61 to 161:

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329359.pdf>

- (iii) The audited financial information of the Group for the year ended 31 December 2017 is disclosed in the annual report of the Company for the year ended 31 December 2017 published on 29 March 2018, from pages 52 to 145:

<https://www1.hkexnews.hk/listedco/listconews/gem/2018/0329/gln20180329111.pdf>

- (iv) The audited financial information of the Group for the year ended 31 December 2016 is disclosed in the annual report of the Company for the year ended 31 December 2016 published on 23 March 2017, from pages 53 to 147:

<https://www1.hkexnews.hk/listedco/listconews/gem/2017/0323/gln20170323009.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2020, being the latest practicable date for the purpose of this indebtedness statement, the details of the Group's outstanding borrowings were set out as follows:

As at 31 January 2020, the Group had bank borrowings of HK\$3,000,000, which were secured by the Group's time deposit of approximately HK\$4,124,000 and guaranteed by a subsidiary of the Company.

As at 31 January 2020, the Group had outstanding 2008 Convertible Bonds with principal amount of HK\$124,068,000. The 2008 Convertible Bonds are unsecured, zero coupon and matured on 12 August 2020.

As at 31 January 2020, the Group had the outstanding principal of HK\$33,530,000 and accrued interest of approximately HK\$1,120,000 in an aggregate amount of approximately HK\$34,650,000 under Mr. Wong Facilities and Mr. Wong 3rd Facility. The amount is unsecured, carried interest from 5% to 5.125%

As at 31 January 2020, the Group had outstanding promissory notes with aggregate amount of approximately HK\$51,832,000, including 2014 PN with outstanding amount of approximately HK\$14,856,000 and 2019 PN with outstanding principal amount of HK\$8,000,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 31 January 2020, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Save as aforementioned in this indebtedness statement, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 January 2020, up to and including the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that the Group has sufficient working capital for its business for at least the next twelve months from the date of this circular after due and careful enquiry and taking into account the present internal financial resources available to the Group and taking into account the completion of the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the outbreak of the novel coronavirus pneumonia (COVID-19) epidemic in China since January 2020 as mentioned in the sub-section “The outbreak of novel coronavirus” under the section “RISK FACTORS” in the Letter of the Board of this circular, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECT

The Group is principally engaged in (i) financial services business including the securities brokerage services, provision of corporate finance advisory services, asset management business, money lending services and financial leasing business; (ii) corporate consulting business including company secretarial services, accounting and financial reporting services and management consulting services; (iii) trading business; and (iv) information technology business.

According to the third quarterly report for the nine months ended 30 September 2019 of the Company (“**3rd Quarterly Report**”), for the nine months ended 30 September 2019, the Group recorded a revenue of approximately HK\$395.1 million (nine months ended 30 September 2018: approximately HK\$406.3 million). Loss for the period attributable to owners of the Company was approximately HK\$23.4 million (nine months ended 30 September 2018: approximately HK\$30.9 million). The net loss was mainly attributable from the tightening fiscal policy and stricter lending conditions affected the financial leasing market in the PRC leading to the decreased in turnover.

Given the downturn of the PRC financial leasing business, it is the Group’s strategy to strengthen and expand its licensed financial services business under the Securities and Futures Commission of Hong Kong. In August 2019, the Group, through Merdeka Corporate Finance Limited, a wholly-owned subsidiary of the Company, has obtained a license from the Securities and Futures Commission of Hong Kong to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO and expanded its financial service business into the provision of advisory services on corporate finance. In addition, the Group has also completed the acquisition of the remaining 49% share interest in Merdeka Investment on 4 November 2019, which then became a wholly-owned subsidiary of the Company which carries out Type 4 (advising on securities) and Type 9 (asset management) regulated activities as defined under the SFO. As at the Latest Practicable Date, Merdeka Investment is the investment manager of an open-ended Cayman Islands investment fund, with current assets under management of approximately USD100 million and an investment scope including but not limited to, investing on private equity, secondary market, fixed income products etc. Merdeka Investment is in preliminary discussion with 2 potential investors and/or private funds to act as an investment manager/advisor to provide discretionary investment management solutions in return for management/advisory fees. As

at the Latest Practicable Date, no concrete terms and fund size has been agreed between Merdeka Investment and the potential clients. Merdeka Investment is a service providing business, as such, its operations are expected to require minimal capital expenditure.

The Board will continue to explore business opportunities within the financial services business segment and if suitable opportunities arise, the Group will expand its traditional financial services business into the financial technology industry in order to capture the potential growth of such segment and potentially to create synergy effect with the Group's existing financial services business.

On 14 August 2019, the Company has invested a minority stake of YAS Digital Limited, a Hong Kong-based regional insurance technology company making insurance digital and more hyper-personalized in markets and as a stepping stone for the Group's entry into the financial technology industry. As all the applicable percentage ratios are lower than 5%, therefore it did not require any disclosure under the GEM Listing Rules.

On 20 March 2020, Joy Sunny Investment Limited, a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with two independent third parties (collectively, the “**Vendors**”) regarding the Group's intention to acquire certain amount of shares of YAS Digital Limited owned by the Vendors at a consideration subject to further negotiation by the parties thereto. Details of which are set out in the announcement of the Company dated 20 March 2020. Save for that, as at the Latest Practicable Date, the Company has not identified other investment opportunities.

Apart from the Group's financial services business, the Group is of the view that given the worldwide awareness of corporate governance, it is anticipated that the demand from Hong Kong listed issuers requesting for professional services in relation to corporate governance matters and compliance with the appropriate local rules governing the listed companies in Hong Kong and other relevant legal and regulatory requirements will persist. Therefore, the Group has acquired Merdeka Professional Services Limited (“**MPSL**”) (formerly known as Veda Corporate Services Limited) and its subsidiaries (together “**MPSL Group**” (formerly known as VCSL Group) on 28 February 2019, and upon the completion of acquisition of MPSL Group, the Group has diversified its business into corporate consulting services including company secretarial services, accounting and financial reporting services and management consulting services. As disclosed in the 3rd Quarterly Report, the revenue and the segment profit for the nine months ended 30 September 2019 was approximately HK\$6.3 million and HK\$3.3 million respectively. The Group will continue to seek opportunities to further expand and diversify the business portfolio within the corporate consulting business sector.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 (the “**Unaudited Pro Forma Financial Information**”) which has been prepared by the directors of the Company in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and on the basis of the notes set out below for the purpose of illustrating the effects of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had taken place on 30 June 2019.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Rights Issue been completed as at 30 June 2019 or at any future date.

The following Unaudited Pro Forma Financial Information of the adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the unaudited condensed consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019, extracted from the published interim report of the Group for the six months ended 30 June 2019, with adjustment described below:

Unaudited consolidated net tangible liabilities attributable to owners of the Company as at 30 June 2019 <i>HK\$'000</i> <i>(Note 1)</i>	Unaudited estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 30 June 2019 <i>HK\$'000</i>	Unaudited consolidated net tangible assets attributable to owners of the Company per Share before the completion of the Rights Issue <i>HK\$</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share immediately after the completion of the Rights Issue <i>HK\$</i> <i>(Note 4)</i>
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Based on 1,048,802,876

Rights Shares at
subscription price of
HK\$0.110 per
Rights Share

<u>(87,482)</u>	<u>110,800</u>	<u>23,318</u>	<u>(0.429)</u>	<u>0.019</u>
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Notes:

- 1) The unaudited consolidated net tangible liabilities attributable to owners of the Company as at 30 June 2019 has been extracted from the published interim report of the Company for the six months ended 30 June 2019, adjusted by intangible assets and goodwill of approximately HK\$7,030,000 and HK\$5,285,000 respectively.
- 2) The estimated net proceeds from the Rights Issue is approximately HK\$110,800,000 are based on 1,048,802,876 Rights Shares to be issued at the Subscription Price of HK\$0.110 per Rights Share and after deducting estimated related expenses, including among others, legal and professional fees, which are directly attributable to the Rights Issue, of approximately HK\$4,568,000.
- 3) The unaudited consolidated net tangible liabilities of the Group per share attributable to the owners of the Company before the completion of the Rights Issue is determined based on the unaudited consolidated net tangible liabilities of the Group attributable to the owners of the Company as at 30 June 2019 of approximately HK\$87,482,000 as disclosed in note 1 above, divided by 204,009,415 Shares of the Company in issue as at 30 June 2019 (assuming the consolidation of every ten issued and unissued shares of HK\$0.001 each into one consolidated share of HK\$0.01 each effective on 19 August 2019 (“**Share Consolidation**”) became effective on 30 June 2019).
- 4) The unaudited pro forma adjusted consolidated net tangible assets of the Group after the completion of the Rights Issue per share is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2019 for the Rights Issue of approximately HK\$23,318,000 divided by Shares which comprise 204,009,415 Shares in issue as at 30 June 2019 (assuming the Share Consolidation became effective on 30 June 2019) and 1,048,802,876 Rights Shares to be issued after the completion of the Rights Issue, assuming that no outstanding share options of the Company will be exercised and the convertible bonds will not be converted into ordinary shares.
- 5) Pursuant to Subscription Agreement, Team Sunny will subscribe the convertible bonds issued by the Company with principal amount of HK\$39,805,651. The subscription amount payable by Team Sunny will be offset by the Company’s promissory note with principal amount of HK\$8 million held by Mr. Wong, a controlling shareholder of Team Sunny, and all of the outstanding principal amount and part of the accrued interest in an aggregate amount of HK\$31,805,651 payable to Mr. Wong. Accordingly, the arrangement only is replacing some liabilities to another liabilities with the same principal amount, and will not have a material impact on the Group’s overall net liabilities position. Therefore, the unaudited pro forma financial information does not illustrate the effects on the Subscription Agreement.

Since the convertible bonds to be issued will be matured in 3 years upon issuance, the Company’s liquidity will improve as the Company’s liability will be relocated from fixed term of repayment to a definite term.

- 6) No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 30 June 2019.

Set out below is the text of a letter received from Elite Partners CPA Limited, the Independent Reporting Accountants to the Board of Directors in respect of the Rights Issue for the purpose of inclusion in this Circular.



The Board of Directors
Merdeka Financial Group Limited
Room 1108, 11/F., Wing On Centre,
111 Connaught Road Central, Central,
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Merdeka Financial Group Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (“**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets as at 30 June 2019, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Appendix II of the circular issued by the Company. The applicable criteria on the basis of which the Directors have complied the Unaudited Pro Forma Financial Information are described in Appendix II of this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue on the basis of four rights share at the subscription price of HK\$0.110 per rights share (the “**Rights Share**”) for every one existing share held on the record date (the “**Rights Issue**”) as if the transaction had taken place as at 30 June 2019. As part of this process, information about the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019, as extracted by the Directors from the Company’s condensed consolidated interim financial information for the six months ended 30 June 2019, on which no audit or review report has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in a circular is solely to illustrate the impact of the significant transaction on consolidated net tangible assets of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31 (1) of the GEM Listing Rules.

Your faithfully,

Elite Partners CPA Limited
Certified Public Accountants

Hong Kong, 27 March 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital in the Company as at the Latest Practicable Date and immediately following the allotment and issue of the Rights Shares, Team Sunny Conversion Shares and 2008 Conversion Shares will be as follows:

- i. As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised: *HK\$*

<u>20,000,000,000</u> Shares of HK\$0.01 each	<u>200,000,000.00</u>
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Issued and paid-up share capital:

<u>262,200,719</u> Shares of HK\$0.01 each	<u>2,622,007.19</u>
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- ii. The following table illustrates the share capital structure of the Company immediately after the completion of the proposed Rights Issue (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares from the Latest Practicable Date to completion of the Rights Issue) will be as follows:

Authorised: *HK\$*

<u>20,000,000,000</u> Shares of HK\$0.01 each	<u>200,000,000.00</u>
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Issued and paid-up share capital:

262,200,719 Shares of HK\$0.01 each	2,622,007.19
1,048,802,876 Rights Shares to be allotted and issued upon completion of the proposed Rights Issue	10,488,028.76
<u>1,311,003,595</u>	<u>13,110,035.95</u>

- iii. The following table illustrates the share capital structure of the Company immediately after the completion of the Rights Issue (assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares from the Latest Practicable Date to completion of the Rights Issue) will be as follows:

Authorised: *HK\$*

<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
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Issued and paid-up share capital:

262,233,918	Shares of HK\$0.01 each	2,622,339.18
1,048,935,672	Rights Shares to be allotted and issued upon completion of the proposed Rights Issue	10,489,356.72
<u>1,311,169,590</u>		<u>13,111,695.90</u>

- iv. The following table illustrates the share capital structure of the Company immediately after the completion of the proposed Rights Issue and upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds in full (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares from the Latest Practicable Date to completion of the Rights Issue) will be as follows:

Authorised: *HK\$*

<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
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Issued and paid-up share capital:

262,200,719	Shares of HK\$0.01 each	2,622,007.19
1,048,802,876	Rights Shares to be allotted and issued upon completion of the proposed Rights Issue	10,488,028.76
361,869,554	Team Sunny Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds in full	3,618,695.54
<u>1,672,873,149</u>		<u>16,728,731.49</u>

- v. The following table illustrates the share capital structure of the Company immediately after the completion of the proposed Rights Issue and upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds in full (assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares from the Latest Practicable Date to completion of the proposed Rights Issue) will be as follows:

Authorised: HK\$

<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
-----------------------	-------------------------	-----------------------

Issued and paid-up share capital:

262,233,918	Shares of HK\$0.01 each	2,622,339.18
1,048,935,672	Rights Shares to be allotted and issued upon completion of the proposed Rights Issue	10,489,356.72
361,869,554	Team Sunny Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds in full	3,618,695.54
<u>1,673,039,144</u>		<u>16,730,391.44</u>

- vi. The following table illustrates the share capital structure of the Company immediately after the completion of the proposed Rights Issue and the 2008 CB Terms Amendments and upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds and the 2008 Convertible Bonds in full (assuming no Outstanding Share Options being exercised and no other issue or repurchase of Shares from the Latest Practicable Date to completion of the proposed Rights Issue) will be as follows:

Authorised:		<i>HK\$</i>
<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
Issued and paid-up share capital:		
262,200,719	Shares of HK\$0.01 each	2,622,007.19
1,048,802,876	Rights Shares to be allotted and issued upon completion of the proposed Rights Issue	10,488,028.76
361,869,554	Team Sunny Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds in full	3,618,695.54
627,890,909	2008 Conversion Shares to be allotted and issued upon completion of the 2008 CB Terms Amendments and the exercise of the conversion rights attaching to the 2008 Convertible Bonds in full	6,278,909.09
<u>2,300,764,058</u>		<u>23,007,640.58</u>

- vii. The following table illustrates the share capital structure of the Company immediately after the completion of the proposed Rights Issue and the 2008 CB Terms Amendments and upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds and the 2008 Convertible Bonds in full (assuming all Outstanding Share Options being exercised and no other issue or repurchase of Shares from the Latest Practicable Date to completion of the proposed Rights Issue) will be as follows:

Authorised:		<i>HK\$</i>
<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
Issued and paid-up share capital:		
262,233,918	Shares of HK\$0.01 each	2,622,339.18
1,048,935,672	Rights Shares to be allotted and issued upon completion of the proposed Rights Issue	10,489,356.72
361,869,554	Team Sunny Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds in full	3,618,695.54
627,890,909	2008 Conversion Shares to be allotted and issued upon completion of the 2008 CB Terms Amendments and the exercise of the conversion rights attaching to the 2008 Convertible Bonds in full	6,278,909.09
<u>2,300,930,053</u>		<u>23,009,300.53</u>

All of the Rights Shares, the Team Sunny Conversion Shares and the 2008 Conversion Shares when allotted, issued and fully paid, will rank *pari passu* in all respect with each other, including, in particular, as to dividends, voting rights and capital, and with all the Shares in issue as at the date of allotment and issue of the Rights Shares, the Team Sunny Conversion Shares and the 2008 Conversion Shares.

The Rights Shares, the Team Sunny Conversion Shares and the 2008 Conversion Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Rights Shares, the Team Sunny Conversion Shares, the 2008 Conversion Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

The Share Option Scheme

As at the Latest Practicable Date, the Company had Outstanding Share Options granted under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 33,199 new Shares, details of which are set out below:

Date of grant	Exercise period	Exercise price	Number of underlying Shares
3 May 2012	30 May 2012 to 29 May 2022	HK\$36.00	33,199

Save for the Outstanding Share Options and the 2008 Convertible Bonds, the Company had no other outstanding warrants, options or convertible securities in issue or other similar rights which confer any right to convert into or subscribe for Shares and there was no share or loan capital of any member of the Group which was under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

a) Interest of Directors in Shares and underlying Shares

As at the Latest Practicable Date, the interests and short positions of Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO) or (ii) were recorded in the register required to be kept under section 352 of the SFO, or (iii) were otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long position in the Shares and underlying Shares

Name of Director	Capacity	Number of underlying Shares held	Approximate percentage of the total issued share capital of the Company (Note 2)
Cheung Wai Yin, Wilson (Note 1)	Beneficial owner Founder of a discretionary trust	55,781 1,000,000,000	0.02% 381.39%

Notes:

1. Mr. Cheung Wai Yin, Wilson (“**Mr. Cheung**”) is the Chairman, an executive Director and the chief executive officer of the Company. As at the Latest Practicable Date, 1,000,000,000 Shares were owned by Ivana Investment Limited (“**Ivana**”) which may fall to be allotted and issued upon the exercise in full of the conversion rights which attached to the 2008 Convertible Bonds (assuming the 2008 CB Terms Amendment having become effective) owned by Ivana, a company incorporated in the British Virgin Islands and wholly owned by CW Limited (“**CW**”), which in turn is wholly owned by Asiatruster Limited (“**Asiatruster**”), a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself). Accordingly, Mr. Cheung is deemed to be interested in the relevant Shares for the purpose of the SFO. Mr. Cheung is also personally interested in 55,781 Shares.

Upon the 2008 CB Transfer Completion, Ivana will either (i) not interested in any 2008 Convertible Bonds if completion of the proposed Rights Issue has taken place; or (ii) interested in a maximum of 500,000,000 2008 Conversion Shares, which will be allotted and issued upon the exercise of the conversion rights attached to the 2008 Convertible Bonds in the principal amount of HK\$55.00 million if the proposed Rights Issue is lapsed (assuming the 2008 CB Terms Amendment having become effective).

2. The percentage of interest is calculated based on 262,200,719 Shares, being the existing total number of issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company have interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, the following persons (not being Directors and chief executive of the Company) had an interest or short position in the Shares, underlying shares or debentures of the Company as recorded in the register required to be kept under section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in the Shares

Name	Capacity	Number of Shares held	Approximate percentage of interest (Note 2)
Team Sunny	Beneficial owner	390,730,000 (Note 1)	149.02%
Wong Hin Shek	Interest in a controlled corporation	390,730,000 (Note 1)	149.02%

Notes:

1. Team Sunny is owned as to 100% by Mr. Wong who is deemed to be interested in 390,730,000 Shares pursuant to the Part XV of the SFO.
2. The percentage of interest is calculated based on 262,200,719 Shares, being the existing total number of issued Shares as at the Latest Practicable Date.

Long position in the underlying Shares of the convertible bonds of the Company:

Name	Capacity	Principal amount of the convertible bonds HK\$	Number of the total underlying Shares	Approximate percentage of total issued share capital of the Company
Team Sunny	Beneficial owner	94,805,651	861,869,554	328.71%
Wong Hin Shek	Interest in a controlled corporation	94,805,651	861,869,554	328.71%
Ivana	Beneficial owner	110,000,000	1,000,000,000	381.39%
CW	Interest in a controlled corporation	110,000,000	1,000,000,000	381.39%
Asiatrust	Trustee	110,000,000	1,000,000,000	381.39%

Note: The percentage of interest is calculated based on 262,200,719 Shares, being the existing total number of issued Shares as at the Latest Practicable Date.

Save as disclosed above and as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any parties (other than a Director or the chief executive of the Company) in the Shares or underlying Shares, which were required (a) to be disclosed under Divisions 2 and 3 of Part XV of the SFO or (b) to be recorded in the register of the Company required to be kept under section 336 of the SFO.

4. DIRECTORS' INTEREST IN ASSETS, CONTRACTS AND ARRANGEMENT OF THE GROUP

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

5. COMPETING INTERESTS

Ms. Tsang Kwai Ping (“**Ms. Tsang**”), an executive Director, is a director of a company incorporated in Hong Kong with limited liability which is principally engaged in the provision of company secretarial services for non-listed Hong Kong companies in Hong Kong (“**HK Co Sec Business**”). Ms. Tsang has irrevocably and unconditionally provided the Company an undertaking in accordance with the terms and conditions under outside interests and non-competition undertaking set out in her service agreement (“**Ms. Tsang Undertaking**”).

Pursuant to Ms. Tsang Undertaking, save for the HK Co Sec Business, (i) without the prior written consent of the Board, Ms. Tsang shall not, and shall procure her close associates not to, whether directly or indirectly, carry on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group (“**Ms. Tsang Restricted Business**”); (ii) if Ms. Tsang and/or any of her close associates is offered or becomes aware of any project or new business opportunity (“**Ms. Tsang New Business Opportunity**”) that relates to the Ms. Tsang Restricted Business, Ms. Tsang shall (a) promptly within ten (10) Business Days notify the Company in writing of such Ms. Tsang New Business Opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such Ms. Tsang New Business Opportunity; and (b) use her best endeavors to procure that such Ms. Tsang New Business Opportunity is offered to the Company on terms no less favorable than the terms on which such Ms. Tsang New Business Opportunity is offered to her and/or her close associates; and (iii) if the Group has not given written notice of its desire to invest in such Ms. Tsang New Business Opportunity or has given written notice denying the Ms. Tsang New Business Opportunity within thirty (30) Business Days of receipt of notice from Ms. Tsang, Ms. Tsang and/or her close associates shall be permitted to invest in or participate in the Ms. Tsang New Business Opportunity on her own record.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Controlling Shareholders or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Company or any member of the Group within one year without payment of compensation (other than statutory compensation)).

7. LITIGATION

On 22 January 2015, the Company received a writ of summons (HCA 170 of 2015) issued in the Court of First Instance of the High Court of Hong Kong (the “**High Court**”) by Mr. Au Kai To Karel, as the plaintiff claiming against (i) End User Technology Limited (“**End User**”), an indirect wholly-owned subsidiary of the Company, as the first defendant; (ii) the Company, as the second defendant; and (iii) Lau Chi Yan Pierre, the then managing Director and executive Director, as the third defendant for, *inter alia*, (1) specific performance of an agreement dated 2 May 2013 in relation to a discloseable transaction of the Company (details of which were disclosed in the announcement of the Company dated 2 May 2013); (2) alternatively, the damages in the sum of HK\$8,000,000 in lieu of specific performance; (3) the interest; (4) further and/or other relief; and (5) the costs.

On 29 September 2017, the Company received a judgement dated 29 September 2017 handed down by the High Court (the “**Judgement**”) ordering, among others, that the Company and End User, to pay, jointly and severally, damages to Mr. Au Kai To Karel in the sum of HK\$4.4 million.

As announced by the Company in its announcement on 14 November 2017, the Company has appealed against the Judgment by way of Notice of Appeal filed on 25 October 2017 with the Court of Appeal (the “**Appeal**”) (CACV 237 of 2017) and has taken steps to seek further legal advice on the Judgement, the Appeal, and other appropriate actions to be taken thereon.

On 13 November 2017, the Company received a petition made by Mr. Au Kai To Karel (the “**Petition**”) in the matter of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the laws of Hong Kong (the “**CWUMPO**”) from the High Court (HCCW 343 of 2017) that the Company may be wound up by the High Court under the provisions of the CWUMPO on the ground that the Company is deemed to be unable to pay the sum of HK\$4.4 million as stipulated therein the Judgement.

On 7 May 2018, upon the Company having paid into court the judgement sum of HK\$4.4 million pursuant to a court order dated 16 April 2018, the Petition was adjourned until the determination of the Appeal.

On 4 January 2019, the Court of Appeal allowed the Company's appeal despite dismissing End User's appeal. Reasons for judgement was handed down on 18 January 2019.

On 20 May 2019, the High Court ordered that the Petition made by Mr. Au Kai To Karel (the “**Petitioner**”) under HCCW 343 of 2017 to wind up the Company be dismissed with costs payable by the Petitioner to the Company. With respect to the HK\$4.4 million payment made by the Company on 7 May 2018, the Court of Appeal will make further direction or determination on a date to be fixed.

For details, please refer to the announcements of the Company dated 22 January 2015, 29 September 2017, 14 November 2017, 22 January 2019 and 21 May 2019.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinions, letters or advices included in this circular:

Name	Qualifications
Messis Capital	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Elite Partners CPA Limited	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with copies of its letter and/or reports and the references to its name included in this circular in the forms and contexts in which they are respectively included. Each of the above experts confirmed that as at the Latest Practicable Date:

- (i) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and
- (ii) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the sale and purchase agreement dated 18 February 2019 entered into between Veda Corporation Limited as vendor and Earning Action Limited (a direct wholly-owned subsidiary of the Company) as purchaser in relation to the sale and purchase of the entire issued share capital in Merdeka Professional Services Limited (previously known as Veda Corporate Services Limited) at an consideration of HK\$8,000,000, which has been settled by the issue of the 2019 PN by the Company, further details of which are set out in the announcements of the Company dated 18 February 2019 and 28 February 2019;
- (ii) the placing agreement dated 12 July 2019 entered into between the Company and the Head & Shoulders Securities Limited in relation to the placing of up to 408,000,000 new shares under general mandate at the price of HK\$0.016 per placing share. Further details of which are set out in the announcements of the Company dated 12 July 2019, 25 July 2019 and 6 August 2019;
- (iii) the Underwriting Agreement (as amended and supplemented by the extension letters dated 31 January 2020, 21 February 2020 and 13 March 2020);
- (iv) the Subscription Agreement (as amended and supplemented by a supplemental agreement dated 20 March 2020);
- (v) the Fourth Supplemental Deed; and
- (vi) the non-legally binding memorandum of understanding dated 20 March 2020 entered into between Joy Sunny Investment Limited, a wholly-owned subsidiary of the Company, as purchaser and two independent third parties as vendors regarding the Group's intention to acquire certain shares of YAS Digital Limited owned by the vendors at a consideration subject to further negotiation by the parties thereto.

10. CORPORATE INFORMATION AND PARTIES TO THE PROPOSED RIGHTS ISSUE

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong	Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong
Company secretary	Ms. Hau Hei Man, Sonya
Compliance officer	Mr. Cheung Wai Yin, Wilson
Authorised representatives	Mr. Cheung Wai Yin, Wilson Ms. Hau Hei Man, Sonya
Principal share registrar and transfer office in the Cayman Islands	SMP Partners (Cayman) Limited Royal Bank House 3rd Floor 24 Shedden Road PO Box 1586 Grand Cayman KY1-1110 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Tricor Tengis Limited Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong Shanghai Pudong Development Bank Co., Ltd 24/F. Bank of America Tower 12 Harcourt Road Central Hong Kong
Reporting accountants	Elite Partners CPA Limited Suites 2B-4A, 20th Floor Tower 5, China Hong Kong City 33 Canton Road Tsim Sha Tsui Kowloon Hong Kong

Legal advisers to the Company in relation to the Rights Issue	<i>As to Hong Kong law</i> Michael Li & Co. 19th Floor Prosperity Tower 39 Queen's Road Central Central Hong Kong <i>As to Cayman Islands law</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Financial adviser to the Company	Merdeka Corporate Finance Limited Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Messis Capital Limited Room 1606, 16th Floor, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Underwriter	Head & Shoulders Securities Limited Room 2511, 25/F Cosco Tower 183 Queen's Road Central Hong Kong

11. EXPENSES

The expenses in connection with the proposed Rights Issue, the Subscription Agreement and the 2008 CB Terms Amendments and the transactions contemplated respectively thereunder, including underwriting commission, financial advisory fees, legal fee, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$4.57 million, which are payable by the Company.

12. DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Address
Executive Directors	
Mr. Cheung Wai Yin, Wilson	Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong
Ms. Tsang Kwai Ping	Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong
Independent non-executive Directors	
Ms. Yeung Mo Sheung, Ann	Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong
Ms. Ng Ka Sim, Casina	Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong
Mr. Wong Wing Kit	Room 1108, 11/F Wing On Centre 111 Connaught Road Central Central, Hong Kong

Executive Directors

Mr. Cheung Wai Yin, Wilson, aged 48, jointed in 2012, is currently an executive Director, the Chairman, the chief executive officer, the compliance officer, a member of each of the Nomination Committee and the Remuneration Committee, an authorised representative under Rule 5.24 of the GEM Listing Rules and an agent for service of process in Hong Kong of the Company. He is also a director of certain relevant subsidiaries of the Company. He holds a Master of Science Degree in Financial Engineering from City University of Hong Kong and bachelor degrees in Arts and Administrative Studies from York University, Canada. Mr. Cheung is a member of the Hong Kong Institute of Certified Public Accountants and Hong Kong Securities and Investment Institute. Mr. Cheung has over 20 years of experience in the field of audit, business development, corporate finance and financial management.

Ms. Tsang Kwai Ping, aged 41, joined in April 2019 as an executive Director. Ms. Tsang was an assistant director of Merdeka Professional Services Limited (formerly known as Veda Corporate Services Limited), a subsidiary of the Group from 2012 to 2018. Ms. Tsang holds a Master Degree in Corporate Governance from The Hong Kong Polytechnic University and a Bachelor Degree in Accountancy from City University of Hong Kong. Ms. Tsang is a member of both of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. She is also an associate member of both of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. She is the company secretary of DeTai New Energy Group Limited (stock code: 559) (“**DeTai**”), a company listed on the main board of the Stock Exchange. She was the chief financial officer of DeTai from 2013 to 2017. Ms. Tsang has extensive experience in accounting, financial management and company secretarial matters.

Independent Non-executive Directors

Ms. Yeung Mo Sheung, Ann, aged 55, joined in 2012 as an independent non-executive Director and is a member of each of the Nomination Committee, the Remuneration Committee and the Audit Committee. She holds a Bachelor Degree of Retail Marketing with honours in the United Kingdom and a Diploma in Marketing from The Chartered Institute of Marketing. She pursued her further study on legal course and has been awarded a Diploma in Legal Practice in the United Kingdom in 1998. She is a solicitor of Messrs. Fung & Fung, Solicitors, a legal firm in Hong Kong. Ms. Yeung is an independent non-executive director of Success Universe Group Limited (stock code: 487), a company listed on the Main Board of the Stock Exchange and E Lighting Group Holdings Limited (stock code: 8222), a company listed on the GEM of the Stock Exchange. Ms. Yeung ceased to act as an independent non-executive director of Trillion Grand Corporate Company Limited (now known as hmvod Limited) (stock code: 8103) in November 2017. Ms Yeung has over 20 years of experience in legal field.

Ms. Ng Ka Sim, Casina, aged 47, joined in May 2019 as an independent non-executive Director and is a member of each of the Nomination Committee, the Remuneration Committee and the Audit Committee. She holds a Bachelor of Business (Accountancy) Degree from Royal Melbourne Institute of Technology. Ms. Ng is a member of both the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Ms. Ng was the chief financial officer and the company secretary of GR Properties Limited (stock code: 108), a company listed on the Main Board of the Stock Exchange from August 2019 to November 2019. She was the group financial controller of Luxey International (Holdings) Limited (stock code: 8041), a company listed on the GEM of the Stock Exchange from 2011 to 2018. Ms. Ng has over 20 years of experience in auditing, accounting and financial management.

Mr. Wong Wing Kit, aged 49, joined in October 2019 as an independent non-executive Director and is a member of each of the Nomination Committee, the Remuneration Committee and the Audit Committee. He holds a Master of Business

Administration Degree from the City University of Hong Kong and a Bachelor of Arts in Accountancy from The Hong Kong Polytechnic University. He is a fellow member of The Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong held senior positions with various local and international institutions. Mr. Wong has over 27 years of experience in auditing, accounting management, financial reporting and analysis and financial system implementation.

Audit committee

The Company has established the Audit Committee with specific written terms of reference formulated in accordance with the requirements of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditor of the Company. As at the Latest Practicable Date, the Audit Committee comprises of three independent non-executive Directors, namely Ms. Yeung Mo Sheung, Ann, Ms. Ng Ka Sim, Casina and Mr. Wong Wing Kit, with at least one of whom has professional qualifications or accounting or related financial management expertise as required in rule 5.05(2) of the GEM Listing Rules.

13. GENERAL

- (i) The English text of this circular shall prevail over the Chinese text in case of inconsistency.
- (ii) The company secretary of the Company is Ms. Hau Hei Man, Sonya, who is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.
- (iii) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (iv) The principal place of business of the Company in Hong Kong is at Room 1108, 11/F, Wing On Centre, 111 Connaught Road Central, Central, Hong Kong.
- (v) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (vi) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside of Hong Kong. Save and except for Renminbi, the Group has no exposure to foreign exchange liabilities.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's head office and principal place of business at Room 1108, 11/F, Wing On Centre, 111 Connaught Road Central, Central, Hong Kong for a period of 14 days from the date of this circular:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for each of the three years ended 31 December 2016, 2017 and 2018;
- (iii) the third quarterly report of the Company for the nine months ended 30 September 2019;
- (iv) the letter from the Independent Board Committee, the text of which is set out from pages 90 to 91 of this circular;
- (v) the letter from the Independent Financial Adviser, the text of which is set out on pages 92 to 133 in this circular;
- (vi) the report from Elite Partners CPA Limited on the unaudited pro forma financial information of the Group upon completion of the Rights Issue, the text of which is set out in Appendix II to this circular;
- (vii) the written consents referred to in the paragraph headed "8. EXPERTS AND CONSENTS" in this Appendix;
- (viii) the material contracts referred to in the paragraph headed "9. MATERIAL CONTRACTS" in this Appendix;
- (ix) the 2008 CB Circulars as defined in the section headed "PROPOSED AMENDMENTS TO THE TERMS OF THE 2008 CONVERTIBLE BONDS"; and
- (x) this circular.



MERDEKA FINANCIAL GROUP LIMITED

領智金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Merdeka Financial Group Limited (the “**Company**”) will be held at 1/F., China Building, 29 Queen’s Road Central, Central, Hong Kong on Thursday, 16 April 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** conditional upon (i) the GEM Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) the Underwriting Agreement (as defined below) becoming unconditional and not being terminated in accordance with its terms:
 - (i) the issue by way of rights (the “**Rights Issue**”) of not less than 1,048,802,876 new shares of HK\$0.01 each (each a “**Share**”) in the share capital of the Company and not more than 1,048,935,672 new Shares (each a “**Rights Share**”) to the Shareholders (the “**Qualifying Shareholders**”) whose names appear on the register of members of the Company on the date by reference to which entitlements to the Rights Issue are to be determined (the “**Record Date**”) (excluding those shareholders (the “**Non-Qualifying Shareholders**”) of the Company with registered addresses as shown in the register of members of the Company at the close of business on the Record Date in places outside Hong Kong in respect of whom the board (the “**Board**”) of directors (the “**Directors**”) of the Company consider it necessary or expedient not to offer the Rights Shares after making the relevant enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory body or stock exchange in those places), in the proportion of four (4) Rights Shares for every one (1) existing Share held on the Record Date at the subscription price of HK\$0.110 per Rights Share be and is hereby approved;

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- (ii) the underwriting agreement (the “**Underwriting Agreement**”) dated 10 January 2020 (as amended and supplemented by the extension letters dated 31 January 2020, 21 February 2020 and 13 March 2020) and entered into among the Company and Head & Shoulders Securities Limited (a copy of the Underwriting Agreement has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (iii) the Board or a committee thereof be and is hereby authorised to allot and issue the Rights Shares (in both nil-paid form and fully-paid form) pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to Non-Qualifying Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company; and
- (iv) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.”

2. “**THAT**

- (i) the conditional subscription agreement (the “**Subscription Agreement**”) dated 10 January 2020 (as amended and supplemented by the supplemental agreement dated 20 March 2020) and entered into between the Company and Team Sunny International Holdings Limited (“**Team Sunny**”), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Wong Hin Shek (“**Mr. Wong**”), in relation to the subscription of the convertible bonds in an aggregate principal amount of HK\$39,805,651 to be issued by the Company (the “**Team Sunny Convertible Bonds**”) entitling the holder thereof to convert the principal amount into new Shares (the “**Team Sunny Conversion Shares**”) at the conversion price of HK\$0.110 per Share (subject to adjustments) (the “**Team Sunny Conversion Price**”) pursuant to the terms and conditions of the Subscription Agreement (as amended and supplemented) (a copy of the Subscription Agreement (as amended and supplemented) has been produced to Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

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- (ii) the issue of the Team Sunny Convertible Bonds in an aggregate principal amount of HK\$39,805,651 by the Company to Team Sunny for the settlement of outstanding debt due from the Company to Mr. Wong of HK\$39,805,651 be and is hereby approved, confirmed and ratified;
- (iii) subject to the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Team Sunny Conversion Shares to be allotted and issued, the Directors be and are hereby granted a specific mandate to allot and issue the Team Sunny Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Team Sunny Convertible Bonds by Team Sunny pursuant to the terms and conditions of the Team Sunny Convertible Bonds (the “**Team Sunny Specific Mandate**”); and
- (iv) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Subscription Agreement, the issue of the Team Sunny Convertible Bonds and the allotment and issue of the Team Sunny Conversion Shares and the transactions contemplated thereunder.”

3. “**THAT**

- (i) the supplemental deed (the “**Fourth Supplemental Deed**”) dated 10 January 2020 and entered into between the Company and the holders (the “**CB Holders**”) of the zero coupon convertible bonds due 2020 issued by the Company on 12 August 2008 (the “**2008 Convertible Bonds**”) in respect of the amendments of (a) the proposed extension of the maturity date of the 2008 Convertible Bonds for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the proposed revision of the conversion price of the 2008 Convertible Bonds from HK\$0.95 per Share to HK\$0.110 per Share (the “**2008 CB Terms Amendments**”) (a copy of the Fourth Supplemental Deed has been produced to Meeting marked “C” and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) subject to the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares to be allotted and issued by the Company upon the exercise of the conversion rights attached to the 2008 Convertible Bonds by the CB Holders (the “**2008 Conversion Shares**”), the Directors be and are hereby granted a specific mandate to allot and issue the 2008 Conversion Shares pursuant to the terms and conditions of the 2008 Convertible Bonds (as amended by the Fourth Supplemental Deed) (the “**2008 CB Specific Mandate**”); and

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- (iii) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Fourth Supplemental Deed and the allotment and issue of the 2008 Conversion Shares and the transactions contemplated thereunder.”

By order of the Board
MERDEKA FINANCIAL GROUP LIMITED
Cheung Wai Yin, Wilson
Chairman and Chief Executive Officer

Hong Kong, 27 March 2020

Notes:

- (1) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxies (if a member who is the holder of two or more shares of the Company) to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (i.e. 11:00 a.m. on Tuesday, 14 April 2020). Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting, and in such event the instrument appointing a proxy shall be deemed to be revoked.
- (3) The register of members of the Company will be closed from Wednesday, 8 April 2020 to Thursday, 16 April 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance of the Meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 7 April 2020.
- (4) In the case of joint holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto. However, if more than one of such joint holders be present at the Meeting personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (5) The Meeting is expected to last for less than half a day. Members (in person or by proxy) attending the Meeting are responsible for their own transportation and accommodation expenses. Members or their proxies attending the Meeting shall present their identity certifications.

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- (6) If Typhoon Signal No. 8 or above is expected to be hoisted or a Black Rainstorm Warning Signal or “extreme conditions” caused by a super typhoon is expected to be in force any time after 7:30 a.m. on the date of the Meeting, then the Meeting will be adjourned. The Company will post an announcement on the website of the Company at <http://www.merdeka.com.hk> and GEM website at <http://www.hkgem.com> to notify shareholders of the date, time and place of the adjourned meeting. The Meeting will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force. Members of the Company should decide on their own whether they would attend the Meeting under bad weather condition bearing in mind their own situations.
- (7) Regarding the recent outbreak of novel coronavirus in China, the Board will assess the impact of the outbreak of novel coronavirus in the local community, the disruption of the travel arrangement of the Shareholders and delivery of the proxy forms between China and Hong Kong and whether or not it is necessary to adjourn the EGM. If necessary, the Company will post an announcement on the website of the Company at <http://www.merdeka.com.hk> and GEM website at <http://www.hkgem.com> as soon as practicable to notify members of the Company of the date, time and place of the adjourned meeting. Any adjourned meeting will be held in Hong Kong.
- (8) As at the date of this notice, the executive Directors are Mr. Cheung Wai Yin, Wilson (Chairman and Chief Executive Officer) and Ms. Tsang Kwai Ping; the independent non-executive Directors are Ms. Yeung Mo Sheung, Ann, Ms. Ng Ka Sim, Casina and Mr. Wong Wing Kit.