

17 July 2024

*To the Independent Board Committee and the Independent Shareholders*

Madison Holdings Group Limited  
Units 26-28, 8/F  
One Island South  
2 Heung Yip Road  
Wong Chuk Hang, Hong Kong

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF 38% EQUITY INTERESTS IN  
HACKETT ENTERPRISES LIMITED**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 17 July 2024 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 28 May 2024 (after trading hours of the Stock Exchange), the Company as the Vendor, the Purchaser and Mr. Ting, as the Purchaser’s guarantor, entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing 38% equity interests in the Disposal Company for a total consideration of HK\$56.4 million. Upon Completion, the Disposal Company will be owned as to 39% by the Company, 38% by the Purchaser, 18% by Apex Treasure International Limited and 5% by Atlantis China Star Fund Limited. Upon Completion, the Disposal Company shall remain to be a subsidiary of the Company and the financial information of the Disposal Group will continue to be consolidated into the consolidated financial statements of the Group.

As one or more of the applicable percentage ratio(s) (as defined under the GEM Listing Rules) in respect of the Disposal is more than 25% but all of the percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company which is subject to the notification, announcement and circular requirements under Chapter 19 of the GEM Listing Rules.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, (i) the Purchaser is wholly and beneficially owned by Mr. Ting; and (ii) Mr. Ting is a controlling shareholder of the Company. Hence, the Disposal constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules which is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements thereunder.

As at the Latest Practicable Date, an aggregate of 259,093,893 Shares, representing approximately 41.58% of the total issued share capital of the Company, were held by (i) Royal Spectrum which was beneficially interested in 195,920,000 Shares; (ii) the Purchaser which was beneficially interested in 50,487,272 Shares; (iii) Mr. Ting who was beneficially interested in 10,193,243 Shares; (iv) Kaiser Capital which was beneficially interested in 1,217,200 Shares; (v) Highgrade Holding which was beneficially interested in 1,067,200 Shares; and (vi) Plan Marvel which was beneficially interested in 208,978 Shares. As (i) Mr. Ting is the Purchaser's guarantor under the Sale and Purchase Agreement; (ii) the entire issued share capital in Royal Spectrum is legally and beneficially owned as to 3.37% by Mr. Zhu Qin and 96.63% by Devoss Global Holdings Limited, which was in turn wholly and beneficially owned by Mr. Ting; and (iii) each of the Purchaser, Kaiser Capital, Highgrade Holding and Plan Marvel is wholly and beneficially owned by Mr. Ting, each of the above and their respective associates are considered to have material interest in the Disposal, and are required to abstain from voting on the resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder or any of their associates has a material interest in the Sale and Purchase Agreement and is required to abstain from voting at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Chu Kin Wang Peleus, Dr. Lau Reimer, Mary Jean and Mr. Zhou Li, has been formed to advise the Independent Shareholders on (i) whether the entering into of the Sale and Purchase Agreement is conducted in the ordinary and usual course of business of the Group; and (ii) whether the terms of the Sale and Purchase Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, the Purchaser, Mr. Ting or the Disposal Company that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement or connection between the Group, the Purchaser, Mr. Ting or the Disposal Company and us other than this appointment concerning the Disposal. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Disposal. Accordingly, we are independent from the Company pursuant to the requirements under Rule 17.96 of the GEM Listing Rules and are qualified to give independent advice in respect of the Disposal.

### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available and corroborated and substantiated any public information referred to in this letter to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Disposal Company or any of their respective substantial shareholders, subsidiaries or associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder are fair and reasonable, we have taken into account the principal factors and reasons set out below:

### 1. Information on the Group

The Group is principally engaged in (i) the retail sales and wholesales of a wide spectrum of wine products and other alcoholic beverages in Hong Kong with a focus on red wine; (ii) the provision of loan financing and consultancy services; and (iii) the provision of financial services.

Set out below is a summary of the consolidated financial information of the Group for the three years ended 31 March 2024 as extracted from the Company's annual reports for the year ended 31 March 2023 and 2024:

#### (i) Financial performance

	For the year ended 31 March		
	2022	2023	2024
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
<b>Continuing operations</b>			
<b>Revenue</b>	<b>130,492</b>	<b>97,174</b>	<b>68,087</b>
– Sales of alcoholic beverages	65,434	39,896	21,921
– Loan financing services	65,058	57,278	46,166
<b>Gross profit</b>	<b>77,815</b>	<b>66,393</b>	<b>51,543</b>
Other income	18,717	20,144	15,031
Staff costs	(33,933)	(33,388)	(31,662)
Depreciation	(5,936)	(5,197)	(4,179)
Administrative and other operating expenses	(16,345)	(12,345)	(8,563)
Change in fair value of financial assets at fair value through profit or loss	508	713	664
Change in fair value of derivative financial instruments	6,974	13,638	660

	For the year ended 31 March		
	2022	2023	2024
	HK\$'000	HK\$'000	HK\$'000
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Net impairment recognised on loan and interest receivables	(35,566)	(19,902)	(29,775)
Finance costs	(27,549)	(20,569)	(13,481)
<b>(Loss)/profit before tax</b>	<b>(15,315)</b>	<b>9,487</b>	<b>(19,762)</b>
Income tax (expense)/credit	(617)	(10,914)	1,972
<b>Loss attributable to the Shareholders</b>	<b>(15,367)</b>	<b>(2,211)</b>	<b>(16,217)</b>

*The year ended 31 March 2024 compared to the year ended 31 March 2023*

Revenue of the Group decreased by approximately 29.9% from approximately HK\$97.2 million for the year ended 31 March 2023 to approximately HK\$68.1 million for the year ended 31 March 2024. Such decrease was primarily attributable to (a) the decrease in revenue from the sales of alcoholic beverages by approximately 45.1% because the investment atmosphere appeared to be pessimistic during the year so that the demand for wine decreased, especially for those premium wines which were purchased mainly for collection purpose; and (b) the decrease in revenue from the loan financing services by approximately 19.4% as the Group has been prudent in granting new loans in light of the prevailing economic conditions in Hong Kong and the PRC, which decreased the Group's average loan portfolio.

In line with the decrease in revenue, gross profit of the Group decreased by approximately 22.4% from approximately HK\$66.4 million for the year ended 31 March 2023 to approximately HK\$51.5 million for the year ended 31 March 2024.

The Group recorded an increase in loss attributable to the Shareholders by approximately 633.5% from approximately HK\$2.2 million for the year ended 31 March 2023 to approximately HK\$16.2 million for the year ended 31 March 2024, which was primarily attributable to (a) the decrease in revenue and gross profit as mentioned above; (b) the decrease in other income by approximately HK\$5.1 million mainly due to the decrease in the gain on deemed disposal of right-of-use assets and there is no gain on disposal of a subsidiary recorded for the year; (c) the decrease in the change in fair value of derivative financial instruments by approximately HK\$13.0 million; and (d) the increase in net impairment recognised on loan and interest receivables by approximately HK\$9.9 million.

*The year ended 31 March 2023 compared to the year ended 31 March 2022*

Revenue of the Group decreased by approximately 25.5% from approximately HK\$130.5 million for the year ended 31 March 2022 to approximately HK\$97.2 million for the year ended 31 March 2023. Such decrease was primarily attributable to (a) the decrease in revenue from the sales of alcoholic beverages by approximately 39.0% mainly due to the lockdown measures imposed on certain major cities in the PRC. Therefore, some wholesale customers deferred their purchase plans as they encountered logistics problems in delivering the wines to the ultimate customers in the PRC. Besides, the economy of Hong Kong and the PRC both suffered a setback due to the COVID-19 pandemic and some customers cancelled their orders as less business activities are expected to be carried out; and (b) the decrease in revenue from the loan financing services by approximately 12.0% as the Group has been prudent in granting new loans in light of the prevailing economic conditions in Hong Kong and the PRC, which decreased the Group's average loan portfolio.

In line with the decrease in revenue, gross profit of the Group decreased by approximately 14.7% from approximately HK\$77.8 million for the year ended 31 March 2022 to approximately HK\$66.4 million for the year ended 31 March 2023.

The Group's loss attributable to the Shareholders amounted to approximately HK\$2.2 million for the year ended 31 March 2023, representing a significant decrease of approximately 85.6% from approximately HK\$15.4 million for the year ended 31 March 2022. The decrease was primarily attributable to (a) the increase in fair value gain of derivative financial instruments by approximately HK\$6.7 million; (b) the decrease in net impairment recognised on loan and interest receivables by approximately HK\$15.7 million as a result of the Group's strategy of being prudent in granting new loans and closely monitoring the recoverability of its loan portfolio; and (c) the decrease in finance costs by approximately HK\$7.0 million because of the expiration of the Group's promissory notes payables and convertible bonds, which was partially offset by (a) the decrease in revenue and gross profit as mentioned above; and (b) the increase in income tax expense by approximately HK\$10.3 million.

(ii) *Financial position*

	As at 31 March		
	2022	2023	2024
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
<b>Non-current assets,</b>			
<b>including:</b>	<b>63,928</b>	<b>58,237</b>	<b>51,596</b>
Loan receivables	21,288	29,456	28,854
Right-of-use assets	5,307	7,932	5,465
Deferred tax asset	13,665	4,116	5,596
Goodwill	9,028	9,028	9,028
<b>Current assets,</b>			
<b>including:</b>	<b>554,594</b>	<b>374,041</b>	<b>299,212</b>
Loan and interest receivables	374,254	257,398	235,855
Trade and other receivables	109,931	26,810	19,367
Bank balances and cash	49,738	72,911	34,435
<b>Total assets</b>	<b>618,522</b>	<b>432,278</b>	<b>350,808</b>
<b>Current liabilities,</b>			
<b>including:</b>	<b>431,847</b>	<b>276,740</b>	<b>235,464</b>
Amount due to a shareholder	18,286	110,525	107,366
Loan from a non-controlling shareholder	96,450	80,838	75,654
Borrowings	44,992	39,992	24,992
Promissory notes payables	65,595	–	–
Convertible bonds	145,596	–	–
<b>Non-current liabilities</b>	<b>10,408</b>	<b>5,965</b>	<b>2,060</b>
<b>Total liabilities</b>	<b>442,255</b>	<b>282,705</b>	<b>237,524</b>
<b>Equity/(deficit) attributable to the Shareholders</b>	<b>3,527</b>	<b>(12,418)</b>	<b>(38,875)</b>

As at 31 March 2024, total assets of the Group amounted to approximately HK\$350.8 million, which mainly consisted of (a) loan and interest receivables of approximately HK\$264.7 million, representing the loans provided by the Group to its customers; (b) trade and other receivables of approximately HK\$19.4 million; and (c) bank balances and cash of approximately HK\$34.4 million.

As at 31 March 2024, total liabilities of the Group amounted to approximately HK\$237.5 million, which mainly consisted of (a) amount due to a shareholder of approximately HK\$107.4 million which was unsecured, non-interest bearing and repayable on demand; (b) loan from a non-controlling shareholder of approximately HK\$75.7 million which carried fixed interest rate of 4% per annum and was guaranteed by Mr. Ting and repayable within one year; and (c) borrowings of approximately HK\$25.0 million which carried interest at 12.0% per annum and was secured by the Company's interest in the 77.0% of the entire issued share capital of the Disposal Company and personal guarantee provided by Mr. Ting and repayable on demand. As advised by the management of the Group, the Disposal will not affect the guarantee of such borrowings.

As at 31 March 2024, the Group had net current assets of approximately HK\$63.7 million and deficit attributable to the Shareholders of approximately HK\$38.9 million.

*(iii) Overall comment*

Total revenue of the Group deteriorated over the years under review primarily attributable to that (a) the Group has been prudent in granting new loans in light of the prevailing economic conditions in Hong Kong and the PRC which decreased the Group's average loan portfolio; and (b) the decrease in demand for wine under the current pessimistic investment atmosphere. As advised by the management of the Group, despite the cancellation of the relevant epidemic control policies, the economy of Hong Kong and the PRC has not recovered as expected. Since the Group's businesses are closely related to the overall economic recovery, the Board anticipates that additional time is needed for getting the Group's operations on track. In addition, as at 31 March 2024, the Group was in a highly leveraged financial position, having total debt (being the sum of amount due to a shareholder, loan from a non-controlling shareholder and borrowings) amounting to approximately HK\$208.0 million. Accordingly, the Group was obligated to pay a large amount of finance costs over the years under review which has worsened its financial performance. Against this backdrop, we consider it is reasonable for the Group to review its existing business portfolio from time to time as well as tightening its cost control measures, so as to improve the financial performance.



## **2. Information on the Purchaser and Mr. Ting**

The Purchaser is a company established in the British Virgin Islands with limited liability and is an investment holding company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser is wholly and beneficially owned by Mr. Ting as at the Latest Practicable Date.

Mr. Ting is a merchant and a controlling shareholder of the Company who is interested in 259,093,893 Shares, representing approximately 41.58% of the issued share capital of the Company as at the Latest Practicable Date, of which (i) 195,920,000 Shares are beneficially owned by Royal Spectrum; (ii) 50,487,272 Shares are beneficially owned by the Purchaser; (iii) 10,193,243 Shares are beneficially owned Mr. Ting; (iv) 1,217,200 Shares are beneficially owned by Kaiser Capital; (v) 1,067,200 Shares are beneficially owned by Highgrade Holding; and (vi) 208,978 Shares are beneficially owned by Plan Marvel.

As (i) the entire issued share capital in Royal Spectrum is legally and beneficially owned as to 3.37% by Mr. Zhu Qin and 96.63% by Devoss Global Holdings Limited, which was in turn wholly and beneficially owned by Mr. Ting; and (ii) each of the Purchaser, Kaiser Capital, Highgrade Holding and Plan Marvel is wholly and beneficially owned by Mr. Ting, Mr. Ting is deemed, or taken to be interested in the Shares held by each of Royal Spectrum, the Purchaser, Kaiser Capital, Highgrade Holding and Plan Marvel by virtue of the SFO.

## **3. Information on the Disposal Group**

The Disposal Company is a company established in the Republic of Seychelles with limited liability. As at the Latest Practicable Date, the Disposal Company is owned as to 77% by the Company, 18% by Apex Treasure International Limited and 5% by Atlantis China Star Fund Limited. It is an investment holding company.

The Disposal Group is principally engaged in the provision of loan financing and consultancy services in the PRC and Hong Kong with its majority of revenue generated from the PRC.

Set out below is the summary of (i) the audited consolidated financial information of the Disposal Group for the years ended 31 March 2022 and 2023 as extracted from the audited report of the Disposal Group for the year ended 31 March 2023; and (ii) the unaudited consolidated financial information of the Disposal Group for the year ended 31 March 2024 as extracted from the unaudited management accounts of the Disposal Group for the year ended 31 March 2024:

	<b>For the year ended 31 March</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>HK\$'000</i> <i>(unaudited)</i>
Revenue	44,935	43,976	41,227
Profit/(loss) before taxation	5,406	12,983	(3,120)
Profit/(loss) after taxation	5,101	3,489	(956)

As advised by the management of the Group, the Disposal Group recorded a change from profit after taxation of approximately RMB3.5 million (equivalent to approximately HK\$3.9 million) for the year ended 31 March 2023 to loss after taxation of approximately HK\$1.0 million for the year ended 31 March 2024, primarily attributable to the increase in net impairment on loan and interest receivables by approximately HK\$9.7 million due to the fact that a restructuring plan on a corporate borrower of the Disposal Group has been approved by the court in the PRC during the year so that the Disposal Group has recognised an impairment on the relevant loan.

As at 31 March 2024, the unaudited total assets and equity attributable to its shareholders of the Disposal Group amounted to approximately HK\$495.4 million and HK\$300.8 million, respectively.

#### **4. Reasons for and benefits of the Disposal**

As discussed in the section headed "1. Information on the Group" above, the Group has been facing heavy interest burden from borrowings and loan from a non-controlling shareholder, which have deteriorated the Group's financial performance over the periods under review. As at 31 March 2024, the Group was in a highly leveraged financial position, having total debt (being the sum of amount due to a shareholder, loan from a non-controlling shareholder and borrowings) of approximately HK\$208.0 million, all of which were repayable within one year or on demand, and carries interest rate ranged from nil to 12% per annum. On the other hand, as at 31 March 2024, the Group only had bank balances and cash of approximately HK\$34.4 million, which were insufficient to cover the total amount of debt. In light of the uncertainties of the economy of Hong Kong and the PRC which is closely related to the Group's businesses as well as the net loss and highly leveraged position of the Group, it is conceivable that the Group would have difficulty in satisfying its short-term liabilities with its limited existing financial resources.

With reference to the Letter from the Board, the Board has considered other debt/equity fundraising methods such as debt financing, placement of Shares to independent third parties, rights issue and open offer. In respect of debt financing, the Board is of the view that debt financing would result in additional finance costs and increase the Group's liabilities burden. While additional debt financing will increase the Group's gearing ratio, it will also increase the ongoing interest expenses of the Group, which may in turn affect the profitability of the Company.

For equity fundraising exercises (such as placement of the Shares to independent third parties, rights issue and/or open offer), placing of new Shares would expose the Shareholders to the dilution of their shareholdings and the Company would inevitably incur additional costs in placing commission payable to the placing agent. Further, rights issue or open offer will involve the issue of listing documents and other application and administrative procedures, and would incur additional administrative costs, higher costs of hiring professional parties and possible underwriting expenses.

In this regard, we concur with the Directors that the Disposal is a better option as compared to the above equity/debt fundraising exercises, and the Disposal and the Set-off will enable the Group to repay part of the Loan which does not require substantial cash outflow, and could reduce the Company's gearing level and strengthen its financial position.

The Disposal Group is principally engaged in the provision of loan financing and consultancy services in the PRC and Hong Kong, which is one of the Group's principal business. With reference to the Letter from the Board, the Company's control to the Disposal Company will remain unchanged upon Completion and the Disposal Company will continue to be consolidated in the consolidation as a non-wholly owned subsidiary of the Company. It is expected that the Disposal will not result in any material gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income.

With reference to the Letter from the Board, the Company first acquired 52% of the entire issued share capital of the Disposal Company on 20 November 2018 for a total consideration of HK\$462.8 million, the completion of which took place on 29 March 2019. Following completion of the Acquisition, the business of the Disposal Group was negatively impacted by the global outbreak of the novel coronavirus disease and the anti-pandemic restrictions and policies which resulted in sluggish recovery of the economy of Hong Kong and the PRC. The Disposal Group recorded increases in bad debts in respect of the loan receivables for the two years ended 31 March 2022, thereby the management of the Disposal Company has been prudent in granting new loans to minimise credit risks. Therefore, the weighted-average loan portfolio of the Disposal Company decreased by approximately 44.6% from

approximately HK\$533.6 million for the year ended 31 March 2020 to approximately HK\$295.4 million for the year ended 31 March 2024, and the revenue of the Disposal Company decreased by approximately 46.6% from approximately HK\$86.5 million for the year ended 31 March 2020 to approximately HK\$46.2 million for the year ended 31 March 2024. For the year ended 31 March 2024, the Disposal Company had a weighted-average loan portfolio of approximately HK\$295.4 million, representing a decrease of approximately 21.2% as compared to 2023, and recorded a revenue of approximately HK\$46.2 million, representing a decrease of approximately 19.4% as compared to 2023. In view of (i) the worsening of the financial performance of the Disposal Group since the completion of the Acquisition; and (ii) the fact that the Consideration is made with reference to the independent valuation which was fairly and reasonably determined by the Valuer (as defined below), we consider it is reasonable that the Consideration is less than that of the Acquisition.

Taking into account that (i) the Disposal represents an opportunity for the Group to settle part of the Loan without imposing any substantial cash outflow so as to reduce its debt level and strengthen its financial position; (ii) the severe shortage of cash and working capital for the repayment of the indebtedness of the Group; (iii) the loss-making performance of the Disposal Group for the year ended 31 March 2024; and (iv) the Disposal will not have any material adverse impact on the Company's ability to maintain its business at a viable and sustainable level, we consider that the Disposal, although is not conducted in the ordinary and usual course of business of the Group, is fair and reasonable and in the interest of the Company and Shareholders as a whole.

## **5. Principal terms of the Sale and Purchase Agreement**

Set out below is a summary of the principal terms of the Sale and Purchase Agreement. Independent Shareholders are advised to read further details of the Sale and Purchase Agreement as disclosed in the Letter from the Board:

- |                |   |                                                                                                                              |
|----------------|---|------------------------------------------------------------------------------------------------------------------------------|
| <b>Date</b>    | : | 28 May 2024                                                                                                                  |
| <b>Parties</b> | : | (i) the Company, as the Vendor;<br>(ii) the Purchaser, as the Purchaser; and<br>(iii) Mr. Ting, as the Purchaser's guarantor |

- Asset to be disposed of** : Pursuant to the terms and conditions of the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing 38% equity interests in the Disposal Company.
- As at the Latest Practicable Date, the Disposal Company is owned as to 77% by the Company, 18% by Apex Treasure International Limited and 5% by Atlantis China Star Fund Limited.
- Consideration** : The Consideration for the sale and purchase of the Sale Shares is HK\$56.4 million, which shall be settled by the Purchaser upon Completion.
- As at the Latest Practicable Date, the Company is indebted to Mr. Ting in the sum of approximately HK\$107.3 million (i.e. the Loan). Pursuant to the Sale and Purchase Agreement, the Company, the Purchaser and Mr. Ting have agreed that the Consideration payable by the Purchaser shall be settled by way of set-off against the Loan. Payment of the Consideration shall be effected by the Purchaser, as directed by the Company, directly towards setting off the same amount due by the Company to Mr. Ting under the Loan in the sum of HK\$56.4 million on a dollar to dollar basis and such payment shall constitute a full and complete discharge of the Purchaser's obligations to pay the Consideration (i.e. the Set-off).
- Basis of Consideration** : The Consideration was determined after arm's length negotiations between the Company and the Purchaser on normal commercial terms, with reference to the appraised value of 38% equity interests in the Disposal Company as at 31 March 2024 of approximately HK\$56.4 million based on the market approach prepared by an independent valuer and other factors as set out in the section headed "Reasons for and benefits of the Disposal" in the Letter from the Board.

- Conditions precedent** : Completion of the Sale and Purchase Agreement is conditional, among others, upon the approval of the transactions contemplated under the Sale and Purchase Agreement by the Independent Shareholders at the EGM in accordance with the GEM Listing Rules.
- Undertaking by the Purchaser** : At any time after Completion, should the Purchaser exercise its rights as a shareholder of the Disposal Company to nominate any person(s) to be appointed as director(s) of the Disposal Company, the Purchaser irrevocably and unconditionally undertakes that it shall exercise such right in such manner as directed by the Vendor.
- Guarantee** : Mr. Ting has provided an unconditional and irrevocable guarantee for the due and punctual payment and performance of the Purchaser's payment obligations under the Sale and Purchase Agreement and the due and punctual performance and observance by the Purchaser of all of its other obligations contained thereunder.
- Completion** : Completion shall take place on the third Business Days after the fulfilment of all the conditions precedent of the Sale and Purchase Agreement.

Upon Completion, the Disposal Company will be owned as to 39% by the Company, 38% by the Purchaser, 18% by Apex Treasure International Limited and 5% by Atlantis China Star Fund Limited.

Upon Completion, the Purchaser and Mr. Ting shall give an Irrevocable Undertaking in favour of the Company that the Purchaser shall unconditionally and irrevocably vest to the Company, and Mr. Ting shall procure the Purchaser to unconditionally and irrevocably vest to the Company, among others, all of the voting rights enjoyed by the Purchaser in respect of its equity interests in the Disposal Company from time to time and the Purchaser's right to nominate director(s) of the Disposal Company (if applicable).

As disclosed in the announcement of the Company dated 4 June 2024, the Company received a letter from the legal representative of Apex Treasure International Limited (“Apex”), being one of the shareholders of the Disposal Company, in relation to the Company’s alleged breach (the “**Alleged Breach**”) of the Shareholders’ Agreement. It was alleged that the Company failed to issue a transfer notice to Apex thereby depriving Apex of its opportunity to exercise the right of first refusal or the right of co-sale under the Shareholders Agreement. The Company denies that there has been a breach of the Shareholders Agreement as alleged. In fact, the Company has formally issued a notice in writing to Apex in respect of the Disposal in late April 2024, and thus, the Board is of the view that the above allegation was unfounded. As at the Latest Practicable Date, the Company is in the course of seeking advice from its legal advisers in relation to the foregoing matter.

The Company considers that there are risks that Apex may commence legal action against the Company and/or the Disposal Company and seek for damages or specific performance on the Shareholders Agreement. Should any arbitration, litigation or legal proceedings (collectively, the “**Legal Proceedings**”) in connection with the Alleged Breach arise, certain condition(s) precedent, namely conditions (i) and (iv) as set out in the paragraph headed “The Sale and Purchase Agreement – Conditions precedent” in the Letter from the Board, may not be fulfilled, resulting in a delay in Completion or non-completion of the Disposal.

As at the Latest Practicable Date, should any Legal Proceedings arise, the Purchaser intended to waive the conditions (i) and (iv) abovementioned. Notwithstanding any Legal Proceedings that may arise and assuming the Purchaser having waived the abovementioned conditions (i) and (iv), Completion will take place after the fulfilment or waiver (as the case may be) of all conditions precedent as set out in the Sale and Purchase Agreement. In the event that the outcome of the Legal Proceedings is unfavourable to the Company, the Company may be liable for the relief or award granted by the relevant adjudicator. As at the Latest Practicable Date, the Company is in the course of seeking legal advice from its legal advisers in respect of the potential consequences of the Legal Proceedings.

Taking into account that the Alleged Breach was unfounded, we consider that the possible legal proceeding shall not affect our analysis regarding the fairness and reasonableness of the terms of the Sale and Purchase Agreement.

## **6. Valuation of the Disposal Group**

As stated in the Letter from the Board, the Consideration was arrived at after arm’s length negotiations between the Company and the Purchaser on normal commercial terms with reference to, among others, the appraised value of 38% equity interests in the Disposal Company as at 31 March 2024 of approximately HK\$56.4 million (the “**Valuation**”) as appraised by BonVision International Appraisals Limited, an independent valuer (the “**Valuer**”) adopting the market approach (the “**Valuation Report**”). The full text of the Valuation Report is set out in Appendix II to the Circular, and the Independent Shareholders are recommended to read in full.

In assessing the fairness and reasonableness of the Valuation, we have taken into the following factors:

*(i) The qualification and scope of work of the Valuer*

We have conducted an interview with the Valuer to enquire to their qualification and experience in valuing similar companies in the PRC and Hong Kong and their independence. In our review of the engagement letter between the Company and the Valuer and other relevant information provided by the Valuer, we noted that the Valuer is a qualified asset appraisal firm to perform valuation works, and the responsible persons of the Valuer have 15 years of experience in conducting valuation and possess sufficient qualifications and experience in valuing similar businesses in the PRC. We have also enquired with the Valuer as to their independence, and were given to understand that the Valuer is independent of the Group, the Purchaser, Mr. Ting and the Disposal Group. The Valuer confirmed that they were not aware of any relationship or interest between themselves and the Group, the Purchaser, Mr. Ting and the Disposal Group or any other parties that would reasonably be considered to affect their independence to act as the independent valuer for the Company. The Valuer also confirmed that apart from normal professional fees paid or payable to them in connection with their appointment as the Valuer, no other arrangements exist whereby they will receive any fees or benefits from the Group, the Purchaser, Mr. Ting or the Disposal Group. We have also reviewed the terms of engagement of the Valuer, in particular in relation to their scope of work. We noted that their scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report. We have also performed work as required under note (1)(d) to Rule 17.92 of the GEM Listing Rule in relation to the Valuer and its work as regards the Valuation. Based on the above, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of the Valuer is appropriate. We therefore consider it appropriate to rely on their work and opinion.



*(ii) Valuation methodologies*

We have reviewed the Valuation Report and discussed with the Valuer the methodologies, bases and assumptions adopted in arriving at the Valuation. We understood that the Valuer has considered three generally accepted approaches, namely, market approach, income approach and asset-based approach and adopted the market approach in the Valuation due to the following considerations:

- (a) the selection of the valuation approach in valuing the Disposal Group is based on, among other criteria, the merits and limitations of each of the aforesaid valuation methodologies, the quantity and quality of the information provided, accessibility to available data, availability of relevant market information, the operation, business nature, financial performance and financial position of the Disposal Group, professional judgment and technical expertise;
- (b) income approach is not considered because it requires significant level of unobservable and subjective assumptions to be made to arrive at, among others, detailed operational information and long-term financial projections, to which the valuation is highly dependent on the financial projection of the Disposal Group prepared by the management of the Group;
- (c) asset-based approach is not considered because it considers the cost to reproduce or replace the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history. However, it fails to consider the economic benefits generated by the Disposal Group, and therefore, could not accurately reflect the market value of the Disposal Group; and
- (d) market approach is considered because it reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public information in similar nature and business to that of the Disposal Group, their market values are good indicators of the industry of money lending.

We have also performed independent research on recent circulars published by companies listed on the Stock Exchange from 1 January 2024 to the date of the Sale and Purchase Agreement (being approximately five months before the date of the Sale and Purchase Agreement) in relation to the acquisition or disposal of equity interests in financial companies, for which the consideration was determined with reference to independent valuations. We have, on a best effort basis, identified an exhaustive list of four comparable acquisition or disposal transactions (the “**Comparable Transactions**”). We believe this research can serve to cross-check the latest market practice in conducting valuation for transactions similar to that of the Disposal as they similarly involve valuation of equity interests. We consider such selection criteria is appropriate and sufficient as (a) it enables us to identify transactions with similar nature (i.e. acquisition or disposal of equity interests for which the consideration was determined with reference to independent valuations) as the Disposal on target companies with similar business (i.e. the provision of financial services) as the Disposal Group; (b) it has captured the recent market practice under the prevailing market conditions in Hong Kong; and (c) it provides a sufficient sample for comparison with the Disposal. Taking into account that all of the Comparable Transactions fit the aforesaid selection criteria and the details of the Comparable Transactions are publicly disclosed on the website of the Stock Exchange, we consider the Comparable Transactions to be fair and representative.

The details of the Comparable Transactions are set out below:

Date of circular	Company name (stock code)	Subject of valuation	Principal business of target company	Valuation approach
5 March 2024	AGTech Holdings Limited (8279.HK)	Ant Bank (Macao) Limited	Principally engaged in digital banking business including (a) mobile payment services; (b) financial banking services; and (c) cross-border remittance services	Market approach (P/B)
1 March 2024	FSE Lifestyle Services Limited (331.HK)	Beijing Nova Insurance Services Limited	Principally engaged in the provision of risk management services, insurance brokerage and consultancy services	Market approach (P/E)

Date of circular	Company name (stock code)	Subject of valuation	Principal business of target company	Valuation approach
30 January 2024	HC Group Inc. (2280.HK)	Beijing Huicong Hulian Information Technology Co., Ltd.	A non-operating holding company that holds certain equity interest in Tianjin Leasing, Huixiang Network, Jingu Bank and Chongqing Micro-credit (as defined below)	Asset-based approach
		Tianjin Huicong Leasing Co. Ltd. ("Tianjin Leasing")	Principally engaged in finance lease business in the PRC	Asset-based approach
		Beijing Huixiang Network Technology Co., Ltd. ("Huixiang Network")	A bank borrowing holder with no substantive business operations	Asset-based approach
		Inner Mongolia Hohhot Jingu Rural Commercial Bank Co., Ltd. ("Jingu Bank")	Principally engaged in commercial banking involving the provision of products and services on bank deposits, loans and advances in the PRC	Market approach (P/B)
		Chongqing Digital China Huicong Micro-credit Co., Ltd. ("Chongqing Micro-credit")	Principally engaged in the provision of loans in the PRC	Market approach (P/B)
5 January 2024	Honghua Group Limited (196.HK)	Honghua Financial Leasing (Shanghai) Co., Ltd.	Principally engaged in the provision of financial leasing, operating lease, factoring and consulting services	Asset-based approach

As disclosed in the table above, we noted that market approach and price-to-book ("P/B") multiple have been adopted for valuing companies with similar principal business as the Disposal Group (i.e. the provision of money lending or financing services). In view of the availability of market information of publicly traded comparable companies in the similar industry of the Disposal Group as well as the recent market practice of adopting market approach in valuing equity interest of a money lending related company, we concur with the Valuer that it is fair and reasonable to adopt the market approach in arriving at the market value of the Disposal Group.

Under market approach, the Valuer has adopted P/B multiple to determine the market value of the Disposal Group. For the purpose of independent assessment of the fairness and reasonableness of the Valuation, we have considered the three most commonly used benchmarks in valuing a company, namely P/B, price-to-earnings (“P/E”) and price-to-sales (“P/S”) multiples. P/B is typically applied for valuing companies which hold relatively liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies and banks. On the other hand, P/E is usually adopted for judging valuations for companies which are profit-making whereas P/S is approximate for valuing companies which have volatile earnings or loss but with relatively stable revenue such as retailers offering general merchandise. Taking into account that (a) the significant fluctuation in profits of the Disposal Group caused by the volatile microfinance sector in Hong Kong and the PRC in recent years as evidenced by the shrinking market capitalisation of comparable companies of similar size and business, which led to the diminishing profitability of the Disposal Company year over year, and that the Disposal Group incurred net losses for the year ended 31 March 2024 which makes it impossible to apply P/E; (b) P/S is considered not appropriate for the Valuation as it only focuses on the sales amount which can be easily distorted if the cost structure is not being considered; (c) P/B is one of the most commonly used valuation multiples for capital-intensive business such as financial institutions as it relates the fair value of the company’s equity value to its net asset, in particular the operating performance of companies in microfinance sector hinges upon the net assets value which includes significant portion of the loan receivables and cash, and hence could accurately reflect the Disposal Group’s ability to grant new loans to customers and ultimately its earnings potentials; and (d) based on our independent research on the Comparable Transactions as mentioned above, P/B has been adopted for valuing companies with similar principal business as the Disposal Group (i.e. the provision of money lending or financing services), we concur with the Valuer that P/B is the most appropriate multiple to value the Disposal Group as compared with other valuation multiples.

*(iii) Analysis of the comparable companies*

The Disposal Group is principally engaged in the provision of loan financing and consultancy services in the PRC and Hong Kong with its majority of revenue from the PRC. As set out in the Valuation Report, the Valuer has identified seven comparable companies (the “**Comparable Companies**”) with reference to data as extracted from publicly available information including S&P Capital IQ. In selecting the appropriate comparable companies, the Valuer has adopted the following selection criteria:

- (a) the principal business of the company is engaged in the provision of financing and lending services in the PRC, with more than 50% of its total revenue generated from the related business segment in its respective latest financial year;

- (b) the company is mainly operated in the PRC, with more than 50% of its revenue generated from the PRC in its latest financial year;
- (c) the company is publicly listed on the Stock Exchange with sufficient listing and operating histories of not less than three years; and
- (d) sufficient financial information of the company is available to the public.

We consider that the Valuer's selection criteria is appropriate and sufficient for the Valuation as (a) it enables the Valuer to identify companies with similar business (i.e. the provision of money lending services) in the same principal geographical region (i.e. the PRC) as the Disposal Group, with sufficient data publicly available for it to conduct the Valuation; and (b) it has covered the prevailing market conditions and sentiments in Hong Kong. Based on the above criteria, we have, based on our search on Bloomberg and the websites of the Stock Exchange, identified seven comparable companies which are the same as those identified by the Valuer as set out in the Valuation Report. We consider that no other suitable comparable company is omitted as our independent research results are identical to those identified by the Valuer. Based on our independent research on the Comparable Companies, we are of the view that all of the Comparable Companies fit the selection criteria and are fair and representative. As such, we are of the view that the list of the Comparable Companies analysed by the Valuer for the purpose of determining the Valuation is representative and exhaustive.

The following table sets out the details of the Comparable Companies:

Company name (stock code)	Principal activities (Percentage of total revenue derived from the principal business in the latest financial year)	Principal place of operation	P/B as at 31 March 2024 (times)
Zhong Ji Longevity Science Group Limited (767.HK)	Money lending and financial advisory business (51.8%)	PRC and Hong Kong	0.15
China Financial Services Holdings Limited (605.HK)	Money lending (100%)	PRC and Hong Kong	0.07

Company name (stock code)	Principal activities (Percentage of total revenue derived from the principal business in the latest financial year)	Principal place of operation	P/B as at 31 March 2024 (times)
Capital Finance Holdings Limited (8239.HK)	Provision of short-term financing services to the customers (100%)	PRC	0.98
Zuoli Kechuang Micro-finance Company Limited (6866.HK)	Money lending (100%)	PRC	0.17
Quanzhou Huixin Micro-credit Co., Ltd. (1577.HK)	Loan business (100%)	PRC	0.27
Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (1915.HK)	Money lending (100%)	PRC	0.30
VCREDIT Holdings Limited (2003.HK)	Money lending (100%)	PRC and Hong Kong	0.24
		<b>Maximum</b>	<b>0.98</b>
		<b>Minimum</b>	<b>0.07</b>
		<b>Median</b>	<b>0.24</b>
		<b>Average</b>	<b>0.31</b>

Source: Bloomberg and the website of the Stock Exchange

As shown in the table above, the P/B of the Comparable Companies ranges from approximately 0.07 time to 0.98 time with an average and median of approximately 0.31 time and 0.24 time, respectively. We have reviewed the calculation of the P/B of the seven Comparable Companies to verify the median P/B adopted by the Valuer in the Valuation. Based on our discussion with the Valuer, we understood that the median P/B is considered as a better representation of the middle point of a dataset than an average since it is less influenced by biases towards large and small values and less likely to be distorted than average for small sample size. As such, we concur with the Valuer's view that the adoption of median P/B of the Comparable Companies to compute the market value of the Disposal Group is fair and reasonable and consider it is more conservative.

*(iv) Analysis of the valuation adjustment*

Marketability is defined as the ability to convert the business interest into cash quickly at a known price with minimum transaction costs. For privately held company, there is usually a cost and a time lag associated with locating interested and capable buyers as there is no established market of readily-available buyers and sellers. All other factors being constant, an interest in a privately held company is worth less than an interest in a publicly traded company as there is no established market of readily available buyers and sellers. We understand that lack of marketability discount ("LOMD") is a downward adjustment to the value of the business interest to reflect its reduced level of marketability. Since the Disposal Company is a private company whose shares are not publicly traded in the open market, we consider that it is fair and reasonable to apply a discount for lack of marketability in the course of valuation to discount for lack of ability of converting shares of the Disposal Company into immediate cash. Based on our discussion with the Valuer, we noted that a LOMD of 15.7% has been applied in the Valuation with reference to the 2023 edition of the Stout Restricted Stock Study (the "**Stout Study**") published by Stout Risius Ross, LLC, which we consider a reliable reference given it is a global investment bank and advisory firm specialising in corporate finance, valuation, financial disputes and investigations with offices located in Asia, Europe and North America. We have reviewed the Stout Study provided by the Valuer and noted that the LOMD of 15.7% is a median marketability discount based on 772 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through December 2022. As such, we consider that the LOMD being applied, which is equivalent to the median marketability discount according to the aforementioned research report, is fair and reasonable.

(v) *Analysis of the valuation computation*

In arriving at the estimated 100% equity value of the Disposal Group, the Valuer first derived the operating net asset value of the Disposal Group as at 31 March 2024, being net asset value minus non-operating assets and goodwill and plus non-operating liabilities, all of which have eliminated the effect of minority interest. The Valuer then used the operating net asset value of the Disposal Group to multiply the median P/B of the Comparable Companies and the market value of the Disposal Group is then derived by adjusting with the non-operating assets, the non-operating liabilities and the marketability discount. In arriving at the Valuation of approximately HK\$56.4 million, the Valuer has applied the shareholding of 38% to be disposed by the Group under the Disposal on the adjusted 100% equity value of the Disposal Group.

Below is the summary of the calculation of the Valuation extracted from the Valuation Report:

		HK\$'000
Operating net asset value of the Disposal Group as at 31 March 2024 (Note 1)	A	155,185
Median P/B (times) (Note 2)	B	0.24
Add: Non-operating assets (Note 3)	C	143,093
Less: Non-operating liabilities (Note 3)	D	(4,160)
<b>100% equity value of the Disposal Group as at 31 March 2024</b>	<b>E = A x B + C - D</b>	<b>176,177</b>
LOMD	F	15.7%
<b>Adjusted 100% equity value of the Disposal Group as at 31 March 2024</b>	<b>G = E x (1 - F)</b>	<b>148,517</b>
Equity interest of the Disposal Group to be disposed under the Disposal	H	38%
<b>Valuation</b>	<b>I = G x H</b>	<b>56,437</b>

*Notes:*

1. Being net asset value minus non-operating assets (including other receivables and amounts due from an immediate holding company) and goodwill and plus non-operating liabilities (including other payables, accrued expenses and amounts due to fellow subsidiaries) of the Disposal Group, all of which have eliminated the effect of minority interest, based on the unaudited management accounts of the Disposal Group for the year ended 31 March 2024.
2. Being the median P/B of the Comparable Companies as at the Date of Valuation.
3. Based on the unaudited management accounts of the Disposal Group for the year ended 31 March 2024 and have eliminated the effect of minority interest.



As shown in the table above, the Valuer has separated the operating assets and liabilities with the non-operating assets and liabilities in deriving the Valuation. As advised by the Valuer, the industry P/B generally reflects how much the company is worth per its book value, in which regard the net operating assets should contribute the most. Such method is an industry norm in market approach as it is necessary to separate the operating and non-operating assets/liabilities to determine which items are required for use in the income-producing operations of the business and which ones are redundant to the business. In this regard, we have performed independent research and noted that, according to the section headed “120. Operating and Non-operating Assets” of the International Valuation Standards published by the International Valuation Standards Council, most valuation methods do not capture the value of assets that are not required for the operation of the business. If the business had non-operating assets or liabilities such as an idle manufacturing plant, the value of that non-operating plant would not be captured in the value. Depending on the level of value appropriate for the valuation engagement, the value of non-operating assets may need to be separately determined and added to the operating value of the business. As at 31 March 2024, the Disposal Group’s non-operating assets and liabilities mainly consisted of amounts due from an immediate holding company and other payable, which were not cash-generating and not related to the principal business of the Disposal Group. As such, we consider such method adopted by the Valuer is in compliance with the International Valuation Standards. Regarding the exclusion of goodwill in the Valuation, we understood from the Valuer such arrangement was based on the professional judgment of the Valuer. The goodwill of the Disposal Group arose from the difference between the consideration and fair value of a target company in a previous acquisition based on accounting treatment which shall not be considered in the new transaction (i.e. the Disposal) as it had minimal contribution to the operating activities of the Disposal Group.

Based on our review on the Valuation Report and our discussion with the Valuer in relation to the analysis of (i) the selection of valuation methodology and approach; (ii) the selection criteria of the Comparable Companies; (iii) the valuation adjustment applied due to LOMD; and (iv) the detailed computation of the Valuation, we consider that the methodology, bases, assumptions, parameters and computation adopted for the Valuation are appropriate and reasonable.

In view of (i) the methodology, bases, assumptions, parameters and computation adopted by the Valuer in determining the Valuation are appropriate; (ii) the Consideration is made with reference to the aforementioned independent valuation which was fairly and reasonably determined by the Valuer; (iii) the Consideration is equivalent to the market value of 38% equity interest of the Disposal Group in the Valuation; and (iv) the reasons for and benefits of the Disposal as discussed in the section headed "3. Reasons for and benefits of the Disposal" above, we consider the Consideration to be fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

#### **7. Financial effect of the Disposal**

Upon Completion, the Disposal Company will be owned as to 39% by the Company, 38% by the Purchaser, 18% by Apex Treasure International Limited and 5% by Atlantis China Star Fund Limited. As (i) the Company has obtained and shall remain to obtain the power to cast a majority of votes at meetings of the board of directors of the Disposal Company; and (ii) based on the distribution of key shareholders and their beneficial shareholders as well as historical voting patterns, the equity holdings in the Disposal Company are dispersed in a way that other shareholders have not organised their holdings and the practical risk to organise their holdings to outvote the Company in the shareholders' meetings of the Disposal Company is remote, the Company's voting rights are sufficient to give it the practical ability to direct the relevant activities of the Disposal Company unilaterally. Upon Completion, the Company's control to the Disposal Company will remain unchanged. The Disposal Company will continue to be accounted as a non-wholly owned subsidiary of the Company. The results of operations and financial position of the Disposal Company will continue to be consolidated into the Group's consolidated financial statements. It is expected that the Disposal will not result in any material gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income. The actual amount to be recorded in the financial statement of the Company will be subject to review by the auditor of the Company upon Completion.

Pursuant to the terms and conditions of the Sale and Purchase Agreement, the Consideration to be payable by the Purchaser shall be set-off fully against the principal amount of the Loan on a dollar-for-dollar basis, as such, no proceeds will be received by the Company upon Completion.

## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Sale and Purchase Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that, although the entering into of the Sale and Purchase Agreement is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**



**Larry Choi**  
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.*