HOORAY 好盈

22 February 2022

To the Independent Board Committees and the Independent Shareholders,

Dear Sirs and Madams,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF
THE TARGET COMPANY**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of, inter alia, the Share Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the circular dated 22 February 2022 issued by the Company to the Shareholders (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 otherwise specified herein.

On 22 December 2021 (after trading hours), the Company (as the vendor) entered into the Share Purchase Agreement with Ms. Li (as the purchaser), pursuant to which the Company conditionally agreed to sell, and Ms. Li conditionally agreed to purchase the Sale Share, at the Consideration of HK$219,464,000. Upon Completion, the Company will cease to hold any interest in the Target Group. As a result, each member of the Target Group will cease to be a subsidiary of the Company and the financial results of the Target Group will no longer be consolidated into the financial statements of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Ms. Li is an executive Director, and is, therefore a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

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Meanwhile, the Consideration is HK$219,464,000. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 25% but all of them are less than 75%, the Disposal constitutes a major and connected transaction for the Company and is subject to reporting, announcement, circular and Independent Shareholders' approval requirement under Chapter 14 and Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Jin Qingjun, Mr. Lee Kin Ping Christophe and Mr. Shu Wa Tung Laurence, has been established to advise the Independent Shareholders to make a recommendation: (i) as to whether the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business and in the interests of the Company and the Independent Shareholders as a whole; and (ii) give a recommendation to the Independent Shareholders in respect of the voting on the resolutions to be proposed at the EGM. We, Hooray Capital Limited, have been appointed to advise the Independent Board Committee in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected to the Company pursuant to Rule 13.84 of the Listing Rules. There was no engagement between the Group and us in the last two years, and we are not aware of the existence of or change in any circumstances that would affect our independence. In addition, apart from the normal professional fee payable to us by the Company in connection with our appointment as the Independent Financial Adviser, no other arrangement exists whereby we shall receive any other fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider ourselves eligible to give independent advice on the terms of the Share Purchase Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management.

We have assumed that all representations and information that have been provided by the Directors, for which they are solely and wholly responsible, were reasonably made after due enquiry and careful consideration and are true and accurate at the time when they were made and continue to be so up to the date of the EGM. The Company will notify the Shareholders of any material changes to such information, facts, representations, opinions and statements as soon as possible. In addition, we have no reason to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or to believe that any material facts and information have been omitted or withheld.

We consider that we have taken sufficient information in our opinion, among other things, the valuation report of the Properties (the "**Valuation Report**") together with other relevant information and confirmation provided by them, the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**"), the interim report of the Company for the six months ended 30 June 2021 (the "**2021 Interim Report**") and agreements and relevant information provided by the Company in relation to the Disposal. We have also conducted discussions with the management of the Company regarding the business and financial of the Group, including the Target Group and researched and considered market data which we deemed relevant to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, conducted any independent in-depth investigation into the business, affairs, financial position or the future prospects of any members of the Group and the related subject of, and parties to, the Share Purchase Agreement, nor have we carried out any independent evaluation or appraisal of the assets and liabilities of the Group and the Target Group, and we have not been furnished with any such evaluation or appraisal, save and except, the Valuation Report contained in Appendix II to the Circular as mentioned above.

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which solely for their consideration of whether the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary course of business and in the interests of the Company and the Independent Shareholders as a whole. Save for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the Share Purchase Agreement, we have taken into consideration the following principal factors and reasons.

1. Information of the Group, Ms. Li and the Target Group

1.1 Information of the Group

The Group is mainly engaged in the telecommunication services, financial services and investment business. Among the telecommunication services segment, the Group principally provides customer relationship management outsourcing services, which include the provision of inbound services and outbound services, to companies in various service-oriented industries and focuses in Hong Kong, Macau and PRC markets. Among the financial services and investment segment, the Group is mainly engaged in (i) investment management, including the provision of advisory services on securities, asset management and security trading; and (ii) strategic direct investment, including proprietary investment in the financial market.

1.2 *Financial and business overview of the Group*

Set out below is the summary of the audited consolidated financial information of the Group for the two years ended 31 December 2019 and 2020 as extracted from the 2020 Annual Report and the unaudited consolidated financial information of the Group for the six months ended 30 June 2021 as extracted from the 2021 Interim Report:

	For the six months ended 30 June	**For the year ended 31 December**	
	2021	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)
Income			
CRM Business	123,295	215,166	239,412
IM Business	34,202	114,282	70,758
SDI Business	21,282	53,302	4,147
Total Income	178,779	382,750	314,317

	As at 30 June	**As at 31 December**	
	2021	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)
Total assets	1,269,460	1,258,594	1,134,022
Cash at bank and on hand	240,165	232,805	484,375
Financial assets at fair value through profit or loss	402,019	345,410	167,125
Total liabilities	430,724	428,812	341,080
Net assets attributable to the owners of the Company	838,736	829,782	792,942

For the year ended 31 December 2020

As disclosed in the 2020 Annual Report, the audited total income of the Group amounted to approximately HK$382.75 million for the year ended 31 December 2020, representing an increase of approximately 21.77% from approximately HK$314.32 million for the year ended 31 December 2019.

The Group achieved a turnaround from loss to profit that the audited profit attributable to owners of the Company amounted to approximately HK$17.25 million for the year ended 31 December 2020, representing an increase of approximately HK$56.10 million from the audited net loss attributable to owners of the Company amounted to approximately HK$38.85 million for the year ended 31 December 2019. The turnaround in the audited profit attributable to owners of the Company was mainly due to the increased profits in IM Business and SDI Business.

For the financial position of the Group, as at 31 December 2020, the Group's audited total assets and audited total liabilities were approximately HK$1.26 billion and HK$428.81 million respectively. The audited net assets attributable to the owners of the Company was approximately HK$829.78 million.

For the six months ended 30 June 2021

As disclosed in the 2021 Interim Report, the unaudited income of the Group amounted to approximately HK$178.78 million for the six months ended 30 June 2021, representing a decrease of approximately 0.07% as compared to that for the six months ended 30 June 2020. The Group also achieved a turnaround from loss to profit that the unaudited profit attributable to owners of the Company was approximately HK$4.31 million for the six months ended 30 June 2021, representing an increase of approximately HK$16.59 million as compared with the corresponding period of the prior year. The turnaround of the financial performance of the Group was mainly due to the decreased expenses in the employee benefits and the amortization of intangible assets.

For the financial position of the Group, as at 30 June 2021, the Group's unaudited total assets and unaudited total liabilities were approximately HK$1.27 billion and HK$430.72 million respectively. The unaudited net assets attributable to the owners of the Company was approximately HK$838.74 million.

1.3 *Information of Ms. Li*

Ms. Li is an executive Director, the chairwoman and the general manager of China Elite Info. Co. Ltd., a subsidiary of the Company. She is responsible for the Group's overall management, corporate planning and business development. She resigned as the chief operation officer of the Company in December 2018 and she had been the assistant to the general manager of the Company from the year of 2000 to that of 2018.

Please refer to the section headed "INFORMATION ON THE PURCHASER" in the Letter from the Board for further details.

1.4 *Information of the Target Group*

The Target Group represents the entire CRM Business segment of the Group.

Set out below is the summary of the unaudited consolidated financial information of the Target Group for the two years ended 31 December 2019 and 2020 and the unaudited consolidated financial information of the Target Group for the six months ended 30 June 2021 as extracted from the financial information of the Target Group provided by the Company:

	For the six months ended 30 June	**For the year ended 31 December**	
	2021	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Income	123,295	215,166	239,412
(Loss)/profit before taxation	(6,134)	565	1,783
(Loss)/profit after taxation	(5,523)	1,089	1,867

	As at 30 June	**As at 31 December**	
	2021	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Net asset value	176,909	180,343	167,835

Please refer to the section headed "INFORMATION ON THE TARGET GROUP" in the Letter from the Board for further details.

2. Principal Terms of the Share Purchase Agreement

The principal terms of the Share Purchase Agreement are summarised as follows:

Date	:	22 December 2021 (after trading hours)
Parties	:	(1) the Company, as the vendor; and
		(2) Ms. Li, as the purchaser.
Subject matter	:	The Sale Share, representing the entire issued share capital of the Target Company.

Consideration	:	HK$219,464,000, which shall be satisfied in the following manner: (i) an amount of HK$215,000,000 subject to the Set-off; and (ii) an amount of HK$4,464,000 payable by Ms. Li to the Company at the Completion.
Basis for the Consideration	:	The Consideration was arrived with reference to, among other things, the unaudited Adjusted NAV in the amount of approximately HK$219,363,000 as at 30 June 2021 taking into account: (i) the waiver of Indebtedness under the Deed of Waiver in the amount of approximately HK$4,139,000; and (ii) the fair value gain of Properties in the amount of approximately HK$38,315,000 as at 30 November 2021 according to the Valuation Report. The Consideration also made reference to market average of price-to-book ratio of Comparable Companies.

Please refer to the section headed "THE SHARE PURCHASE AGREEMENT" in the Letter from the Board for further details.

3. Evaluation of the Consideration

According to the information provided by the Company, the Consideration was determined principally based on the unaudited Adjusted NAV of approximately HK$219,363,063, which is the result of: (i) the unaudited net asset value of approximately HK$176,909,000 of the Target Company as at 30 June 2021 (being the date of the latest published financials of the Group); (ii) the adjustment of the waiver of Indebtedness under the Deed of Waiver of approximately HK$4,138,900 as at 30 November 2021; and (iii) adjustment of the fair value gain from the Properties of approximately HK$38,315,163 as at 30 November 2021. It also took reference to the comparison with market average of price-to-book ratio of Comparable Companies.

In order to comprehensively assess the unaudited Adjusted NAV, we look into each adjustment and cross-reference with the market average price-to-book ratio of Comparable Companies. We also review the basis of the Adjusted NAV. Details of the assessments are set out in the sections below.

3.1 *Update on the adopted based net asset value*

Since the Target Company is a BVI incorporated company, it is not required to prepare audited consolidated financial statements. However, we consider there is sufficient assurance as the unaudited financial information of the Target Group forms part of the consolidated financial statements of the Group, which were audited accordingly.

In light of the relatively large time gap between 30 June 2021, being the date of unaudited Adjusted NAV and the date of the Share Purchase Agreement, we further assessed the unaudited financial positions as at 30 November 2021 provided by the Company. The unaudited net asset value of the Target Group as at 30 November 2021 was approximately HK$176.67 million. As a result, we are of the view that the adoption of net asset value as at 30 June 2021 is acceptable given that there is no material change in the financial positions between the dates.

3.2 *Evaluation of the adjustment of the waiver of Indebtedness*

We have reviewed the Deed of Waiver, pursuant to which the Company irrevocably and unconditionally waives the outstanding receivables incurred by the provision of business management services incurred in 2018 in total amount of approximately HK$4,138,900 due from International Elite Limited – Macao Commercial Offshore, an indirect wholly owned subsidiary of the Target Company. Such outstanding amount of the receivables matches the payables to sub-group companies stated in the unaudited consolidated financial statement of the Target Group as at 30 November 2021.

As a result, we are of the opinion that the basis of adjustment made to the original net asset value of the Target group in relation to the waiver of Indebtedness is fair and reasonable and is on normal commercial terms.

3.3 *Evaluation of the adjustment of the fair value gain from the Properties*

According to the Valuation Report, the appraised market value of the Properties (the "**Valuation**") is summarised as follows:

Location	:	No. 67 Tangxin West Street, Guanghua Road, Baiyun District, Guangzhou City, Guangdong Province, the PRC
Description	:	• A 7-storey industrial building erected on a parcel of land with a site area of approximately 79,688 sq.m completed in about 2000s.

- The total gross floor area of the Properties is approximately 7,450.6 sq.m.

- The land use rights of the Properties have been granted for a term expiring on 16 April 2048 for industrial use.

Usage and occupancy	:	Factory and workshop, among which, • approximately 90.5 sq.m are subject to two tenancy agreements with the latest one expiring on 13 October 2026 for office use; and • the remaining area of the Properties is vacant or owner occupied.
Market value as at 30 November 2021	:	RMB60,500,000 (equivalent to approximately HK$73,991,500 at the exchange rate of RMB 1 to HK$1.223)

The carrying value of the Properties was recorded at cost less accumulated depreciation according to the adopted accounting policy of the Group. Based on the financial information of the Target Group, the unaudited carrying value of the Properties was approximately HK$35,676,337 as at 30 November 2021, therefore the fair value gain being considered in the Consideration is approximately HK$38,315,163, representing the difference between the unaudited carrying value of approximately HK$35,676,337 and appraised market value of approximately HK$73,991,500.

Competency of the independent valuer

We have performed due diligence on the qualification of the independent valuer, namely RHL Appraisal Limited (the "**Valuer**"), and the competency and experience of the person in charge of the Valuation Report. We are given to understand that the Valuer is certified with the relevant professional qualifications and recognitions, including by China National Accreditation Service for Conformity Assessment, which are required to perform the Valuation in the PRC. The person in-charge of the Valuation Report has over 20 years of experience in the valuation of properties located in Hong Kong and the PRC and is a registered real estate appraiser in the PRC.

Furthermore, we have reviewed the engagement letter between the Company and the Valuer, we are satisfied that the scope of work performed by the Valuer is appropriate to perform the Valuation. We are also confirmed by the Valuer that (i) there is no other arrangement whereby the Valuer will receive any fee or benefit from the Group and its associates apart from the normal professional fees payable to it in connection with the valuation and due diligence work in relation to the Properties; and (ii) it is not connected with the Group and that none of its partners, directors or officers is an officer or servant or proposed director of the Group, its controlling shareholder or any affiliated company of the Group and has complied with Rule 5.08 of the Listing Rules.

In light of the above, we are not aware of any matters that would cause us to question the Valuer's competence and independence, and thus we are of the view that the Valuer has sufficient expertise and is independent to perform the valuation for the Properties.

Basis, assumption and methodology of the valuation

We have reviewed the Valuation Report and are given to understand the basis, assumptions and methodology taken into consideration in the Valuation.

The Valuer has applied market approach to estimate the market value of the Properties, which is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. Direct comparison method was adopted where comparison based on price information of comparable properties is made. Since such valuation methodology is in compliance with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the International Valuation Standards 2020, we are satisfied with the approach and methodology adopted in the Valuation.

The Valuation has been made on the assumption that, inter alia, (i) all necessary statutory approvals for the Properties has been obtained; (ii) no deleterious or hazardous materials or techniques have been used in the construction of the Properties; (iii) transferable land use rights in respect of the Properties have been granted; and (iv) any premium payable has already been fully paid and the Properties are connected to main services and sewers which are available on normal terms.

We have learnt that the Valuer has conducted on-site inspections to the Properties on 6 December 2021 by an experienced team member of the Valuer and did not note any serious defects. However, we are also given to understand that there are certain limiting conditions in the inspection, which include, among others, no structural survey or any test has been made, no detailed on-site measurement to verify the correctness of the areas and relied very considerable extent on the information provided by the Group to the Valuer.

During the entire review process, we did not note any unusual matters in relation to the Valuation Report nor did we have any disagreements on the methodologies and assumptions used in the Valuation Report. In addition, based on our independent research, we note that the above basis and assumptions are commonly adopted in the property valuation performed for similar properties of other listed companies on the Stock Exchange.

Based on the above, we are of the view that the bases, assumptions and methodologies adopted in arriving at the Valuation are fair and reasonable. Hence, we consider it reasonable that the adjustment of the Properties is made with reference to, among other things, the Valuation Report when determining the Consideration.

3.4 *Evaluation of the cross-reference with Comparable Companies*

The Directors has finalised Comparable Companies on the best effort basis. Based on the information provided by the Company, we have learnt that the Consideration was referred to the price-to-book ratios (the "**P/B Ratios**") of Comparable Companies as at 17 December 2021, which ranged from approximately 0.66 times to approximately 1.33 times, with an average of approximately 0.9 times. The unaudited Adjusted NAV to the Consideration is approximately equal to 1.00 times, which is higher than the said market average but within the said range.

In order to review the market assessment of the Target Group, we have reviewed the adopted valuation methodology of P/B Ratios and conducted our own search on the comparable companies of the Target Group for confirmation purposes, details of which are illustrated in the following sub-sections.

Assessment of valuation approach: P/B Ratios

As stated in the section headed "Information of the Target Group" in this letter, the earnings of the Target Group have fluctuated from approximately HK$1,867,000 to HK$1,089,000 for the two years ended 31 December 2019 and 2020, and even fell to a net loss of approximately HK$5,523,000 for the six months ended 30 June 2021. Given the volatility of the earnings recorded, price-to-earnings ratio may not be representative given that it would be only based on the prevailing full year results.

Although the total income of the Target Group is relatively stable compared with its earning, price-to-sales ratio does not take the cost structure into account, which may not be comprehensive to reflect such company-specific features across comparable companies. In turn it is less representative than the P/B Ratios.

On the contrary, the unaudited net asset value of the Target Group (i) stayed between approximately HK$167,835,000 and HK$180,343,000 in the recent two and a half years; and (ii) took specific factors, i.e. the adjustments in relation to waiver of Indebtedness and fair value gain of Properties into account. It also gives an indication on the net retrievable value of the Target Group in the case of dissolvement. As such, we are in the opinion that it is a preferred approach as it is stable and representative for valuation purposes as compared to price-to-earnings or price-to-sales approaches.

As a result, we concur that price-to-book ratio is a preferred approach given that the lack of analysis for the loss-making year of the Target Group and the net asset value of the Target Group is relatively consistent than its earning.

Independent search on comparable companies

We have conducted an independent search on the comparable companies, on a best effort basis, to cross-check the results provided by the Company.

We have assessed the selection of Comparable Companies. We are of the view that the selection criteria are fair and reasonable as the criteria cover the peers engaged in the principal business similar to the Target Group on the Stock Exchange. Also, by going through the companies whose shares are listed on the Stock Exchange, we conclude that the selection is exhaustive, fair and reasonable and representable.

Upon our own independent search, we have further included one additional criterion for selection as we believe it is also applicable. On a best effort basis, the result of our selection is identical to the companies under the Comparable Companies. Therefore, we concur that the selection criteria for the Comparable Companies are appropriate and the companies under the Comparable Companies are exhaustive, fair and reasonable and representable.

Details of the selection criteria of the Comparable Companies imposed by the Company are as follows:

- being listed on the Stock Exchange;
- being principally engaged in business similar to the CRM Business (excluding the Company) (i.e. telecommunication and/or information technology industries); and
- majority of its revenue generated are related to customer relationship management.

Our addition selection criterion imposed by us on top of the above selection criteria is as follows:

- companies provided outsourcing services.

The table below illustrates the P/B Ratios of the comparable companies of our independent search, which fulfill our selection criteria stated above.

Stock Code	Company Name	Principal Business	Market Capitalisation (HK$) (Note I)	Net Assets (HK$) (Note I)	P/B Ratios (Note II)
46	Computer And Technologies Holdings Limited	• Provision of management software, including human resources and enterprise information • Provision of solutions and integration services, including customer care and billing system	698,567,475	507,813,000	1.38
1147	Edensoft Holdings Limited	• Provision of IT infrastructure services with a call centre business operation • Provision of IT implementation and supporting services for telecommuting arrangement	198,000,000	252,264,541 (RMB206,267,000 at the exchange rate of RMB1 to HK$1.223)	0.78
8031	ETS Group Limited	• Provision of outsourcing inbound and outbound contact services • Provision of staff insourcing services • Provision of contact service centre and service centre facility management services	75,600,000	114,720,000	0.66

Stock Code	Company Name	Principal Business	Market Capitalisation (HK$) (Note I)	Net Assets (HK$) (Note I)	P/B Ratios (Note II)
8060	Global Link Communications Holdings Limited	• Provision of system integration and development services • Provision of IT outsourcing services	42,103,117	108,557,000	0.39
				Maximum P/B Ratio	**1.38**
				Minimum P/B Ratio	**0.39**
				Average P/B Ratio	**0.80**

Notes:

(I) The market capitalisations of the comparable companies are calculated based on their respective closing share prices and numbers of issued shares as at the Latest Practicable Date. The consolidated net assets attributable to owners are extracted from the respective latest annual reports/ interim reports of the comparable companies.

(II) The P/B Ratios of the comparable companies are calculated based on their respective market capitalisations and published net asset values stated in Note (I).

As shown above, the P/B Ratios of the Comparable Companies ranged from 0.39 times to 1.38 times with an average of 0.80 times as at the Latest Practicable Date. Given that the unaudited Adjusted NAV to the Consideration is approximately equal to 1.00 times, the Consideration is in line with the market assessment and therefore considered fair and reasonable to the Group.

Having considered (i) there is no material change in the unaudited financial positions between 30 June 2021 (which is the date that the unaudited Adjusted NAV is based on) and 30 November 2021; (ii) adjustment made in relation to the waiver of Indebtedness are fair and reasonable; (iii) adjustment made in relation to the fair value gain of the Properties are fair and reasonable; (iv) the unaudited Adjusted NAV to the Consideration ratio is in line with the average P/B Ratios of the Comparable Companies; (v) the basis of the Consideration is on the normal commercial terms; and (vi) the unaudited Adjusted NAV is largely in line with the Consideration, we are of the view that the Consideration is in line with the asset-based approach and also complied with the market approach, and thus the Consideration is fair and reasonable and is in the interests of the Company and Independent Shareholders as a whole.

4. Earnings prospect of the CRM Business

With reference to the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL AND INTENDED USE OF PROCEEDS" in the Letter from the Board, the Board is of the view that the overall performance of the CRM Business has been underwhelming in recent years due to the increasing trend in staff costs.

4.1 Market trends in relation to the CRM Business

In order to get a better grasp of the offshore CRM Business market in the PRC, we have independently assessed certain key industry factors closely related to the Target Group accordingly, details of which are illustrated in the sub-sections below.

Increasing trend in staff costs in the PRC

According to the National Bureau of Statistics of China (中國國家統計局), the average annual wage of persons employed in urban private units in 2020 had increased by approximately 7.7% in a normal term from approximately RMB53,604 in 2019 to approximately RMB57,727 in 2020. In particular, the growth rate of annual wage in information transmission, software and information technology services sector has significantly increased by approximately 18.7%. Although the growth has been slow down by approximately 0.4% compared with the growth rate in 2019, the entire trend of annual wage in the PRC has increased steadily over the decade that the compound annual growth rate in the recent between 2011 and 2020 was approximately 8.92%. The aforementioned details are available on the website of the National Bureau of Statistics at http://www.stats.gov.cn/english/PressRelease/202105/t20210520_1817729.html.

According to the 2020 Annual Report, the Group has operated four service centres in Guangzhou, as a result, the pressure of staff costs on the CRM Business of the Group is likely to remain in the future.

Potentials in offshore CRM Business market

According to the Ministry of Commerce of the PRC (中華人民共和國商務部) (the "**Ministry of Commerce**"), offshore market refers to a region that is located outside Mainland China, including Hong Kong. Also, the CRM Business is categorised under business process outsourcing (BPO) sector by the Ministry of Commerce, which covers, inter alia, financial service outsourcing, human resources service outsourcing, back-office outsourcing and call centre service outsourcing.

As disclosed in 2020 Annual Report, the Target Group principally operates call centres in Guangzhou and generates the majority of income in Hong Kong and Guangdong province in the PRC, and thus we have assessed the business potential of the Target Group based on the performances of BPO sector. According to the data released by the Ministry of Commerce, the turnover of offshore BPO sector had slightly shrunk by 0.6% to RMB117.65 billion in 2020. Nevertheless, it has experienced an increase by approximately 17.3% over period in the first ten months of the year of 2021. The aforementioned details are available on the website of Ministry of Commerce of the PRC at http://www.mofcom.gov.cn/article/ae/sjjd/202101/20210103032962.shtml and http://www.mofcom.gov.cn/article/xwfb/xwsjfzr/202111/20211103219292.shtml.

Based on the information above, we are of the view that despite there are certain market fluctuations in offshore CRM Business market in the PRC, there could be an upside potential for expansion.

4.2 *Assessment of market trends based on track records*

We are given to understand that the two market factors stated above do not reach the same conclusions on the business prospect of the CRM Business of the Target Group. While earnings prospect of CRM Business is expected to be adversely affected by the increasing staff costs (based on the fact that approximate 18.7% increase in annual wages in the relevant sector in 2020), the market potentials might give an upside of the future prospects (based on the approximate 17.3% increase in turnover of BPO sector within the first 10 months of 2021).

In view of the close magnitude of two market factors, we further assessed the track records of the Target Group and are of the view that the thin earning margin of the Target Group match the trends of two market factors. Based on the information provided by the Company, the segment profit margin of the CRM Business steadily dropped from approximately 9.49% to approximately 0.4% for the three years ended 31 December 2020. Similarly, as disclosed in the 2021 Interim Report, although the unaudited total income of the CRM Business increased by approximately 5.08% to approximately HK$123.30 million for the six months ended 30 June 2021, the CRM Business incurred the unaudited segment loss of approximately HK$5.93 million from the unaudited segment profit of approximately HK$8.84 million for the six months ended 30 June 2020.

As a result, the growing trend in staff costs could be a factor that affects the performance of the Target Group more than the market growth. In order to record material amount of profit for the Target Group, extensive amount of extra resources may be required to be provided by the Group. We reckon that based on the existing operations of the Target Group, further growth could be achieved by expanding the magnitude of the business, such as hiring more staff along with developing more business.

Further expansion in this regard would require additional corresponding working capital, inter alia, for the salary expenses. Based on our expertise, we are of the view that an amount of working capital that is no less than six months of the total projected expenses is ideal in order to maintain sufficient liquidity under prudent financial management. Therefore, assuming the Target Group plans to double the size of operation, the Group may have to additionally provide approximately HK$123,084,565.78 for working capital purposes, based on the average monthly total expenses of approximately HK$20,514,094.30 from January 2021 to November 2021.

Given that the current cash level of the Group is merely HK$240.17 million as at 30 June 2021, such investment as working capital for the Target Group, if proceeds, would be significant and material to the Group, and may not result in profit attributable to Shareholders based on historical financial performance of the Target Group. As such, it may not be in the interests of the Company and Shareholders as a whole.

Having considered, (i) the constantly increasing pressure of the staff costs on the CRM Business; (ii) the potential expansion in the offshore CRM Business market in the PRC; (iii) decreasing margin of the CRM Business in the recent years; and (iv) the relatively low return in the CRM Business, we concur with the relevant view of the Directors and are of the opinion that (i) the development of CRM Business requires substantial capital for, inter alia, staff costs, to develop and sustain; and (ii) the extensive capital investment in the CRM Business is not preferred.

5. Financial planning and business direction of the Group

As disclosed in the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL AND INTENDED USE OF PROCEEDS" in the Letter from the Board, the Board expressed its views and planning in relation to the allocation of the net proceeds and the future business direction after the Disposal. For the sake of our assessment, we have further reviewed the impacts brought by the Disposal and potentials of the remaining business of the Group.

Financial planning in relation to the Disposal

With reference to the section headed "2.Principal Terms of the Share Purchase Agreement" in this letter, the net proceeds from the Disposal (after deducting the relevant costs and expenses) of approximately HK$217.72 million is expected to (i) settle the Loan in the amount of HK$215 million under Set-off; and (ii) apply the remaining balance of approximately HK$2.72 million as general working capital of the Group.

As a matter of fact, the Loan will be due on 29 May 2022 and may not be extended further. Given that the cash level of the Group (including the Target Group) was merely approximately HK$240.17 million as at 30 June 2021, the repayment of Loan in cash will significantly deteriorate the liquidity to the extent that it may lead to an insufficiency in working capital and adversely affect the business operation of the Group. Therefore, the Set-off arrangement represents a better option for the Company to settle the Loan as compared with cash settlement.

On the other hand, we have enquired the Company about the working capital required to sustain the operation of the Target Group. As stated in the previous section, the CRM Business is labour intensive and the average monthly staff cost of the Target Group in the first 11 months of the Target Group was approximately HK$16.60 million. As such, although the unaudited cash and cash equivalents of the Target Group as at 30 November 2021 was approximately HK$86.06 million, which will be disposed together with the Target Group upon Completion, such cash and cash equivalents are expected to be sufficient for the operation for approximately 5 months under a prudent financial management, which is assumed to be under extreme adverse situation with no inflow of cash during such period of time. As a result, such cash under the Target Group is imperative as working capital to sustain the operation of the Target Group, and Disposal per se does not constitute any loss of free cash from the Group as a whole.

Given that (i) the Disposal will provide approximately HK$2.72 million as general working capital; (ii) the Set-off arrangement can settle the Loan without negative impact on the liquidity of the Group; and (iii) the Disposal would not deteriorate the free cash level of the Group, it is in the interests of the Company and the Independent Shareholders as a whole.

Business direction of the Group

With reference to the Letter from the Board, the Board has expressed that that in view of (i) the underwhelming performance from the CRM Business in the last few years; and (ii) the improving segment performance from the IM Business and SDI Business, the Company will focus to develop IM Business and SDI Business.

Also, as disclosed in the 2020 Annual Report, in light of the headwinds faced in the CRM Business after the outbreak of the virus and the positive impacts brought by the unprecedented stimulus measures and vaccine breakthroughs on the financial market, the direction of the Company would be reducing costs, strengthening of risk management and improving operating model remain a high priority to protect assets and improve profit margins.

Accordingly, we have reviewed the audited financial statements of the Group for the years ended 31 December in the recent four years in order to have a better understanding of the performance trend of each segment. We noticed that the income generated from the CRM Business has experienced an overall drop from approximately HK$258.37 million to HK$215.17 million within the four years, while the income generated from the remaining segments have sharply grown from approximately HK$1.94 million at the inceptions in 2018 to approximately HK$167.58 million.

In view of (i) the decreasing income trend of the CRM Business compared with the increasing income trend of the remaining business of the Group; and (ii) the recent results stated in the section headed "1.Information of the Group, Ms. Li and the Target Group", we are of the view that the business direction of the Group is fair and reasonable and is in line with the interests of the Company and Independent Shareholders as a whole.

Based on the analysis above, we understand the rationale behind the Disposal and are of the view that the corresponding planning in relation to the net proceeds from the Disposal and the future business direction fair and reasonable and are in line with the interests of the Company and the Independent Shareholders as a whole.

6. Financial Effects of the Disposal

With reference to the Letter from the Board, the financial results of the Target Group will no longer be consolidated into the financial statement of the Company upon Completion and such financial effects are summarised and set out below.

It should be noted that the analyses below are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

Earnings and fair value gain

As stated in the section "1.Information of the Group, Ms. Li and the Target Group" above, the Target Group recorded the unaudited net profit of approximately HK$1.09 million for the year ended 31 December 2020 and recorded the unaudited net loss of approximately HK$5.52 million for the six months ended 30 June 2021.

Furthermore, as disclosed in the section headed "FINANCIAL EFFECT OF THE DISPOSAL" in the Letter from the Board, the Company will record a net gain on Disposal of approximately HK$31.35 million, being the difference between (i) the fair value of the Consideration received; and (ii) the sum of the unaudited adjusted net asset value of the Target Group as at 30 June 2021 and expenses in relation to the Disposal.

As a result, the profit attributable to owners of the Company will be increased by the one-off net gain of approximately HK$31.35 million on Disposal. Also, the Disposal may improve the earning of the Group given that the CRM Business segment is currently loss making.

The actual gain on the Disposal may be different from the above subject to audit.

Net asset value and the Set-off

As stated in the section "2.Principal Terms of the Share Purchase Agreement" above, a portion of the Consideration of HK$215 million would be settled by the Set-off, which would immediately reduce the fair value of liability of the Group under the Loan, and the remaining balance of approximately HK$4.46 million settled in cash would immediately increase the cash level of the Group upon Completion before taking into account of relevant costs of the transactions. In the meantime, the unaudited net asset value of the Disposal Group as at 30 June 2021 amounted to approximately HK$176.91 million and the waiver of Indebtedness in the amount of approximately HK$4.14 million would be subtracted from the net assets of the Group.

As such, the financial effect of the Disposal on the net asset value of the Group would be approximately HK$31.35 million surplus. The actual surplus may be different subject to audit.

As such, the Disposal would give a positive impact of the net asset value of the Group upon Completion.

In view of the (i) expected earnings improvement assuming the Disposal taken place; and (ii) the positive impact of the Disposal on the net asset value and the remaining business, we are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that:

(i) the terms of the Share Purchase Agreement inter alia, the Consideration and Set-off are on normal commercial terms and are fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole;

(ii) the bases of the adjustments incorporated in the unaudited Adjusted NAV, i.e. the waiver of the Indebtedness and the fair value gain of the Properties are fair and reasonable;

(iii) the Consideration is in line with both asset-based approach and market approach which are fair and reasonable;

(iv) the earning margin of the CRM Business of the Target Group is deteriorating and not likely to resume based on the market trends and the track records;

(v) the financial and business planning of the Group is in line with the interests of the Company and the Independent Shareholders as a whole; and

(vi) the positive financial effects of the Disposal.

As such, we consider the Share Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole, despite the Share Purchase Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the EGM to approve Share Purchase Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
for and on behalf of
HOORAY CAPITAL LIMITED

Simon Ng
Director

Mr. Simon Ng is a licensed person under the SFO to engage in, among others, Type 6 (advising on corporate finance) regulated activity and has over 20 years of experience in investment banking and corporate finance.