RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

25 January 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE (1) OFFER SHARE FOR EVERY TWO (2) EXISTING SHARES HELD ON THE RECORD DATE; (2) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT; AND (3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Open Offer, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder, and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 25 January 2024 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

With reference to the Letter from the Board, the Board proposes to offer by way of the Open Offer to the Shareholders a total of 400,000,000 Open Offer Shares at a price of HK$0.15 per Open Offer Share on the basis of one (1) Open Offer Share for every two (2) existing Shares held by the Shareholders on the Record Date. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK$57.76 million.

The Open Offer is conditional upon (i) the obtaining of the Independent Shareholders' approval at the EGM; (ii) the Whitewash Waiver having been granted to the Underwriter (and such waiver not having been revoked or withdrawn); and (iii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

In order to comply with the Listing Rules, the Company has entered into the Placing Agreement with the Placing Agent to place the Unsubscribed Shares at the Placing Price. Any unplaced Unsubscribed Shares will then be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

On 28 December 2023, the Underwriter, a substantial shareholder beneficially holding 130,457,399 Shares, representing approximately 16.31% of the number of Shares in issue as at the Latest Practicable Date, has entered into the Underwriting Agreement with the Company, pursuant to which the Underwriter has conditionally agreed to fully underwrite the Untaken Offer Shares, being all the Unsubscribed Shares that have not been placed by the Placing Agent or they have been placed but the places have not paid therefore at 4:00 p.m. on the Placing End Date.

Listing Rules Implications

As the Open Offer Shares are not issued pursuant to the general mandate of the Company, in accordance with Rule 7.24A(1) of the Listing Rules, among other things, the Open Offer must be made conditional on approval by the Independent Shareholders at the EGM and, pursuant to Rule 7.27A(1) of the Listing Rules, any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (other than the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Open Offer. As such, Mr. Liu, Ms. Qu, ZJJ Many Idea, Xiamen Dream Future, Many Idea Liujianhui and Many Idea Qushuo as a group of Controlling Shareholders of the Company and their respective associates shall abstain from voting in favour of the resolutions to approve the Open Offer at the EGM.

As at the Latest Practicable Date, the Underwriter (which is wholly owned by Mr. Liu) owns 130,457,399 Shares, representing approximately 16.31% of the number of Shares in issue. The Underwriter is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Underwriter and its associates will abstain from voting in favour of the resolution(s) in relation to the Underwriting Agreement and the transactions contemplated thereunder at the EGM.

Takeovers Code Implications

As at the Latest Practicable Date, the Underwriter and its beneficial owner, Mr. Liu, together with the parties acting in concert with any of them beneficially own in aggregate 258,367,381 Shares, representing approximately 32.30% of the entire issued share capital of the Company.

Assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of close of the Open Offer; (ii) none of the Qualifying Shareholders other than the Underwriter, Mr. Liu and the parties acting in concert with them have taken up their entitlements under the Open Offer; and (iii) none of the Unsubscribed Shares have been taken up under the Unsubscribed Arrangement, the interests in the Company held by the Underwriter, Mr. Liu and the parties acting in concert with them upon the close of the Open Offer will increase from the current level of approximately 32.30% to approximately 54.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Open Offer Shares. The Underwriter and Mr. Liu will, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code.

An application has been made by the Underwriter and Mr. Liu to the Executive for the Whitewash Waiver. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, (i) the approval by at least 75% of the Independent Shareholders at the EGM either in person or by proxy by way of poll; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM either in person or by proxy by way of poll in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder. The Underwriter, Mr. Liu and the parties acting in concert with them (including the Undertaking Providers and those by virtue of the class (6) presumption under the definition of "acting in concert" under the Takeovers Code (i.e. Mr. Chen Shancheng and Mr. Chen Zeming)) will abstain from voting on the proposed resolution approving the Whitewash Waiver under the Takeovers Code. Save as aforesaid, no Shareholder is required to abstain from voting in favour of the proposed resolution approving the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Open Offer will not proceed.

Independent Board Committee

The Company has established the Independent Board Committee, comprising the non-executive Director and all the independent non-executive Directors, namely Ms. Liu Hong, Ms. Wang Yingbin, Ms. Wong Yan Ki, Angel, Mr. Tian Tao and Ms. Xiao Huilin to advise the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement, the Placing Agreement and the Whitewash Waiver, and as to voting. Pursuant to Rule 2.8 of the Takeovers Code, members of the independent committee should comprise all non-executive Directors who have no direct or indirect interest in the Whitewash Waiver other than as a Shareholder. Each of Ms. Liu Hong, Ms. Wang Yingbin, Ms. Wong Yan Ki, Angel, Mr. Tian Tao and Ms. Xiao Huilin has no involvement and no direct or indirect interests in the Open Offer, the Underwriting Agreement, the Placing Agreement and the Whitewash Waiver, and is therefore eligible to be a member of the Independent Board Committee. 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 and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated or connected financially or otherwise with the Company, the Underwriter, their respective substantial shareholders and professional advisers, or any party acting, or presumed to be acting, in concert with any of them. In the last two years, there was no engagement or connection between the Group or the Underwriter on one hand and us on the other hand. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Underwriter, their respective substantial shareholders and financial or other professional advisers, or any party acting, or presumed to be acting, in concert with any of them. As such, we are qualified to give independent advice to the Independent Board Committee in respect of the Open Offer, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder, and the Whitewash Waiver pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in this Circular; (ii) the information and opinions provided by the Directors and the management of the Group; and (iii) 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 this Circular were true, accurate and complete in all material 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 this Circular are true in all material respects at the time they were made and continue to be true in all material respects 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 this Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such 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 this 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 material respects at the time they were made and continued to be so until the Latest Practicable Date.

Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in this Circular during the period from the Latest Practicable Date up to the date of the EGM, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this 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 Company, the Underwriter or any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Open Offer, the Underwriting Agreement, the Placing Agreement and the Whitewash Waiver, we have taken into account the following principal factors and reasons:

1. Background of the Group

As stated in the Letter from the Board, the Group is principally engaged in the provision of integrated marketing solutions services in the PRC. The Group's integrated marketing solutions services consist of five types of marketing services, namely (i) content marketing; (ii) software as a service ("**SaaS**") interactive marketing; (iii) digital marketing; (iv) public relations event planning; and (v) media advertising, which accounted for approximately 45.2%, 7.1%, 32.0%, 2.7% and 13.0% of the Group's revenue for the six months ended 30 June 2023, respectively. Content marketing uses content as the carrier and integrates advertisements of brand customers into various events and videos to achieve marketing purposes. Digital marketing services generally include the provision of advertisement and marketing services online (such as video and social media platforms).

(i) Financial performance

Set out below is a summary of (a) the audited financial information of the Group for the years ended 31 December 2021 and 2022 ("**FY2021**" and "**FY2022**", respectively) as extracted from the annual report of the Company for FY2022 (the "**2022 Annual Report**"); and (b) the unaudited financial information of the Group for the six months ended 30 June 2022 and 2023 ("**6M2022**" and "**6M2023**", respectively) as extracted from the interim report of the Company for 6M2023 (the "**2023 Interim Report**"):

	FY2021	**FY2022**	**6M2022**	**6M2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	**353,300**	**498,329**	**198,356**	**287,607**
– Integrated Marketing Services	342,719	450,850	181,768	267,113
– Content marketing services	188,164	273,176	102,617	130,142
– Digital marketing services	87,950	102,007	47,713	91,896
– Public relations event planning services	25,434	17,536	5,659	7,825
– Media advertising services	41,171	58,131	25,779	37,250
– SaaS Interactive Marketing Services	10,581	47,479	16,588	20,494

	FY2021	FY2022	6M2022	6M2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Cost of revenue	(238,764)	(318,699)	(133,254)	(232,942)
Gross profit	**114,536**	**179,630**	**65,102**	**54,665**
Gross profit margin	32.4%	36.0%	32.8%	19.0%
Other revenue	8,505	9,254	3,185	4,114
Other gains and losses	1,409	(3,436)	(2,596)	(1,059)
Selling and marketing expenses	(9,969)	(6,778)	(3,279)	(3,914)
Administrative expenses	(16,913)	(30,493)	(9,884)	(11,635)
Provision for impairment loss on trade receivables and other financial assets, net	(5,758)	(24,844)	(16,331)	(18,469)
Finance costs	(3,787)	(10,419)	(5,859)	(443)
Listing expenses	(8,655)	(22,183)	(5,240)	–
Profit before income tax expense	**79,368**	**90,731**	**25,098**	**23,259**
Income tax expense	(14,627)	(23,031)	(5,616)	(2,784)
Profit attributable to the Shareholders	**56,146**	**67,724**	**19,495**	**20,493**

FY2022 compared to FY2021

For FY2022, the Group's revenue was approximately RMB498.3 million, representing an increase of approximately 41.0% from approximately RMB353.3 million for FY2021. Such increase was mainly due to the Group's persistent business expansion efforts and improved reputation among existing and potential customers. The Group's gross profit margin increased from approximately 32.4% for FY2021 to approximately 36.0% for FY2022, mainly due to the increase in gross profit margin of SaaS interactive marketing services given that a major part of SaaS costs was the amortisation of intangible costs which is fixed in nature.

The Group's profit attributable to the Shareholders increased by approximately 20.6% from approximately RMB56.1 million for FY2021 to approximately RMB67.7 million for FY2022. Such increase was primarily attributable to the increase in revenue and gross profit margin as mentioned above, which was partially offset by (a) the increase in administrative expenses by approximately RMB13.6 million primarily attributable to an increase in R&D costs during the year; (b) the increase in provision for impairment loss on trade receivable and other financial assets by approximately RMB19.1 million, primarily due to the increase in trade receivables which was mainly due to substantial increase in revenue, leading to an increase in provision for bad debts; and (c) the increase in listing expenses by approximately RMB13.5 million.

6M2023 compared to 6M2022

For 6M2023, the Group's revenue was approximately RMB287.6 million, representing an increase of approximately 45.0% from approximately RMB198.4 million for 6M2022, which was mainly due to the Group's continued business expansion and improved reputation among existing and potential customers as well as the launch of the new TikTok distribution channel in March 2023. The Group's gross profit margin decreased from approximately 32.8% for 6M2022 to approximately 19.0% for 6M2023, mainly attributable to the low gross margin of the new TikTok business and the Company's increased exclusive customised outsourcing fees for SaaS interactive marketing services. As set out in the Letter from the Board, since the launch of the TikTok Distribution Channel, the Group has been receiving positive feedback and recognition from its customers, and has received an unexpected surge in the number of orders from its customers for placing advertisements through the TikTok Distribution Channel, exceeding the expectation of the management of the Company. Despite the low gross margin of the TikTok Distribution Channel business, we concur with the Directors that the Group should invest more marketing efforts in promoting the TikTok Distribution Channel to capitalise on the prevailing market trend and to cater such substantial and persistent demand from the Group's customers, thereby increase the market share of the Group in the TikTok Distribution Channel business and promote the long term growth of the Group.

The Group's profit attributable to the Shareholders increased from approximately RMB19.5 million for 6M2022 to approximately RMB20.5 million for 6M2023, mainly due to (a) the decrease in listing expenses by approximately RMB5.2 million; (b) the decrease in finance costs by approximately RMB5.4 million as a result of the Group's repayment of certain loans; and (c) the decrease in income tax expenses by approximately RMB2.8 million, which was partially offset by the decrease in gross profit in line with the decrease in gross profit margin as mentioned above.

(ii) Financial position

Set out below is a summary of the consolidated statements of financial position of the Group as at 31 December 2021 and 2022 and 30 June 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

	As at 31 December		As at 30 June
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Non-current assets, including:	**101,977**	**135,562**	**129,556**
– Intangible assets	87,610	106,134	98,633
Current assets, including:	**247,762**	**580,990**	**680,465**
– Trade receivables	147,470	155,577	167,071
– Prepayments, deposits and other receivables	50,021	78,794	376,473
– Cash and cash equivalents	50,187	329,188	119,366
Total assets	**349,739**	**716,552**	**810,021**
Current liabilities, including:	**192,212**	**170,833**	**244,249**
– Trade payables	20,470	22,585	27,363
– Other payables and accruals	11,157	19,594	22,936
– Contract liabilities	15,493	28,179	128,270
– Borrowings	–	32,052	30,041
– Amounts due to related parties	130,293	–	–
– Income tax payable	11,890	28,077	32,771
Net current assets	**55,550**	**410,157**	**436,216**
Non-current liabilities	**4,018**	**859**	**437**
Total liabilities	**196,230**	**171,692**	**244,686**
Equity attributable to the Shareholders	**151,872**	**543,347**	**565,335**

As at 30 June 2023, total assets of the Group were approximately RMB810.0 million, which mainly consisted of (a) intangible assets of approximately RMB98.6 million, primarily representing of copyright licences of IPs and purchased software for SaaS interactive marketing services; (b) trade receivables of approximately RMB167.1 million; (c) prepayments, deposits and other receivables of approximately RMB376.5 million; and (d) cash and cash equivalents of approximately RMB119.4 million.

As at 30 June 2023, total liabilities of the Group were approximately RMB244.7 million, which mainly consisted of (a) trade payables of approximately RMB27.4 million; (b) other payables and accruals of approximately RMB22.9 million; (c) contract liabilities of approximately RMB128.3 million which mainly related to the advance consideration received from customers by the Group; and (d) borrowings of approximately RMB30.0 million, which were unsecured with effective interest rate of 4.50% to 5.05% per annum, payable on demand or within one year.

(iii) Overall comment

Successfully listed on the Main Board of the Stock Exchange on 9 November 2022, the Group's business performance has been improved during the periods under review, which was mainly due to the Group's continued business expansion and improved reputation among existing and potential customers as well as the launch of the new TikTok distribution channel in March 2023. As stated in the Letter from the Board, in March 2023, to strengthen its cooperation with the leading media platform, TikTok, the Group entered into a strategic partnership with TikTok to launch the new TikTok distribution channel to become the first-tier agent of TikTok.

The Group's cash and cash equivalents decreased from approximately RMB329.2 million as at 31 December 2022 to approximately RMB119.4 million as at 30 June 2023. The Group recorded cash used in operation of approximately RMB167.4 million for 6M2023, while the Group recorded cash generated from operations of approximately RMB32.4 million for 6M2022, mainly due to the increase in prepayments, deposits and other receivables in line with the expansion of the Group's integrated marketing services business.

The revenue from the digital marketing services increased by approximately 92.6% from approximately RMB47.7 million for 6M2022 to approximately RMB91.9 million for 6M2023, mainly due to the launch of the TikTok Distribution Channel in March 2023. As stated in the Letter from the Board, since the launch of the TikTok Distribution Channel, the Group has been receiving positive feedback and recognition from its customers, and has received an unexpected surge in the number of orders from its customers for placing advertisements through the TikTok Distribution Channel, exceeding the expectation of the management of the Company. With the fast growth of the Group's TikTok Distribution Channel business, we concur with the Directors that it is justifiable for the Group to allocate a substantial amount of net proceeds from the Open Offer to further invest resources in such business segment which requires a substantial amount of prepayments to be made by the Group before the execution of advertisement placement.

2. Reasons for the Open Offer and the use of proceeds

The gross proceeds from the Open Offer are expected to be approximately HK$60.0 million. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK$57.76 million. The net price per Open Offer Share is expected to be approximately HK$0.144. The Company intends to apply the net proceeds from the Open Offer as follows:

(i) approximately HK$51.98 million for purchasing media resources, in particular, the online traffic from TikTok for the Group's customers to place advertisements via the TikTok Distribution Channel, and promotion of the TikTok Distribution Channel; and

(ii) approximately HK$5.78 million as general working capital of the Company.

As stated in the Letter from the Board, the net proceeds of approximately HK$84.8 million from the Global Offering originally allocated for scaling up the Group's IP contents portfolio and expanding its integrated marketing solutions business had already been fully utilised as at 30 November 2023, and the Group has decided to re-allocate approximately HK$34.2 million of the unutilised net proceeds from the Global Offering to expand its IP contents portfolio and its integrated marketing solutions business (the "**Re-allocated Unutilised Proceeds**"). The Group is principally engaged in provision of integrated marketing solutions services in the PRC. As stated in the Prospectus, to further expand its integrated marketing solutions business, the Group intends to further enhance online and offline channel resources integration by deepening cooperation with existing media channels and exploring new business opportunities with new media channels such as online video platforms, live streaming platforms and popular key opinion leaders.

In March 2023, to strengthen its cooperation with the leading media platform, TikTok, the Group entered into a strategic partnership with TikTok to launch the new TikTok Distribution Channel to become the first-tier agent of TikTok. As a result, the Group's revenue from its integrated marketing services, in particular the digital marketing services, has been growing steadily since the first half of 2023. Since the launch of the TikTok Distribution Channel, the Group has been receiving positive feedback and recognition from its customers, and has received an unexpected surge in the number of orders from its customers for placing advertisements through such channel, exceeding the expectation of the management of the Company. To cater such substantial and persistent demand from the Group's customers, the Company intends to further purchase additional advertising resources from TikTok, in particular, its online traffic. In view of the successful debut of the TikTok Distribution Channel, the Company considers there is a growth potential in the TikTok Distribution Channel and expects the TikTok Distribution Channel business to continue to grow, and thus intends to invest more marketing efforts in promoting the TikTok Distribution Channel to accelerate the development of such channel so as to capitalise on the prevailing market trend. We have obtained and reviewed the operational data of the Group for the nine months ended 30 November 2023, and noted that the Group had received orders amounting to approximately RMB100.0 million and RMB72.2 million on average per month from its customers for advertising on the TikTok

Distribution Channel for the three months ended 30 November 2023 and for the nine months ended 30 November 2023, respectively. Given the number of orders received by the Group in respect of utilising the TikTok Distribution Channel has been growing exponentially, we consider the existing cash reserves of the Group and the Re-allocated Unutilised Proceeds are insufficient for the development of the TikTok Distribution Channel business. Taking into account (i) the net proceeds of approximately HK$51.98 million from the Open Offer represents approximately half of the average monthly TikTok orders received by the Group for the three months ended 30 November 2023; (ii) the Re-allocated Unutilised Proceeds; and (iii) the Group was in the course of applying for credit lines of RMB180 million in aggregate from banks as discussed below, we consider the net proceeds of approximately HK$51.98 million from the Open Offer will be sufficient for the Group to cater the growing demand from the Group's customers.

Further, as stated in the Announcement, the Company, through its indirect wholly-owned subsidiary, Xiamen Instant Interactive, has entered into a cooperation agreement with Shanghai Yuzheng on 14 December 2023 in relation to the formation of the JV Company, pursuant to which, among others, Xiamen Instant Interactive has committed to make a capital contribution of RMB47 million in cash to the JV Company. According to the aforesaid agreement, such capital contribution has to be made by Xiamen Instant Interactive by May 2024. In view of such existing obligation of making capital contribution to the JV Company, the Company has decided to re-allocate approximately HK$51.6 million of the unutilised net proceeds from the Global Offering to the establishment of the JV Company to satisfy such imminent funding need instead of re-allocating such portion of unutilised net proceeds from the Global Offering to the development of the TikTok Distribution Channel business, which has been financed by the Group's internal resources and bank borrowings.

As at the Latest Practicable Date, (i) approximately HK$13.3 million of the Re-allocated Unutilised Proceeds have not been utilised; (ii) the capital contribution to the JV Company has been completed; and (iii) other net proceeds from the Global Offering have been utilised.

In light of the above, to capture the unexpected escalating demand for the digital marketing services of the Group mainly attributable to the launch of the TikTok Distribution Channel in March 2023, which was not emerged at the time when the Company was formulating its future plans and use of proceeds as set out in the prospectus of the Company dated 28 October 2022, the Directors are of the view that it is justifiable for the Group to allocate a substantial amount of net proceeds from the Open Offer to further invest resources in such business segment in addition to the Re-allocated Unutilised Proceeds to fuel the expected growth of the Group's business in light of the emerging trend of utilising prevailing online marketing tools, including TikTok, in the PRC.

As mentioned in the sub-section headed "1. Background of the Group — (iii) Overall comment" above, the Group's cash and cash equivalents decreased from approximately RMB329.2 million as at 31 December 2022 to approximately RMB119.4 million as at 30 June 2023. The Group recorded cash used in operation of approximately RMB167.4 million for 6M2023, while the Group recorded cash generated from operations of approximately RMB32.4 million for 6M2022, mainly due to the increase in prepayments, deposits and other receivables in line with the expansion of the Group's integrated marketing services business. Hence, the Group encountered pressure on cash liquidity and is in need for fund raising to promote its TikTok Distribution Channel business.

According to an entertainment and media industry report issued by PricewaterhouseCoopers on 13 July 2023 (source: https://www.pwccn.com/en/industries/telecommunications-media-and-technology/publications/entertainment-and-media-outlook-2023-2027.html), the internet advertising market size in terms of revenue in the PRC is expected to grow at a compound annual growth rate of approximately 9.1% from 2022 to 2027, mainly driven by short video social platforms and live broadcasts. As stated in the website of PricewaterhouseCoopers, PricewaterhouseCoopers has been providing global entertainment and media industry outlook for 24 years and the industry reports cover 13 entertainment and media segments across 53 countries and territories.

Considering (i) the growth potential of the internet advertising market in the PRC; and (ii) the Group has received an unexpected surge in the number of orders from its customers for placing advertisements through TikTok Distribution Channel, we concur with the Directors that it is justifiable for the Group to allocate a substantial amount of net proceeds from the Open Offer to further invest resources in TikTok Distribution Channel business in addition to the Reallocated Unutilised Proceeds.

Alternative fundraising methods

As confirmed by the management of the Group, the Board has considered alternative fundraising methods which included debt financing, placing of new Shares and rights issue.

As disclosed in the voluntary announcement of the Company dated 5 December 2023, the Group was in the course of applying for credit lines of RMB180 million in aggregate (the "**Credit Lines**") from Xiamen International Bank Xiamen Branch (in respect of credit line of RMB100 million), Shanghai Pudong Development Bank Xiamen Branch (in respect of credit line of RMB50 million) and Industrial and Commercial Bank of China (in respect of credit line of RMB30 million) for a period of not more than two years subject to and in accordance with the terms and conditions to be agreed by the banks. As at the Latest Practicable Date, the Credit Lines have not been approved by the banks. Given it is not able to estimate when and in what amount the Credit Lines will be obtained, the Board is of the view that equity financing is an appropriate fundraising method in addition to debt financing.

The Board is also of the view that placing of new Shares (i) would only be available to certain placees who may not necessarily be existing Shareholders and would dilute the shareholding of existing Shareholders; and (ii) may raise funds in a relatively larger size in light of the funding needs set out above. Although rights issue, as compared to an open offer, can provide an additional option to those Shareholders who do not wish to take up their entitlements by selling their entitled nil-paid rights, the Board is of the view that a rights issue involving the trading of nil-paid rights would incur extra administrative work and cost for preparation, printing, posting and processing of trading arrangements in relation to the nil-paid rights. The Company will also incur additional resources to administer the trading of the nil-paid rights including communication between the Company and other parties, such as the Registrar or financial printer engaged by the Company. Given the thin turnover of trading in the Shares as discussed in the section headed "Average daily trading volume of the Shares", there may be no active market in nil-paid rights. We concur with the Board that raising funds by way of the Open Offer is more cost-effective and efficient as compared to a rights issue.

Taking into account (i) the cash liquidity pressure of the Group; (ii) the funding requirement of the Group to further invest resources in the TikTok Distribution Channel business; (iii) the Open Offer will provide all Qualifying Shareholders the right to participate in the new share issue by the Company in proportion to their shareholding in the Company should they wish to do so; (iv) the Open Offer will strengthen the capital base of the Group for further development; and (v) raising equity funding via the Open Offer is able to save financial costs to be incurred for the Company as compared to alternative fundraising methods, we concurred with the Directors that the Open Offer is the most appropriate mean of financing over the alternative fundraising methods and is in the interest of the Company and the Shareholders as a whole.

3. Principal terms of the Open Offer, the Irrevocable Undertakings, the Underwriting Agreement and the Placing Agreement

(i) The Open Offer

For details of the terms of the Open Offer, please refer to the section headed "Proposed Open Offer" in the Letter from the Board. Set out below are the principal terms of the Open Offer:

Basis of the Open Offer	:	One (1) Open Offer Share for every two (2) existing Shares held by the Shareholders on the Record Date
Open Offer Price	:	HK$0.15 per Open Offer Share
Number of Shares in issue as at the Latest Practicable Date	:	800,000,000 Shares
Number of Open Offer Shares	:	400,000,000 Open Offer Shares (assuming no change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date)
Underwriter	:	Many Idea Liujianhui

As at the Latest Practicable Date, no share options have been granted by the Company under any of its share schemes, and the Company has no other outstanding warrants, options or convertible securities in issue or other similar rights which confer any right to convert into or subscribe for Shares.

The Company has no intention to issue any new Shares and any other securities except the Open Offer Shares before completion of the Open Offer. Assuming no changes in the share capital of the Company on or before the Record Date, the number of 400,000,000 Open Offer Shares to be issued pursuant to the Open Offer represent approximately 50.0% of the total number of the existing issued Shares as at the Latest Practicable Date and approximately 33.3% of the total number of issued Shares as enlarged immediately upon the completion of the Open Offer (assuming all the Open Offer Shares will be taken up).

(ii) The Irrevocable Undertakings

As at the Latest Practicable Date, the Undertaking Providers are interested in an aggregate of 258,367,381 Shares (representing approximately 32.30% of the entire issued share capital of the Company as at the Latest Practicable Date).

Pursuant to the Irrevocable Undertakings, the Undertaking Providers have irrevocably undertaken to the Company (a) to apply and pay for or to procure their respective associates (as defined under the Listing Rules) to apply and pay for all Open Offer Shares which will be in the assured allotment of Open Offer Shares in respect of the 258,367,381 Shares beneficially owned by them; (b) that they will remain to be the beneficial owners of the 258,367,381 Shares at the close of business on the Record Date; (c) to procure that the application for the Open Offer Shares will be lodged with the Registrar or the Company, in accordance with the terms of the Prospectus Documents, provided that the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not having been revoked or withdrawn; and (d) that they will not, and will procure their respective associates that they will not, without first having obtained prior written consent of the Company transfer or otherwise dispose of (including without limitation the agreement to dispose of, or the creation of any option or derivative) or acquire any Share (except the application of the Open Offer Shares under the assured allotment of the Open Offer Shares under the Open Offer) or any interest therein between the date of the Irrevocable Undertakings and the Record Date.

(iii) The Underwriting Agreement

For details of the terms of the Underwriting Agreement, please refer to the section headed "The Underwriting Agreement for the Open Offer" in the Letter from the Board. Set out below are the principal terms of the Underwriting Agreement:

Date	:	28 December 2023
Parties	:	(a) The Company; and
		(b) The Underwriter, being the underwriter to the Open Offer

		The Underwriter is a substantial shareholder of the Company which beneficially holds 130,457,399 Shares, representing approximately 16.31% of the entire issued share capital of the Company as at the Latest Practicable Date. As such, the Underwriter complies with Rule 7.19(1)(b) of the Listing Rules. The Underwriter is an investment holding company and is not engaged in the business of underwriting securities.
Number of Open Offer Shares underwritten	:	All such Unsubscribed Shares that have not been placed by the Placing Agent or they have been placed but the placees have not paid therefor at 4:00 p.m. on the Placing End Date.
Commission	:	Nil

(iv) ***The Placing Agreement***

Pursuant to Rule 7.26A(2) of the Listing Rules, as the Underwriter, being a substantial shareholder of the Company, will act as the underwriter of the Open Offer, the Company must make arrangements as stipulated in Rule 7.26A(1)(b) of the Listing Rules to dispose of any Unsubscribed Shares by offering such Unsubscribed Shares to independent placees for the benefit of the relevant No Action Shareholders.

Any Unsubscribed Shares (which comprise (a) the fractional Open Offer Shares aggregated; (b) the Open Offer Shares that are not subscribed by the Qualifying Shareholders; and/or (c) Open Offer Shares which would otherwise have been in the assured allotments of the Non-Qualifying Shareholders) will be first placed by the Placing Agent under the Unsubscribed Arrangements to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties, and if not successfully placed out, will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

In order to comply with the Listing Rules, the Company has entered into the Placing Agreement with the Placing Agent to place the Unsubscribed Shares at the Placing Price. Any unplaced Unsubscribed Shares will then be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

For details of the terms of the Placing Agreement, please refer to the section headed "Principal terms of the Placing Agreement" in the Letter from the Board. Set out below are the principal terms of the Placing Agreement:

Placing Agent	:	Metaverse Securities Limited
Placing commission	:	2.5% of the gross proceeds from the subscription of the Unsubscribed Shares successfully placed by the Placing Agent as at the date of Open Offer Completion
Placing Price	:	Not less than HK$0.15 per Unsubscribed Share
Placing Period	:	The Placing Period will commence on 15 April 2024 and end on 16 April 2024 or such other dates as the Company may announce, being the period during which the Placing Agent will conduct the Placing.
Placee(s)	:	The Unsubscribed Shares are expected to be placed to not less than six investors, who/which will be professional, institutional, corporate and/or individual investors selected and procured by or on behalf of the Placing Agent on a best effort basis. The Placing Agent will, on a best effort basis, ensure that these placees (or as the case may be, their ultimate beneficial owner(s)) will be Independent Third Parties. For the avoidance of doubt, no placee will become a substantial shareholder of the Company.

The Placing Agent will, on a best effort basis during the Placing Period, seek to procure subscribers who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties for all (or as many as possible) of the Unsubscribed Shares.

4. Assessment of the principal terms of the Open Offer, the Irrevocable Undertakings, the Underwriting Agreement and the Placing Agreement

(i) The Open Offer Price

The Open Offer Price of HK$0.15 per Open Offer Share, payable in full by a Qualifying Shareholder upon application for the assured allotment of Open Offer Shares under the Open Offer, represents:

(a) a discount of approximately 1.32% over the closing price of HK$0.152 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 34.50% over the closing price of HK$0.229 per Share as quoted on the Stock Exchange on the date of the Underwriting Agreement and the Placing Agreement;

(c) a discount of approximately 31.19% over the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$0.218;

(d) a discount of approximately 32.43% over the average of the closing prices per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK$0.222;

(e) a discount of approximately 23.08% to the theoretical ex-entitlement price of approximately HK$0.195 per Share based on the closing price of HK$0.217 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Open Offer Shares;

(f) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 11.35% represented by the theoretical diluted price of approximately HK$0.203 to the benchmarked price of approximately HK$0.229 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the date of the Underwriting Agreement and the Placing Agreement of HK$0.229 per Share and the average closing price of the Shares in the five trading days immediately prior to the date of the Announcement of HK$0.218 per Share); and

(g) a discount of approximately 80.31% and 80.44% to the audited and unaudited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2022 and 30 June 2023 of approximately HK$0.762 and HK$0.767 per Share, respectively, calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately RMB544.86 million and RMB565.34 million (equivalent to approximately HK$609.70 million and HK$613.39 million based on the exchange rate of RMB1.000 to HK$1.119 and RMB1.000 to HK$1.085 as at 31 December 2022 and 30 June 2023, respectively) as at 31 December 2022 and 30 June 2023, respectively, and 800,000,000 Shares then in issue as at both of the aforesaid dates.

The terms of the Open Offer, including the Open Offer Price, were determined by the Board with reference to (a) the prevailing market condition; (b) the prevailing market prices of the Shares; and (c) the capital required for the Group's business development as detailed in the section headed "Reasons for the Open Offer and the use of proceeds" in the Letter from the Board. The Open Offer Shares will be offered to all Shareholders and each Qualifying Shareholder will be entitled to apply for the Open Offer Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date.

(a) Comparison with the historical closing prices of the Shares

In order to assess the fairness and reasonableness of the Open Offer Price, we have performed a review on the daily closing prices of the Shares from 1 December 2022 to the Last Trading Day (i.e. 27 December 2023) (the "**Review Period**"), being approximately one year preceding the Last Trading Day, and up to the Latest Practicable Date. We consider the Review Period is adequate to reflect the general market sentiment and illustrates the general trend and level of movement of the daily closing price of the Shares.

Performance of Share price

Source: Website of the Stock Exchange

As shown above, the closing prices of the Shares were above the Open Offer Price at all times during the Review Period, ranging from HK$0.209 on 14 December 2023 to HK$0.74 on 7 December 2022. In other words, the discounts of the Open Offer Price to the closing prices of the Shares ranged from approximately 28.23% to 79.73% during the Review Period.

During the Review Period, the closing price of the Shares exhibited a general downward trend from the highest of HK$0.74 on 7 December 2022 to the lowest of HK$0.209 on 14 December 2023. Based on our review of the Company's announcements published on the website of the Stock Exchange during the Review Period, except for the publication of annual results and interim results announcements as indicated in the graph above, there is no particular reason and we are not aware of any information causing the fluctuations on the closing price of the Shares. As at the Latest Practicable Date, the closing price of the Shares was HK$0.152, over which the Open Offer Price represents a discount of approximately 1.32%.

As discussed in the sub-section headed "(c) Comparison with recent open offer exercises" below, we note that it is a common market practice to set the Open Offer Price at a discount to the prevailing market prices of the relevant share in order to increase the attractiveness and encouraging shareholders to participate in the Open Offer so as to meet the company's need for additional funding.

(b) Average daily trading volume of the Shares

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the period from 1 December 2022 to the Latest Practicable Date:

	Number of trading days	**Approximate average daily trading volume**	**Approximate percentage of average daily trading volume to total number of Shares in issue** *(Note 1)*	**Approximate percentage of average daily trading volume to total number of Shares held by the public** *(Note 2)*
2022				
December	20	13,622,900	1.70%	2.60%
2023				
January	18	4,456,778	0.56%	0.85%
February	20	1,912,500	0.24%	0.36%
March	23	1,265,130	0.16%	0.24%
April	17	766,588	0.10%	0.15%
May	21	359,429	0.04%	0.07%
June	21	766,857	0.10%	0.15%
July	20	399,200	0.05%	0.08%
August	23	332,435	0.04%	0.06%
September	19	291,158	0.04%	0.06%
October	20	296,600	0.04%	0.06%
November	22	368,364	0.05%	0.07%
December	19	1,156,316	0.14%	0.22%
From 1 January to the Latest Practicable Date	15	609,067	0.08%	0.12%

Source: Website of the Stock Exchange

Notes:

1. Based on the total number of the Shares in issue at the end of each month or period.

2. Based on the number of Shares held by public Shareholders at the end of each month or period.

The average daily trading volume for the respective month or period during the above period ranged from approximately 291,158 Shares in September 2023 to approximately 13,622,900 Shares in December 2022, representing approximately 0.04% to 1.70% of the total number of the Shares in issue and approximately 0.06% to 2.60% of the total number of the Shares held by the public, respectively. As the Shares were listed on the Stock Exchange since November 2022, the trading of the Shares remained active in December 2022. Thereafter, the trading of the Shares was generally inactive.

Given the thin trading liquidity of the Shares during the Review Period, especially in 2023, we consider that it is reasonable for the Open Offer Price to be set at a discount to the prevailing historical closing prices of the Shares in order to attract the Qualifying Shareholders to participate in the Open Offer and to maintain their respective shareholdings in the Company.

(c) Comparison with recent open offer exercises

In order to further assess the fairness and reasonableness of the terms of the Open Offer, we have further reviewed the open offer exercises which (1) were initially announced by the companies listed on the Main Board of the Stock Exchange for the period from 1 January 2021 up to the Last Trading Day (being approximately three years); (2) were completed on the Last Trading Day; and (3) raised gross proceeds less than HK$100 million which we consider comparable to that of the Open Offer. We have identified an exhaustive list of three open offer exercises (the "**Comparable Transactions**"). We consider that the aforesaid review period of approximately three years is adequate and appropriate to (1) capture the recent market practice in relation to open offer exercises under the prevailing market conditions; and (2) provide a sufficient sample for comparison with the Open Offer. Although rights issue and open offer are similar and both allow qualifying shareholders to subscribe for shares in proportion to what they currently own, the open offer does not allow the trading of rights entitlements in the open market. As for placing of new shares, shareholders do not have equal opportunity to maintain their respective pro rata shareholding. As such, we consider it not appropriate to include other type of fund raising exercise for assessing the terms of the Open Offer.

Although the listed issuers involved in the Comparable Transactions have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company, and the Comparable Transactions have different basis of entitlement and arrangements which are not comparable to the Open Offer, we consider that the Comparable Transactions can provide a general reference to the pricing trend of recent open offer exercises under the current market conditions, so as to determine whether the Open Offer Price is in line with those of recent open offer exercises in the market.

The details of the Comparable Transactions are set out below:

Date of announcement	Company name (stock code)	Basis of entitlement	Gross proceeds *(HK$ million)*	Discount of the Open Offer Price to the closing price on the last trading day *(%)*	Discount of the Open Offer Price to the theoretical ex-entitlement price based on the closing price on the last trading day *(%)*	Discount of the open offer price to the consolidated net asset value attributable to the shareholders *(%)*	Maximum dilution *(%)* *(Note 1)*	Theoretical dilution *(%)* *(Note 2)*	Underwriting commission *(%)*	Excess application	Placing commission
3 August 2023	First Shanghai Investments Limited (227.HK)	2 for 5	68.8	(12.00)	(9.09)	(92.60)	28.57	3.20	2.00	No	1.00
19 November 2021	First Shanghai Investments Limited (227.HK)	1 for 11	29.6	(17.60)	(16.30)	(88.40)	8.33	1.40 *(Note 3)*	N/A	No	1.00
1 September 2021	Da Sen Holdings Group Limited (1580.HK)	3 for 5	23.4	(65.52)	(54.55)	(75.76)	37.50	24.57	N/A	Yes	N/A
23 July 2021	First Shanghai Investments Limited (227.HK)	1 for 5	76.6	(19.40)	(16.70)	(85.30)	16.67	3.00	N/A	No	1.00
			Minimum	(12.00)	(9.09)	(75.76)	8.33	1.40	2.00		1.00
			Maximum	(65.52)	(54.55)	(92.60)	37.50	24.57	2.00		1.00
			Average	(28.63)	(24.16)	(85.52)	22.77	8.04	2.00		1.00
28 December 2023	**The Company**	**1 for 2**	**60.0**	**(30.88)**	**(23.08)**	**(80.44)**	**33.33**	**11.35**	**Nil**	**No**	**2.50**

Source: *Website of the Stock Exchange*

Notes:

1. The maximum dilution is calculated by the number of offer shares divided by the total number of issued shares as enlarged by the issue of the offer shares.

2. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules.

3. The cumulative theoretical dilution effect is approximately 2.8% if the open offers announced by First Shanghai Investments Limited on 19 November 2021 and 23 July 2021 are aggregated.

As set out in the table above, we note that it is a common market practice that the open offer price represents a discount to the prevailing closing share prices prior to the announcement of the open offer and to the theoretical ex-entitlement price of the shares. We also note that:

(1) the open offer prices to the share price on the last trading day of the Comparable Transactions ranged from a discount of approximately 12.00% to a discount of approximately 65.52%, with an average discount of approximately 28.63%. The discount of approximately 30.88% as represented by the Open Offer Price to the closing price of the Shares on the Last Trading Day is within the range of the Comparable Transactions and close to the average discount of the Comparable Transactions;

(2) the open offer prices to the theoretical ex-entitlement price per share based on the last trading day of the Comparable Transactions ranged from a discount of approximately 9.09% to a discount of approximately 54.55%, with an average discount of approximately 24.16%. The discount of approximately 23.08% as represented by the Open Offer Price to the theoretical ex-entitlement price based on the closing price of the Shares on the Last Trading Day is within the range of the Comparable Transactions and lower than the average discount of the Comparable Transactions;

(3) the open offer prices to the consolidated net asset value attributable to the shareholders of the Comparable Transactions ranged from a discount of approximately 92.60% to a discount of approximately 75.76%, with an average discount of approximately 85.52%. The discount of approximately 80.44% as represented by the Open Offer Price to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023 is within the range of the Comparable Transactions and lower than the average discount of the Comparable Transactions; and

(4) the theoretical dilution effect of the Comparable Transactions ranged from approximately 1.40% to 24.57%, with an average dilution effect of approximately 8.04%. The theoretical dilution effect of the Open Offer of approximately 11.35% is within the range of the Comparable Transactions and higher than the average of the Comparable Transactions.

Given that (a) as shown in the table above, it is a common market practice that the open offer price represents a discount to the closing share price prior to the announcement of the open offer and to the theoretical ex-entitlement price of the shares; (b) the higher discount of the Open Offer Price could enhance the attractiveness of the Open Offer and encourage the Qualifying Shareholders to participate in the Open Offer; (c) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Open Offer Price as long as they are offered with an equal opportunity to participate in the Open Offer and subscribe for the Offer Shares; (d) the discounts of the Open Offer Price to the closing price of the Shares on the Last Trading Day and the theoretical ex-entitlement price of the Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and close to the average discounts of the Comparable Transactions; and (e) the discount of the Open Offer Price to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023 is within the range of the Comparable Transactions and lower than the average discount of the Comparable Transactions, we are of the view that the Open Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

Because the Company has put in place the above Unsubscribed Arrangements as required by Rule 7.26A(1)(b) of the Listing Rules, there will be no excess application arrangements in relation to the Open Offer as stipulated under Rule 7.26A(1)(a) of the Listing Rules.

(ii) The Underwriting Agreement

Pursuant to the Underwriting Agreement, the Underwriter will not charge any underwriting commission for the Open Offer. We consider that this is beneficial to the Company as it can avoid any additional transaction cost to be incurred should the Company appoint a willing independent broker to act as the underwriter for the Open Offer.

Having considered that (a) the Untaken Offer Shares will first be placed to the independent placee(s) before underwritten by the Underwriter; (b) the underwriting arrangement will enable the Group to secure funding if the level of subscription of the Open Offer is low; (c) the nil underwriting commission for the Underwriter under the Underwriting Agreement is beneficial to the Company; and (d) the Open Offer (including its use of proceeds) is in the interests of the Company and the Shareholders as a whole, we are of the view that (a) the Underwriting Agreement and the transactions contemplated thereunder are in the interests of the Company and the as a whole; and (b) the terms of the Underwriting Agreement are on normal commercial terms and are fair and reasonable.

(iii) The Irrevocable Undertakings

Pursuant to the Irrevocable Undertakings, the Undertaking Providers have irrevocably undertaken to the Company (a) to apply and pay for or to procure their respective associates (as defined under the Listing Rules) to apply and pay for all Open Offer Shares which will be in the assured allotment of Open Offer Shares in respect of the 258,367,381 Shares beneficially owned by them; (b) that they will remain to be the beneficial owners of the 258,367,381 Shares at the close of business on the Record Date; (c) to procure that the application for the Open Offer Shares will be lodged with the Registrar or the Company, in accordance with the terms of the Prospectus Documents, provided that the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not having been revoked or withdrawn; and (d) that they will not, and will procure their respective associates that they will not, without first having obtained prior written consent of the Company transfer or otherwise dispose of (including without limitation the agreement to dispose of, or the creation of any option or derivative) or acquire any Share (except the application of the Open Offer Shares under the assured allotment of the Open Offer Shares under the Open Offer) or any interest therein between the date of the Irrevocable Undertakings and the Record Date.

Having considered that (a) the Irrevocable Undertakings were given by the Undertaking Providers in favour of the Company which solely represent the intention of the Undertaking Providers in respect of their interests in the securities of the Company under the Open Offer; and (b) the Irrevocable Undertakings indicate the Undertaking Providers' support for the Open Offer as they have undertaken to apply and pay for the Open Offer Shares which will be in the assured allotment of Open Offer Shares in respect of the 258,367,381 Shares beneficially owned by them, we consider that the terms of the Irrevocable Undertakings are fair and reasonable.

(iv) The Placing Agreement

Pursuant to the Placing Agreement, any Unsubscribed Shares will be first placed by the Placing Agent under the Unsubscribed Arrangements to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties, and if not successfully placed out, will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Under the Placing Agreement, the Placing Agent will charge the Company a placing commission of 2.5% of the of the gross proceeds from the subscription of the Unsubscribed Shares successfully placed by the Placing Agent as at the date of Open Offer Completion (the "**Placing Commission**"). There will be no excess application arrangements in relation to the Open Offer as stipulated under Rule 7.26A(1)(a) of the Listing Rules.

(a) *The Placing Price*

Given that (1) the Placing Price shall be not less than the Open Offer Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (2) the Open Offer Price is fair and reasonable as discussed in the sub-section headed "(i) The Open Offer Price" above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) *The Placing Commission*

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent the Placing Commission of 2.5% of the gross proceeds from the subscription of the Unsubscribed Shares successfully placed by the Placing Agent as at the date of Open Offer Completion. As advised by the management of the Group, the Placing Commission was determined after arm's length negotiation between the Placing Agent and the Company with reference to the prevailing market rate and the Company considers the terms to be normal commercial terms.

The placing of Unsubscribed Shares by the Placing Agent is of similar nature as those under non-underwritten placing of new shares by companies listed on the Stock Exchange. To assess the fairness and reasonableness of the Placing Commission, we have conducted a search of recent non-underwritten placing of new shares by companies listed on the Main Board of the Stock Exchange (the "**Placing Comparables**") announced from 1 November 2023, being approximately two months prior to the Last Trading Day, up to the Last Trading Day, so as to reflect the general trend of placing transactions in the market.

Set out below is a summary of the Placing Comparables:

Date of announcement	Company name (stock code)	Commission rate payable to the placing agent
3 November 2023	Life Healthcare Group Limited (928.HK)	3.0%
7 November 2023	Core Economy Investment Group Limited (339.HK)	1.5%
7 November 2023	InvesTech Holdings Limited (1087.HK)	3.5%
9 November 2023	Green Energy Group Limited (979.HK)	1.0%
9 November 2023	Pak Tak International Limited (2668.HK)	1.0%
20 November 2023	China Shenghai Group Limited (1676.HK)	2.0%
30 November 2023	K.H. Group Holdings Limited (1557.HK)	(i) HK$300,000; or (ii) 0.6% of the amount which is equal to the placing price multiplied by the total number of the placing shares which are successfully placed by the placing agent, which is higher
1 December 2023	Infinities Technology International (Cayman) Holding Limited (1961.HK)	2.5%
13 December 2023	Starlight Culture Entertainment Group Limited (1159.HK)	1.0%
15 December 2023	China Zenith Chemical Group Limited (362.HK)	3.0%
21 December 2023	Guangzhou Rural Commercial Bank Co., Ltd. (1551. HK)	Not disclosed in the announcement
22 December 2023	Balk 1798 Group Limited (1010.HK)	3.0%

Source: Website of the Stock Exchange

We noted that the commission fees payable to the respective placing agents under the Placing Comparables ranged from 0.6% to 3.5% of the gross proceeds from the placing with a median and mean of approximately 2.0%. Given the Placing Commission is within the range of the commission fees of the Placing Comparable sand is only 0.5% higher than the median and mean of the Placing Comparables, we consider that the Placing Commission is fair and reasonable.

We have also reviewed other major terms of the Placing Agreement, including the conditions and the termination of the Placing Agreement, and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Placing Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

In view of the above, we consider that the implementation of the Unsubscribed Arrangements is in the interests of the Company and the Shareholders as a whole.

5. Potential dilution effect on the shareholding interests of the Independent Shareholders

All Qualifying Shareholders are entitled to subscribe for the Open Offer Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Open Offer, their shareholding interests in the Company will not be diluted after the Open Offer. Qualifying Shareholders who do not accept the Open Offer and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Open Offer.

Upon the completion of the Open Offer (assuming no acceptance by the Qualifying Shareholders (other than the Underwriter, Mr. Liu and the parties acting in concert with them) under the Open Offer and no Independent Third Parties took up the Unsubscribed Shares such that all the Unsubscribed Shares were taken up by the Underwriter), the shareholding of the existing public Shareholders will be diluted to approximately 43.71%.

For illustrative purposes only, set out below is the shareholding structure of the Company as at (i) the Latest Practicable Date; (ii) immediately upon the Open Offer Completion assuming full acceptance by all Qualifying Shareholders under the Open Offer; (iii) immediately upon the Open Offer Completion assuming (a) no acceptance by the Qualifying Shareholders (other than the Underwriter, Mr. Liu and the parties acting in concert with them) under the Open Offer; and (b) all the Unsubscribed Shares were placed to Independent Third Parties under the Unsubscribed Arrangements ("**Scenario I**"); and (iv) immediately upon the Open Offer Completion assuming (a) no acceptance by the Qualifying Shareholders (other than the Underwriter, Mr. Liu and the parties acting in concert with them) under the Open Offer; and (b) no Independent Third Parties took up the Unsubscribed Shares such that all the Unsubscribed Shares were taken up by the Underwriter ("**Scenario II**"):

	As at the date of the Latest Practicable Date		Immediately upon the Open Offer Completion assuming full acceptance by all Qualifying Shareholders under the Open Offer		Scenario I		Scenario II	
	No. of issued Shares	*%*	*No. of issued Shares*	*%*	*No. of issued Shares*	*%*	*No. of issued Shares*	*%*
The Underwriter *(Note 1)*	130,457,399	16.31	195,686,099	16.31	195,686,099	16.31	466,502,409	38.88
Xiamen Dream Future *(Notes 2 and 3)*	126,330,885	15.79	189,496,328	15.79	189,496,328	15.79	189,496,327	15.79
Many Idea Qushuo *(Notes 3 and 4)*	1,579,097	0.20	2,368,645	0.20	2,368,645	0.20	2,368,645	0.20
Subtotal	**258,367,381**	**32.30**	**387,551,072**	**32.30**	**387,551,072**	**32.30**	**658,367,381**	**54.87**
Directors *(Note 5)*								
Mr. Chen Shancheng	15,119,887	1.89	22,679,830	1.89	15,119,887	1.26	15,119,887	1.26
Mr. Chen Zeming	1,963,278	0.25	2,944,917	0.25	1,963,278	0.16	1,963,278	0.16
Subtotal (the Underwriter, Mr. Liu, the parties acting in concert with them and Directors)	**275,450,546**	**34.44**	**413,175,819**	**34.44**	**404,634,225**	**33.72**	**675,450,546**	**56.29**
Independent placees	–	–	–	–	270,816,321	22.57	–	–
Other public Shareholders	524,549,454	65.56	786,824,181	65.56	524,549,454	43.71	524,549,454	43.71
Total	**800,000,000**	**100.00**	**1,200,000,000**	**100.00**	**1,200,000,000**	**100.00**	**1,200,000,000**	**100.00**

Notes:

1. The Underwriter is an investment holding company beneficially and wholly owned by Mr. Liu. Under the Takeovers Code, Mr. Liu is a party acting in concert with the Underwriter by virtue of his shareholding in the Underwriter. Under the SFO, Mr. Liu is deemed to be interested in all the Shares registered in the name of the Underwriter.

2. Xiamen Dream Future is owned as to 90% by ZJJ Many Idea, 9.9% by Mr. Liu and 0.1% by Ms. Qu. ZJJ Many Idea is owned as to 99% by Mr. Liu and 1% by Ms. Qu. Accordingly, ZJJ Many Idea is deemed to be interested in such number of Shares held by Xiamen Dream Future by virtue of the SFO.

3. Mr. Liu is the spouse of Ms. Qu. Each of Mr. Liu and Ms. Qu is deemed to be interested in the Shares held by one another by virtue of the SFO.

4. Many Idea Qushuo is wholly owned by Ms. Qu. Accordingly, Ms. Qu is deemed to be interested in such number of Shares held by Many Idea Qushuo by virtue of the SFO.

5. Saved as disclosed in this table, no other Director holds Shares as at the Latest Practicable Date. Under the Takeovers Code, Mr. Chen Shancheng and Mr. Chen Zeming are directors of the Company and are presumed to be acting in concert with the Underwriter under class (6) of the definition of "acting in concert".

As discussed in the sub-section headed "(c) Comparison with recent open offer exercises", the maximum dilution of the Comparable Transactions ranged from approximately 8.33% to approximately 37.50% with an average dilution of approximately

22.77%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Open Offer, depending on the extent to which they subscribe for the Open Offer Shares, their shareholding interests in the Company upon completion of the Open Offer will be diluted by up to a maximum of approximately 33.33%, which falls within the range of the Comparable Transactions.

As set out in the Letter from the Board, the theoretical dilution impact is approximately 11.35% which is within the range of the Comparable Transactions from approximately 1.40% to approximately 24.57%. As the theoretical dilution impact of the Open Offer is below 25%, it is in compliance with Rule 7.27B of the Listing Rules. Hence, we consider that it is reasonable for the Open Offer with such a theoretical dilution impact.

In all cases of open offer, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the open offer is inevitable. In fact, the dilution magnitude of any open offer depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered that (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Open Offer; (ii) shareholding dilution is inherent in open offer in general; and (iii) the positive impact on the financial position of the Group as a result of the Open Offer as detailed in the section headed "6. Financial impact of the Open Offer" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Open Offer Shares, is justifiable.

6. Financial impact of the Open Offer

(i) Net tangible assets

We set out below the unaudited consolidated net tangible liabilities and the pro forma consolidated net tangible assets per Share, assuming completion of the Open Offer took place on 30 June 2023, based on the unaudited pro forma financial information of the Group (the "**Unaudited Pro Forma Financial Information**") in Appendix II to the Circular:

	As at 30 June 2023	**Upon completion of the Open Offer (assuming there is no change in the number of the Shares in issue on or before the Record Date)** *(Note 1)*
Consolidated net tangible assets attributable to the Shareholders (in RMB)	465,207,000	517,858,000
Total number of the Shares in issue	800,000,000	1,200,000,000
Unaudited consolidated net tangible assets per Share (in RMB)	**0.5815**	**0.4315**

Note:

1. Based on (a) 400,000,000 Open Offer Shares (assuming there is no change in the number of the Shares in issue on or before the Record Date); (b) the Open Offer Price of HK$0.15 per Open Offer Share; and (c) the estimated related expenses of approximately RMB2,045,000 as disclosed in the Circular.

As show in the table above, the net tangible assets of the Group as at 30 June 2023 would increase upon completion of the Open Offer. The pro forma consolidated net tangible assets per Share upon completion of the Open Offer would be approximately RMB0.4315 (assuming there is no change in the number of the Shares in issue on or before the Record Date).

(ii) Liquidity

As at 30 June 2023, cash and cash equivalents of the Group amounted to approximately RMB119.4 million. Upon completion of the Open Offer, cash and cash equivalents of the Group is expected to increase by the estimated net proceeds from the Open Offer. As such, the liquidity position of the Group would be improved upon completion of the Open Offer.

(iii) Gearing

As at 30 June 2023, the Group's gearing ratio, being the sum of borrowings, lease liabilities, amounts due to Directors and amounts due to related parties divided by equity attributable to Shareholders, was approximately 5.6%. The capital base of the Group would be enlarged upon completion of the Open Offer. Accordingly, assuming there is no material change in the total debts of the Group, the gearing ratio of the Group would be improved and decrease to approximately 5.1% as a result of the Open Offer.

(iv) Earnings

Given that the net proceeds from the Open Offer will be mainly used for purchasing media resources from TikTok and promotion of the TikTok distribution Channel, the Group may generate additional revenue if the strategies are implemented successfully.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company upon completion of the Open Offer.

7. The Whitewash Waiver

As at the Latest Practicable Date, the Underwriter and its beneficial owner, Mr. Liu, together with the parties acting in concert with any of them beneficially own in aggregate 258,367,381 Shares, representing approximately 32.30% of the entire issued share capital of the Company.

Assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of close of the Open Offer; (ii) none of the Qualifying Shareholders other than the Underwriter, Mr. Liu and the parties acting in concert with them have taken up their entitlements under the Open Offer; and (iii) none of the Unsubscribed Shares have been taken up under the Unsubscribed Arrangement, the aggregate interests in the Company held by the Underwriter, Mr. Liu and the parties acting in concert with them upon the close of the Open Offer will increase from the current level of approximately 32.30% to approximately 54.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Open Offer Shares. The Underwriter and Mr. Liu will, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code.

An application has been made by the Underwriter and Mr. Liu to the Executive for the Whitewash Waiver. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders at the EGM either in person or by proxy by way of poll; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM either in person or by proxy by way of poll in respect of the Open

Offer, the Underwriting Agreement and the transactions contemplated thereunder. The Underwriter, Mr. Liu and the parties acting in concert with them (including the Undertaking Providers and those by virtue of the class (6) presumption under the definition of "acting in concert" under the Takeovers Code (i.e. Mr. Chen Shancheng and Mr. Chen Zeming)) will abstain from voting on the proposed resolution approving the Whitewash Waiver under the Takeovers Code. Save as aforesaid, no other Shareholder is required to abstain from voting in favour of the proposed resolution approving the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Open Offer will not proceed.

Based on our analysis of the benefits and terms of the Open Offer, we consider that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. As such, we are of the view that the approval of the Whitewash Waiver, which is a prerequisite for the implementation of the Open Offer, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole for the purpose of proceeding with the Open Offer.

OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following:

- the Group's cash and cash equivalents decreased from approximately RMB329.2 million as at 31 December 2022 to approximately RMB119.4 million as at 30 June 2023. The Group recorded cash used in operation of approximately RMB167.4 million for 6M2023, mainly due to the increase in prepayments, deposits and other receivables in line with the expansion of the Group's integrated marketing services business. The Group is in need to raise funds for working capital;

- the internet advertising market size in terms of revenue in the PRC is expected to grow at a compound annual growth rate of approximately 9.1% from 2022 to 2027, mainly driven by short video social platforms and live broadcasts. It is justifiable for the Group to raise fund to further invest resources in TikTok Distribution Channel business;

- the Open Offer is the most preferred option over other financing alternatives such as placing of new Shares and rights issue;

- the principal terms of the Open Offer, in particular the Open Offer Price, are fair and reasonable after considering the following:

    - it is a common market practice that the pricing of an open offer represents a discount to the closing share price prior to the announcement of the open offer and to the theoretical ex-entitlement price of the shares;

    - the discount of the Open Offer Price could enhance the attractiveness of the Open Offer and encourage the Qualifying Shareholders to participate in the Open Offer;

- the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Open Offer Price as long as they are offered with an equal opportunity to participate in the Open Offer and subscribe for the Open Offer Shares;

- the discount of the Open Offer Price to the closing price of the Shares on the Last Trading Day is within the range of the Comparable Transactions and close to the average discount of the Comparable Transactions;

- the discount of the Open Offer Price to the theoretical ex-entitlement price of the Shares on the Last Trading Day is within the range of the Comparable Transactions and lower than the average discount of the Comparable Transactions; and

- the discount of the Open Offer Price to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023 is within the range of the Comparable Transactions and lower than the average discount of the Comparable Transactions.

- the Irrevocable Undertakings, being the intention of the Undertaking Providers in respect of their interests in the securities of the Company under the Open Offer, were given by the Undertaking Providers in favour of the Company, indicating their support for the Open Offer;

- the Unsubscribed Arrangements under the Placing Agreement, being part of the Open Offer, are in compliance with the Listing Rules, which are managed by the Placing Agent who is an Independent Third Party. The Placing Price will be not less than the Open Offer Price which is fair and reasonable as mentioned above and the Placing Commission payable to the Placing Agent is within the range of the Placing Comparables and is only 0.5% higher than the median and mean of the Placing Comparables;

- the dilution effect on the shareholding interests of public Shareholders, which will be potentially diluted by up to a maximum of approximately 33.33% following completion of the Open Offer, is considered to be acceptable given that the terms of the Open Offer (including the Open Offer Price) are fair and reasonable as mentioned above and that the Open Offer is not prejudicial to the Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Open Offer Shares under the Open Offer. Meanwhile, the Open Offer does not result in a theoretical dilution effect of 25% or more on its own, complying with the Listing Rules; and

- the Open Offer is expected to bring an overall positive financial impact on the Group and improving the liquidity and gearing of the Group, which is in line with the interests of Shareholders.

Based on the above, we consider that the terms of the Open Offer, the Underwriting Agreement, the Placing Agreement and the Whitewash Waiver are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Open Offer, the transactions contemplated under the Underwriting Agreement and the Placing Agreement, and the Whitewash Waiver, while not in the ordinary and usual course of business of the Group, are nevertheless in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Open Offer, the Underwriting Agreement, the Placing Agreement and the Whitewash Waiver.

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

Larry Choi

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 10 years of experience in the corporate finance industry.