
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares in **Wealth Glory Holdings Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular appears for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

WEALTH GLORY HOLDINGS LIMITED

富譽控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8269)

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE; CHANGE IN BOARD LOT SIZE; AND NOTICE OF EGM

Financial Adviser to the Company



Independent Financial Adviser to the Independent
Board Committee and Independent Shareholders



Underwriter of the Rights Issue



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

A letter from the Board is set out on pages 12 to 40 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 41 to 42 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 77 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Tuesday, 27 October 2020. Dealings in the Rights Shares in nil-paid form are expected to take place from Monday, 9 November 2020 to Monday, 16 November 2020 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Monday, 9 November 2020 to Monday, 16 November 2020 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

A notice convening the EGM to be held at Portion 2, 12th Floor, The Center, 99 Queen's Road Central, Hong Kong at 11:00 a.m. on Thursday, 22 October 2020 is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with Union Registrars Limited, the branch share registrar of Wealth Glory Holdings Limited in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting (i.e. 11:00 a.m. on Tuesday, 20 October 2020, Hong Kong time) or any adjournment thereof.

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

30 September 2020

CHARACTERISTICS OF GEM

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

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

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meaning:

“Announcement”	the announcement of the Company dated 24 August 2020 in relation to, among other things, the Rights Issue
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday and Sunday and any day on which “extreme conditions” caused by super typhoons is announced by the Government of Hong Kong or a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 10,000 Shares to 30,000 Shares, subject to the completion of the Rights Issue
“Company”	Wealth Glory Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM of the Stock Exchange (stock code: 8269)
“Company (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules

DEFINITIONS

“COVID-19”	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness
“Director(s)”	the director(s) of the Company
“EAF(s)”	the excess application form(s) for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such form as may be agreed between the Company and the Underwriter
“EGM”	an extraordinary general meeting of the Company to be held and convened to consider and approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder
“Excluded Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Shares to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“GEM”	GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, which has been established under the GEM Listing Rules to advise the Independent Shareholders in respect of the Rights Issue and the Underwriting Agreement

DEFINITIONS

“Independent Financial Adviser” or “Proton Capital”	Proton Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the EGM under the GEM Listing Rules
“Independent Third Party(ies)”	person(s) who is (are) third party(ies) independent of the Company and connected persons of the Company
“Latest Practicable Date”	25 September 2020, being the latest practicable date before the printing of this Circular for the purpose of ascertaining certain information contained herein
“Last Trading Day”	21 August 2020, being the last trading day of the Shares on the Stock Exchange before the release of the Announcement
“Latest Time for Acceptance”	4: 00 p.m. on Thursday, 19 November 2020 or such other time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of and payment for the Rights Shares
“Latest Time for Termination”	4:00 p.m. on Friday, 20 November 2020, being the latest time for the termination of the Underwriting Agreement, or such later date as the Company and the Underwriters may agree in writing
“Optionholder’s Undertaking(s)”	the undertaking(s) executed on 24 August 2020 by the holders of the Share Options, whereby each of such Share Option holders irrevocably undertake, represent and warrant to the Company that he/she will not exercise such Share Options held by him/her for the period from the date of such undertaking to the close of business on the Record Date
“Overseas Letter”	a letter from the Company to the Excluded Shareholders, if any, explaining the circumstances in which the Excluded Shareholders are not permitted to participate in the Rights Issue

DEFINITIONS

“Overseas Shareholder(s)”	Shareholder(s) with registered address(es) (as shown on the register of members of the Company on the Record Date) which is (are) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date, other than the Excluded Shareholder(s)
“Record Date”	Wednesday, 4 November 2020 or such other date as may be agreed between the Company and the Underwriter, being the date for determining entitlements of Shareholders to participate in the Rights Issue
“Registrar”	Union Registrars Limited
“Rights Issue”	the proposed issue of the Rights Shares by way of rights on the basis of five (5) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date at the Subscription Price pursuant to the Prospectus Documents and as contemplated under the Underwriting Agreement
“Rights Share(s)”	513,585,000 new Shares proposed to be allotted and issued by the Company to the Qualifying Shareholders for subscription pursuant to the Rights Issue, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.024 each in the share capital of the Company
“Share Option Scheme”	the share option scheme of the Company adopted on 26 September 2010
“Share Options”	the share options granted by the Company pursuant to the Share Option Scheme
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.08 per Rights Share
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Underwriter”	Sorrento Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
“Underwriting Agreement”	the underwriting agreement entered into between the Company and the Underwriter on 24 August 2020 in relation to the underwriting arrangement in respect of the Rights Issue
“Underwritten Shares”	513,585,000 Rights Shares, being the maximum number of the Rights Shares not taken up by Qualifying Shareholders assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
“US”	the United States of America
“%”	per cent

PRECAUTIONARY MEASURES FOR THE EGM

In light of the COVID-19 pandemic, and to better protect the safety and health of the Shareholders and other participants attending the EGM, the Company will implement the following precautionary measures at the venue of the EGM (the “**Venue**”):

1. compulsory body temperature checks will be conducted on all persons attending the EGM at the waiting area outside the Venue before they are admitted to the Venue. Any person with a body temperature of over 37.3 degree celsius, or who has any flu-like symptoms, or is otherwise apparently unwell will not be admitted to the Venue;
2. all attendees must wear face masks at all times inside the Venue or at the waiting area outside the Venue;
3. all attendees of the EGM are required to fill in a travel and health declaration form to confirm that (i) he/she has no flu-like symptoms within 7 days immediately before the EGM; and (ii) within 14 days immediately before the EGM: (a) he/she has not travelled outside of Hong Kong; (b) he/she is/was not under compulsory quarantine or medical surveillance order by the Department of Health of Hong Kong; (c) he/she has not had/has close contact with confirmed case(s) and/or probable case(s) of COVID-19 patient(s); and (d) he/she does/did not live with any person under home quarantine. Any person who fails to provide the required confirmation may be requested to leave or denied entry into the Venue;
4. seating at the Venue will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the EGM. The Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding;
5. any attendee who does not follow any of the abovementioned measures will be refused admission to the Venue or requested to leave the Venue;
6. no refreshments or drinks will be served at the EGM to avoid close contact of attendees; and
7. all attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the Venue.

Shareholders are reminded that attendance at the EGM in person is not necessary for the purpose of exercising voting rights. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the meeting as a proxy to vote on the relevant resolution at the EGM as instructed in accordance with the relevant proxy form instead of attending the EGM in person. For details, please refer to the proxy form of the EGM.

The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the EGM.

EXPECTED TIMETABLE

Set out below is the expected timetable for the Rights Issue which is indicative only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled:

Event	2020
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Latest time for lodging transfers of Shares to qualify for attendance and voting at the EGM	4:00 p.m. on Thursday, 15 October
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Closure of register of members of the Company for attending and voting at the EGM (both days inclusive)	Friday, 16 October to Thursday, 22 October
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Latest time for lodging forms of proxy for the purpose of the EGM	11:00 a.m. on Tuesday, 20 October
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Record date for determining attendance and voting at the EGM	Thursday, 22 October
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Expected date and time of the EGM	11:00 a.m. on Thursday, 22 October
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Announcement of poll results of the EGM	Thursday, 22 October
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Register of members re-open	Friday, 23 October
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Last day of dealings in Shares on a cum-rights basis	Friday, 23 October
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First day of dealings in Shares on an ex-rights basis	Tuesday, 27 October
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Latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue	4:00 p.m. on Wednesday, 28 October
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Closure of register of members of the Company for the Rights Issue (both days inclusive)	Thursday, 29 October to Wednesday, 4 November
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Record Date for determining entitlements to the Rights Issue	Wednesday, 4 November
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Register of members of the Company re-opens	Thursday, 5 November
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Despatch of Prospectus Documents	Thursday, 5 November
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EXPECTED TIMETABLE

Event	2020
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First day of dealings in nil-paid Rights Shares	9:00 a.m. on Monday, 9 November
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Latest time for splitting the PAL(s)	4:00 p.m. on Wednesday, 11 November
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Latest time of dealings in nil-paid Rights Shares	4:00 p.m. on Monday, 16 November
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Latest time for acceptance of, and payment for, the Rights Shares and application for and payment for excess Rights Shares	4:00 p.m. on Thursday, 19 November
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Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Friday, 20 November
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Announcement of results of the Rights Issue	Thursday, 26 November
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Last day of trading of Shares in board lot size of 10,000 Shares	Friday, 27 November
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Refund cheques, if any, to be despatched (if the Rights Issue is terminated and in respect of unsuccessful or partially successful application for excess Rights Shares)	Friday, 27 November
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Share certificates for fully paid Rights Shares to be despatched	Friday, 27 November
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Designated broker starts to stand in the market to provide matching services for odd lots of Shares	9:00 a.m. on Monday, 30 November
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Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Monday, 30 November
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Effective date of the Change in Board Lot Size from 10,000 Shares to 30,000 Shares	9:00 a.m. on Monday, 30 November
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Last day for the designated broker to provide matching services for odd lots of Shares	4:00 p.m. on Monday, 21 December
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All times and dates in this circular refer to Hong Kong local times and dates. The dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied. Should there be any changes to the above expected timetable, the Company will notify the Shareholders by way of announcement as and when appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance will be postponed if “extreme conditions” caused by super typhoons is announced by the Government of Hong Kong or there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning

- a. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- b. in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of abovementioned warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section may be affected. An announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

A. there shall be:

- (i) the introduction of any new laws or regulations or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere after the signing of the Underwriting Agreement;
- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring after the signing of the Underwriting Agreement or continuing after the signing of the Underwriting Agreement) of a financial, political, military, industrial, economic or other nature;
- (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;
- (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (v) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group;
- (vi) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurring after the signing of the Underwriting Agreement;
- (vii) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise;
- (viii) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of 10 trading days (as defined in the GEM Listing Rules);

TERMINATION OF THE UNDERWRITING AGREEMENT

- (ix) the Company's application to the GEM Listing Committee of the Stock Exchange for the permission for the listing of, and permission to in, the Rights Shares (in their nil-paid and fully-paid forms) on the Stock Exchange is withdrawn by the Company and/or refused or revoked by the Stock Exchange;
- (x) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including, without limitation, a change in taxation or fiscal or monetary policy or foreign exchange controls or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, in/on Hong Kong or elsewhere); or
- (xi) the circular and/or the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company,

which is or are in the reasonable opinion of the Underwriter:

- (i) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group taken as a whole;
- (ii) likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares to be taken up; or
- (iii) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue; or

B. the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that any of the representations, warranties and undertakings in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue,

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

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the Company shall not be liable to pay any underwriting commission.

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

LETTER FROM THE BOARD

WEALTH GLORY HOLDINGS LIMITED

富譽控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8269)

Executive Directors:

Mr. Tse Sing Yu

Ms. Lin Su

Independent non-executive Directors:

Mr. Tam Chak Chi

Mr. Chan Ka Hung

Mr. Liu Yongsheng

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

Principal place of business in

Hong Kong:

12/F, The Pemberton

No. 22-26 Bonham Strand

Hong Kong

30 September 2020

To: the Qualifying Shareholders and, for information purpose only, the Excluded Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
FIVE RIGHTS SHARES FOR EVERY TWO SHARES
HELD ON THE RECORD DATE
AND
CHANGE IN BOARD LOT SIZE**

INTRODUCTION

Reference is made to the Announcement, in relation to, among other matters, the Rights Issue. On 24 August 2020, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$41.1 million on the basis of five (5) Rights Shares for every two (2) Shares held on the Record Date by issuing 513,585,000 Rights Shares at the Subscription Price of HK\$0.08 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date). The Subscription Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, further details on the Rights Issue, certain financial information and other general information on the Group.

PROPOSED RIGHTS ISSUE

On 24 August 2020 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue. Further details of the Rights Issue are set out below:

Issue statistics

Basis of the Rights Issue	:	Five (5) Rights Shares for every two (2) Shares held at the close of business on the Record Date
Subscription Price	:	HK\$0.08 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	205,434,000 Shares
Number of Rights Shares	:	513,585,000 Rights Shares with an aggregate nominal value of HK\$12,326,040, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued shares of the Company upon completion of the Rights Issue	:	719,019,000 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record Date
Amount to be raised	:	Approximately HK\$41.1 million before expenses
Right of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment

As at the Latest Practicable Date, there are (i) 17,119,650 outstanding Share Options, which are exercisable during the period from 13 March 2019 to 12 March 2021 at the exercise price of HK\$0.36 each; and (ii) 20,543,400 outstanding Share Options, which are exercisable during the period from 22 April 2020 to 21 April 2022 at the exercise price of HK\$0.24 each.

Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 250.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 71.43% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

Undertakings

The Company has not received any information or irrevocable undertaking from any substantial shareholder of their intention in relation to the Rights Shares to be provisionally allotted to them under the Rights Issue as at the Latest Practicable Date.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, any relevant transfer documents (together with the relevant share certificates) must be lodged with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 28 October 2020.

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually.

Shareholders with their Shares held by a nominee (or held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date. For investors whose Shares are held by a nominee (or held in CCASS) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 28 October 2020.

The Qualifying Shareholders who take up their pro rata entitlement in full will not experience any dilution to their interests in the Company. If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

LETTER FROM THE BOARD

Basis of provisional allotments

The basis of the provisional allotment shall be five (5) Rights Shares (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

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

Rights of Overseas Shareholders (if any)

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 17.41(1) of the GEM Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders, if any. If, based on the legal opinions to be provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), the Rights Issue will not be extended to such Overseas Shareholders. Based on the register of members of the Company as at the Latest Practicable Date, there was no Shareholder whose address was outside Hong Kong.

The Company will send the Prospectus to the Excluded Shareholders (if any) for their information only, but will not send any PAL and EAF to them.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses and stamp duty, of more than HK\$100 will be paid on pro rata basis (rounded down to the nearest cent) to the relevant Excluded Shareholders.

In view of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Excluded Shareholders to the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders will be made available for excess applications by Qualifying Shareholders under the EAF(s).

LETTER FROM THE BOARD

Subscription Price

The Subscription Price for the Rights Shares is HK\$0.08 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- a. a discount of approximately 2.4% to the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable date;
- b. a discount of approximately 11.1% to the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on the Last Trading Day;
- c. a discount of approximately 3.6% to the theoretical ex-rights price of approximately HK\$0.083 per Share based on the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on the Last Trading Day;
- d. a discount of approximately 12.1% to the average of the closing prices of approximately HK\$0.091 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- e. a discount of approximately 12.1% to the average of the closing prices of HK\$0.091 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day; and
- f. a discount of approximately 82.5% to the audited net asset value per Share of approximately HK\$0.457 (based on the latest published audited consolidated net asset value of the Group of approximately HK\$ 93,827,000 as at 31 March 2020 as disclosed in the annual report of the Company for the year ended 31 March 2020 (the “**2020 Annual Report**”) and 205,434,000 Shares in issue as at the Latest Practicable Date).

The Subscription Price was set at a discount to the recent closing prices of the Shares aiming at lowering the further investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising possible dilution impact. The terms of the Rights Issue, including the Subscription Price, were determined after arm’s length negotiations between the Company and the Underwriter, taking into account, among others, (i) the prevailing market prices of the Shares since August 2020 and up

LETTER FROM THE BOARD

to the Last Trading Day which were generally around HK\$0.091 per Share and a discount with reference to the recent completed rights issue; (ii) the latest business performance and financial position of the Group; and (iii) the funding and capital needs of the Company.

The Directors (including the members of the Independent Board Committee) consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; (ii) the Qualifying Shareholders who choose to accept their provisional entitlements in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and (iii) the Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the recent market price of the Shares.

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. The possible maximum dilution to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 71.43%. The theoretical dilution effect of the Rights Issue is approximately 8.50% which is below 25% as required under Rule 10.44A of the GEM Listing Rules.

The Directors (including the members of the Independent Board Committee) are of the view that the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders, and that all Qualifying Shareholders are treated equally. The net price per Rights Share (i.e. the Subscription Price less cost and expenses incurred in the Rights Issue assuming an underwriting fee for underwriting all the Rights Shares) is estimated to be approximately HK\$0.076.

Status of Rights Shares

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

LETTER FROM THE BOARD

Fractions of the Rights Shares

The Company will not provisionally allot and will not accept application for any fractions of the Rights Shares. All fractions of the Rights Shares will be aggregated (and rounded down to the nearest whole number) and sold by the Company in the open market if a premium (net of expenses) can be obtained, and the Company will keep the net proceeds for its own benefit. Any unsold fractions of the Rights Shares will be aggregated and made available for excess application by the Qualifying Shareholders.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully paid Rights Shares are expected to be posted on Friday, 27 November 2020 by ordinary post to the allottees, at their own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for the excess Rights Shares (if any) are expected to be posted on Friday, 27 November 2020 by ordinary post to the applicants, at their own risk, to their registered addresses. Each Shareholder will receive one share certificate for all allotted Shares.

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders and for any Rights Shares provisionally allotted but not accepted.

Application for excess Rights Shares can be made only by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate cheque or banker's cashier order for the sum payable for the excess Rights Shares being applied for with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong no later than 4:00 p.m. on Thursday, 19 November 2020.

The Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis on the following principles:

- (a) any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of the excess Rights Shares applied for under each application;
- (b) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders; and
- (c) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings.

LETTER FROM THE BOARD

If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders and/or transferees of nil-paid Rights Shares under PALs is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

Shareholders with Shares held by a nominee (or which are held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually.

Shareholders with Shares held by a nominee (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of their relevant Shares under the names of the beneficial owners prior to the Record Date for the purpose of the Rights Issue. Shareholders and investors should consult their professional advisers if they are in doubt as to their status.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

Subject to the granting of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

LETTER FROM THE BOARD

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any), the Company has appointed Sorrento Securities Limited as an agent to provide odd lot matching services to those Shareholders who wish to acquire odd lots of the Shares to make up a full board lot, or to dispose of their holding of odd lots of the Shares during 9:00 a.m. on Monday, 30 November 2020 to 4:00 p.m. on Monday, 21 December 2020 (both days inclusive). Shareholders who wish to take advantage of this service should contact Sorrento Securities Limited at 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong or at telephone number (852) 3959 9800 during office hours (i.e. 9:00 a.m. to 6:00 p.m.) of such period. Shareholders should note that matching of the sale and purchase of odd lots of the Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed. Shareholders who are in doubt about this service are recommended to consult their professional advisors.

THE UNDERWRITING AGREEMENT

On 24 August 2020 (after trading hours), the Underwriter and the Company entered into the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to fully underwrite all the Rights Shares.

Date	:	24 August 2020 (after trading hours)
Underwriter	:	Sorrento Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and their ordinary course of business includes underwriting of securities. To the best knowledge and information of the Directors after reasonable enquiries, the Underwriter and its ultimate beneficial owner are Independent Third Parties.
Number of Rights Shares to be underwritten by the Underwriter	:	513,585,000 Rights Shares, being the maximum number of the Rights Shares (the “ Untaken Shares ”) not taken up by Qualifying Shareholders assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Commission	:	The Underwriter will receive 2.50% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission

LETTER FROM THE BOARD

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market conditions.

Pursuant to the Underwriting Agreement, the Underwriter irrevocably undertakes to the Company that if it or any of its sub-underwriters is required to take up the Rights Shares pursuant to their underwriting/sub-underwriting obligations, (i) the Underwriter and parties acting in concert (within the meaning of the Takeovers Code) will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Underwriter in respect of performing its obligations hereunder; (ii) The Underwriter shall and shall cause its sub-underwriters to procure subscribers independent of the Company and its connected persons to take up such number of Rights Shares as may be necessary to ensure that the public float requirements under the GEM Listing Rules are complied with; (iii) none of the persons to be procured by it to subscribe for the Untaken Shares will be holding 10% or more of the total issued shares of the Company immediately after completion of the Rights Issue; and (iv) it shall use its reasonable endeavours to ensure that its sub-underwriters and subscribers for the Untaken Shares are third parties independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the Company and its connected persons or their respective associates (as defined in the GEM Listing Rules).

The Directors (including the members of the Independent Board Committee) are of the view that the terms of the Underwriting Agreement, including the commission rate, are fair and reasonable and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Optionholder's Undertakings

As at 24 August 2020, being the date of the Underwriting Agreement, each of the holders of the Share Options (including two Directors) has signed an Optionholder's Undertaking not to exercise any and all of the Share Options granted to him/her from the date of the Optionholder's Undertaking to the close of business on the Record Date.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

A. there shall be:

- (i) the introduction of any new laws or regulations or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere after the signing of the Underwriting Agreement;
- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring after the signing of the Underwriting Agreement or continuing after the signing of the Underwriting Agreement) of a financial, political, military, industrial, economic or other nature;
- (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;
- (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (v) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group;
- (vi) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurring after the signing of the Underwriting Agreement;
- (vii) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise;
- (viii) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of 10 trading days (as defined in the GEM Listing Rules);

LETTER FROM THE BOARD

- (ix) the Company's application to the GEM Listing Committee of the Stock Exchange for the permission for the listing of, and permission to in, the Rights Shares (in their nil-paid and fully-paid forms) on the Stock Exchange is withdrawn by the Company and/or refused or revoked by the Stock Exchange;
- (x) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including, without limitation, a change in taxation or fiscal or monetary policy or foreign exchange controls or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, in/on Hong Kong or elsewhere); or
- (xi) the circular and/or the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company,

which is or are in the reasonable opinion of the Underwriter:

- (i) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group taken as a whole;
- (ii) likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares to be taken up; or
- (iii) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue; or

- B. the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that any of the representations, warranties and undertakings in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue,

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

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the Company shall not be liable to pay any underwriting commission.

LETTER FROM THE BOARD

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

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (a) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Shares) by no later than the date of despatch of the Prospectus Documents;
- (b) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Latest Time for Termination;
- (c) the delivery to the Stock Exchange for authorisation and the filing and registration with the Registrar of Companies in Hong Kong respectively one duly certified copy of each of the Prospectus Documents (and all other documents required to be attached thereto) in compliance with the Companies (WUMP) Ordinance and the GEM Listing Rules by no later than the date of despatch of the Prospectus Documents;
- (d) the posting of the Prospectus Documents to Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue by the Prospectus Posting Date;
- (e) the execution and delivery of the Optionholder's Undertakings on the date of the Underwriting Agreement;
- (f) there being no breach of the undertakings and obligations of the Company under the Underwriting Agreement by the Latest Time for Termination; and
- (g) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination.

The Company shall use all reasonable endeavours to procure the fulfilment of all the above conditions by the respective dates specified above. None of the parties to the Underwriting Agreement may waive any of the above conditions except condition (f) above.

LETTER FROM THE BOARD

If the above conditions are not satisfied in whole or in part by the respective dates set out above (or such other time and/or dates as the Underwriter may agree with the Company in writing), the Underwriting Agreement shall be terminated and (save in respect of any provisions relating to, among other matters, notices and governing law and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party will have any claim against any other party and the Rights Issue will not proceed.

CHANGE IN BOARD LOT SIZE

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” (the “**Guide**”) issued by The Hong Kong Exchange and Clearing Limited on 28 November 2008 and updated on 30 August 2019, the expected value per board lot should be greater than HK\$2,000 taking into account the minimum transaction costs for a securities trade. Based on the theoretical ex-rights price of approximately HK\$0.083 per Share (calculated based on the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on the Last Trading Day), the market value of each existing board lot is approximately HK\$830.

Therefore, the Board proposes that the board lot size of the Shares for trading on the Stock Exchange will be changed from 10,000 Shares to 30,000 Shares with effect from 9:00 a.m. on Monday, 30 November 2020 such that the estimated market value of each proposed new board lot would be HK\$2,700 (based on the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on the Last Trading Day) and HK\$2,460 (based on the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date). Therefore, the Change in Board Lot Size from 10,000 Shares to 30,000 Shares would enable the Company to comply with the Guide without substantially increase in the board lot value of the Shares which in turn may adversely affect trading liquidity. The Change in Board Lot Size will not result in any change in the relative rights of the Shareholders.

To alleviate the difficulties in trading odd lots of the Shares arising from the Change in Board Lot Size, the Company has appointed Sorrento Securities Limited as an agent to provide matching services to the Shareholders who wish to top up or sell their holdings of odd lots of the Shares during the period from 9:00 a.m. on Monday, 30 November 2020 to 4:00 p.m. on Monday, 21 December 2020 (both days inclusive). Further details in respect of the matching services are set out on page 20 of this circular.

LETTER FROM THE BOARD

All existing share certificates in board lot of 10,000 shares will remain good evidence of the legal title to the Shares and continue to be valid for delivery, transfer, trading and settlement purposes. According to the Guide, a change in board lot size with an increase by small integral multiple of existing board lot would not result in a mandatory exchange in share certificates, thus no new share certificates for existing Shareholders will be issued as a result of the Change in Board Lot Size, and therefore no arrangement for free exchange of existing share certificates in board lot size of 10,000 shares to new share certificate in board lot size of 30,000 shares is necessary.

The Company has also reviewed the shareholding of individual Shareholders appearing on register of members of the Company as at the Latest Practicable Date and noted that there would not be significant difference in odd lots as a result of change in board lot size to 30,000 Shares of other comparable sizes.

Since the Change in Board Lot Size (i) would enable the Company to comply with the trading requirements; (ii) may save the transaction and registration costs incurred by the Shareholders and potential investors per new board lot whereas a further increase in board lot value would lead to a substantial increase in their investment amounts; and (iii) represents an increase by a small integral multiple of existing board lot which would not lead to any exchange of share certificates or parallel trading, the Board believes that the Change in Board Lot Size from 10,000 Shares to 30,000 Shares is in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE UNDERWRITER

The Underwriter is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

The Underwriter confirmed that (i) it is independent of and not connected with the Company or its connected persons; and (ii) it has complied with Rule 10.24A(1) of GEM the Listing Rules that it is licensed under the SFO for Type 1 regulated activity and its ordinary business includes underwriting of securities. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Underwriter and its respective ultimate beneficial owner(s) and/or associates are Independent Third Parties.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 205,434,000 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the Latest Practicable Date to completion of the Rights Issue other than the allotment and issue of Rights Shares pursuant to the Rights Issue, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; and (iii) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders		Immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders	
	Number of Shares	Approx.% (note 1)	Number of Shares	Approx.% (note 1)	Number of Shares	Approx.% (note 1)
Mr. Shan Zumao	10,280,000	5.00	35,980,000	5.00	10,280,000	1.43
Public Shareholders	195,154,000	95.00	683,039,000	95.00	195,154,000	27.14
Underwriter (note 2)	—	—	—	—	513,585,000	71.43
Total	<u>205,434,000</u>	<u>100.00</u>	<u>719,019,000</u>	<u>100.00</u>	<u>719,019,000</u>	<u>100.00</u>

Notes:

- The above percentage figures are subject to rounding adjustments. Accordingly, figures shown as total may not be an arithmetic aggregation of the figures preceding it.
- This scenario is for illustrative purpose only. Pursuant to the Underwriting Agreement, the Underwriter irrevocably undertakes to the Company that if it or any of its sub-underwriters is required to take up the Rights Shares pursuant to their underwriting/sub-underwriting obligations, (i) the Underwriter and parties acting in concert (within the meaning of the Takeovers Code) will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Underwriter in respect of performing its obligations hereunder; (ii) The Underwriter shall and shall cause its sub-underwriters to procure subscribers independent of the Company and its connected persons to take up such number of Rights Shares as may be necessary to ensure that the public float requirements under the GEM Listing Rules are complied with; (iii) none of the persons to be procured by it to subscribe for the Untaken Shares will be holding 10% or more of the total issued shares of the Company immediately after completion of the Rights Issue; and (iv) it shall use its reasonable endeavours to ensure that its sub-underwriters and subscribers for the Untaken Shares are third parties independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the Company and its connected persons or their respective associates (as defined in the GEM Listing Rules).

As at the Latest Practicable Date, the Underwriter has not yet entered into any arrangement with the sub-underwriter(s) and/or the subscribers procured by the Underwriter. The Company will disclose the details of any arrangement of the above in the Prospectus, if applicable.

LETTER FROM THE BOARD

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in (i) trading of natural resources and commodities; (ii) trading of trendy fashion merchandises and other consumer products; (iii) money lending; and (iv) investment in securities in Hong Kong.

For the three years ended 31 March 2020, the Group recorded (i) revenue of approximately HK\$86.5 million, HK\$96.7 million and HK\$66.2 million respectively; (ii) operating expenses (being administrative expenses and other expenses) of approximately HK\$17.6 million, HK\$19.5 million and HK\$16.4 million respectively; and (iii) finance costs of approximately HK\$4.1 million, HK\$1.3 million and HK\$0.8 million respectively. As a result, the Group recorded loss for the year of approximately HK\$59.8 million, HK\$18.2 million and HK\$19.9 million respectively for the corresponding year. During the first three months ended 30 June 2020, the Group recorded (i) unaudited revenue of approximately HK\$18.2 million as compared to approximately HK\$27.3 million for the same period in 2019; and (ii) unaudited loss for the period of approximately HK\$3.1 million as compared to approximately HK\$1.4 million for the same period in 2019.

Notwithstanding the impact of PRC-US trade conflict and more recently the COVID-19 outbreak on Hong Kong, the Group was able to maintain its results at comparable level. Revenue attributable to the trading of consumer products amounted to approximately 51.3%, 38.1%, 54.3% and 38.6% of total revenue of the Group for each of the three years ended 31 March 2020 and the first three months ended 30 June 2020. As mentioned in the 2020 Annual Report and the first quarterly report of the Company for the three months ended 30 June 2020 (the “**Q1 Report**”), the Group will continue to develop its existing business either via organic growth or by acquisition of related businesses if appropriate and to switch more resources to the sales of consumer products and trendy fashion merchandises segment which has a great potential on its business performance. Meanwhile, the Board will also utilize its business connections to identify other investment opportunities in order to diversify its existing business for enhancing its shareholder’s return.

LETTER FROM THE BOARD

Therefore, the Company proposes to raise equity capital by the Rights Issue to supplement its operation needs and particularly for its consumer product business. It is estimated that the Company will raise a gross proceeds of approximately HK\$41.1 million from the Rights Issue and the relevant expenses would be approximately HK\$2.0 million, which include underwriting commission (assuming underwriting all the Rights Shares) and professional fees payable to financial advisers, legal advisers, financial printer and other parties involved in the Rights Issue. The estimated net proceeds from the Rights Issue will accordingly be approximately HK\$39.1 million (equivalent to a net price of approximately HK\$0.076 per Rights Share). In line with the aforesaid business objectives, the Company intends to utilise the net proceeds from the Rights Issue as follows:–

- (i) approximately HK\$13.1 million (or approximately 33.6% of the total net proceeds) for the repayment of bond in principal amount of HK\$10.0 million and other unsecured borrowings at the value of approximately HK\$3.1 million;
- (ii) approximately HK\$9.7 million (or approximately 24.8% of the total net proceeds) for the expansion of sales channels in various third-party department stores and chain stores in the PRC;
- (iii) approximately HK\$4.4 million (or approximately 11.1% of the total net proceeds) for the development of new merchandises and other consumer products;
- (iv) approximately HK\$4.0 million (or approximately 10.2% of the total net proceeds) for the marketing activities and use of third-party intellectual properties; and
- (v) approximately HK\$7.9 million (or approximately 20.3% of the total net proceeds) for general working capital of the Group.

Repayment of bond and other unsecured borrowings

As set out in the 2020 Annual Report, the Group had (i) other unsecured borrowings of approximately HK\$3.0 million as at 31 March 2020 bearing interest rate of 8.0% per annum and payable within one year; and (ii) issued an unsecured bond to an independent third party with principal amount of HK\$10.0 million and with coupon rate of 5.33% per annum which has been fully prepaid. During the year ended 31 March 2020, the relevant finance costs incurred by the Group was approximately HK\$748,000. Since the implied cost of capital of the Rights Issue of approximately 4.96% (being the total estimated expenses of the Rights Issue as percentage of gross proceeds assuming an underwriting fee for underwriting all the Rights Shares) is lower than the aforesaid interest rate of the unsecured borrowings, the Company considers that it is economically justifiable to obtain equity financing to repay such borrowings in order to save

LETTER FROM THE BOARD

finance costs. Since the unsecured bond will be due in May 2021 and the Company will be required to repay the principal to subscriber unless extension of the maturity is mutually agreed. Having taken into account of its cash position and financial performance, the Company considers that it is necessary to obtain financing in advance to prepare for full repayment. The Rights Issue can facilitate the need of the Group in this respect at a lower cost. Furthermore, given the gearing ratio of the Company increased from approximately 9.0% for the year ended 31 March 2019 to approximately 11.5% for the year ended 31 March 2020, the repayment of both bond and other borrowings by using proceeds from the Rights Issue would reduce the gearing ratio of the Company to zero. It is the intention of the Company to repay the aforesaid borrowings upon receipt of the proceeds from the Rights Issue and the bond upon its expiry in May 2021.

The Group defines its gearing ratio as ratio of net debt over equity plus net debt in which net debt represents total of promissory note, bonds, bank overdraft and bank and other borrowings (where applicable) and exclude non-interest bearing item, being an amount due to director included in accruals and other payables as set out in the 2020 Annual Report, from the calculation of the aforesaid gearing ratios. Such item is also presented as loan from a director in the paragraph headed "2. Statement of indebtedness" in appendix I to this circular which was approximately HK\$6.6 million as at 31 August 2020.

Expansion of sales channels in various third-party department stores and chain stores in the PRC

As set out in the 2020 Annual Report, the Group has already started to increase the sale channels, provide a flexible credit terms to customers and add a new profit sharing sales model to attract the dealers and maximise its profit. The Group has sold its products to over various points-of-sale run by third-party retailers in the PRC. The Group intends to leverage this established sales network and reputation of retail chain stores and department stores to expeditiously expand the coverage of the Group's products to capture any market opportunities by increasing the number of points-of sale run by third-party dealers to around 65 points-of-sales (the "POS") including nationwide department stores, kids wear chain stores, household product chain stores, trendy jewellery and accessories stores etc. located in Beijing, Shanghai, Nanjing, Chongqing, Guangzhou, Wuhan, Zhengzhou and other cities in Jiangsu Province, Sichuan Province, Shaanxi Province, Inner Mongolia etc. upon receipt of the proceeds from the Rights Issue and agreement with the relevant dealers on the sale arrangement.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company is still in negotiation with the relevant dealers in respect of the sale arrangement of the Group's products at their POS, such as sharing of income generated from sales of the Group's products, credit terms and administrative work, and the finalisation of which depends on, among other things, the mix and availability of products of the Group to be placed at the POS and the marketing effort of the Group. Subject to the future market condition and ongoing review of the performance at the POS, the Company plans to sell products of existing styles at the POS in the first six months of cooperation and once the new bag products (details of which are disclosed in paragraph headed "Development of new merchandises and other consumer products") become available after development and production, a mix of both existing and new bag products will be made available for sale at the POS.

Since the Company may launch new bag products with various interactive functions subject to the results of research and development, the Company considers that it is necessary to prepare for the display of small computers and interactive electronic devices supported by online system to (i) attract customers' attention by allowing them to play interactive online games and command robots at the POS as well as to enhance the Group's product image; (ii) add more innovative elements to the Group's marketing activities at shopping malls and department stores of the relevant POS when necessary; and (iii) enhance the features and playability of certain new bag products since certain new products will be designed for children. The Company expects to respectively incur approximately HK\$4.0 million for engaging third-party to develop and/or provide the relevant online system and games and approximately HK\$2.1 million for initial setup costs for electronic devices at the POS. Such development cost of online system is estimated based on the third-party quotations available to the Group. It is expected that the procurement of devices and the installation of which at all the POS would take around six to eight weeks. Upon establishment of such sales channels with relevant dealers, the Group would be able to sell products of existing style and newly developed products as mentioned above. The Company currently expects to place around 20 styles of its products and maintain inventories of around 300 pieces of these products at each POS. The Group may adjust its inventory level at each POS to cope with the then market condition and the launch of its new products. If income sharing arrangement is adopted by relevant the dealers, the Group would be able to receive income equivalent to certain portion of sales of products at retail prices at the POS rather than previously selling at wholesale prices.

The Company believes that with the abovementioned promotional effort and information technology elements at the POS together with the marketing effort to be made by the Group (details of which are disclosed in paragraph headed "Marketing activities and use of third-party intellectual properties") would facilitate the negotiation between the Group and dealers on sales arrangement for initially around next eighteen months which the Company considers beneficial to the its operation.

LETTER FROM THE BOARD

On the other hand, the Company also plans to expand its sales network to some other retail places in the PRC by offering around 50 smart vending machines for sale of its products by cooperating with retail dealers or e-commerce platform. The Company expects to incur approximately HK\$3.6 million for purchase of these machines and provision of relevant system based on the third-party quotations available to the Group. The Company expects to launch these smart vending machines in the first quarter of 2021 after determining the locations with retail dealers or e-commerce platform based on, among others, economy of cities, general spending power of customers and brand names of the retail places. As the Group would be able to monitor the sales data of smart vending machines, the Group could adjust continuously the product mix of its existing products and newly developed products at the smart vending machines in response to market demand.

Development of new merchandises and other consumer products

The Group is engaged in, among others, design, manufacture, produce, market, sales and distribution of bags, storage cases for electronic accessories and components, trendy fashion apparels and accessories in Hong Kong and Asia markets. Therefore, the success of the Group depends on its ability to continuously develop marketable products, particularly bags, and launch via appropriate sales channels. By leveraging the experience of the Group in design and production of traditional bag products, the Company intends make use of information and communication technology to enhance features of its new bag products. The Company expects to develop over ten products with different features/functions in the coming year and incur development cost approximately HK\$4.4 million. Such development cost is estimated based on the third-party quotations available to the Group and the expected salary of in-house designer to be employed.

Such new bag products mainly include (i) backpacks for children with certain electronic devices and sensors connecting to relevant system which would enable users to download contents for more features and enhancement to playability; (ii) backpacks with GPS tracking function for elderly, children and even hikers; (iii) functional bags with electronic devices such as camera for outdoor and water sport activities; and (iv) traditional bag products and accessories. Subject to further negotiation, the Company may produce certain of aforesaid new products under the brand names of third-parties. Currently, the Group has targeted a multinational electronics manufacturer of, among others, smart devices, for the Group's potential new sport related bag products and an Italian sportswear manufacturer for the Group's potential traditional bag products. The Board considers that by (i) continuous research and development to add more features and technology to its products, the Group could maintain its competitiveness in the market; and (ii) serving bigger customers with international brands, the Group could give confidence to other customers on the Group's product quality.

Based on the quotations obtained by the Company, it is expected to take around six months for development of the abovementioned new products. The Company will from time to time assess the market condition and determine its production plan of new products.

LETTER FROM THE BOARD

Marketing activities and use of third-party intellectual properties

To cope with the development of the Group's new products and along with the expansion of sales channels through the POS and smart vending machines, the Group will need to put more marketing effort for increase of its brand awareness. The Company expects to spend approximately HK\$4.0 million to engage third-parties to (i) carry out marketing activities in Greater China area for up to three years; (ii) provide multimedia contents, pictures and posters for the Group to apply in its products promotion; and (iii) authorize the use of their intellectual properties, such as popular cartoon characters, by the Group. After completion of the Rights Issue in the last quarter of 2020, the Company would focus on promotion of its existing products mainly in various online social media platforms. During the development stage of the Group's new products, the Company would further advertise its new products through its new sales channel at the POS upon establishment which is currently expected to be in the first half of 2021. After the launch of the Group's new products, further marketing effort would be placed and outdoor advertising events may also be conducted to attract attention. For the intellectual properties that the Group will seek third-parties' authorisation, the Group intend to utilise them for enhancing its promotion and may develop of crossover products.

General working capital

During the year ended 31 March 2020, the average monthly expenses for rent, salary and relevant mandatory contribution and other office expenses was approximately HK\$420,000 while the monthly purchase in relation to consumer products was approximately HK\$2.0 million in late 2019. As set out in the 2020 Annual Report, the total trade receivables of the Group increased from approximately HK\$20.8 million as at 31 March 2019 to approximately HK\$33.7 million as at 31 March 2020 and the Group allows an average credit period of 30 days to its customers from trading of consumer products business. The receivables turnover day of the Group in relation to its consumer product business (calculated as average trade receivables over revenue relevant to consumer product business times the number of days in respective financial year/quarter) increase significantly from approximately 91.8 days as at 31 March 2019 to approximately 130.6 days as at 31 March 2020. For the first three months ended 30 June 2020, the receivables turnover day of the Group in relation to its consumer product business further increased to approximately 155.3 days.

LETTER FROM THE BOARD

Having considered (i) the settlement of customers may continue to be delayed as affected by the COVID-19 in near future; (ii) international brand or sizeable customers generally have larger bargaining power and may generally require for longer credit period; (iii) the planned expansion of the Group at retail level will require the Group to maintain additional inventories at the POS; and (iv) the current financial position of the Group, in particular, the unaudited cash and cash equivalents of the Group of approximately HK\$9.2 million as at 31 August 2020, the Board is of the view that it is necessary to secure the financial resources to support the operation of the Group and apply approximately HK\$5.0 million and approximately HK\$2.9 million of the net proceeds from the Rights Issue for its general working capital requirement on the aforesaid overheads in the coming 12 months and the expected inventory costs for few months respectively.

Having considered the recent trading prices of the Shares in open market and the existing share capital of the Company, the Company is of the view that the capital to be raised by the Rights Issue at a ratio of five Rights Shares for every two Shares held on the Record Date would meet the abovementioned capital need of the Group whereas (i) a larger ratio would require the Qualifying Shareholders to take up more entitlements to avoid being diluted and increase underwriting effort of underwriters leading to higher commission; and (ii) a smaller ratio would not cater for sufficient capital meeting the Group's requirement as detailed above.

The Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Qualifying Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue on a 5-to-2 ratio. As at the Latest Practicable Date, the Company has no intention to conduct further fundraising activities in near future.

LETTER FROM THE BOARD

Alternative fund-raising methods considered

The Directors have considered other financing alternatives including (i) additional debt financing, (ii) equity fund raising such as placement of new Shares and open offer, and (iii) realisation of existing investments. The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole, for the reasons as follows:

- (a) As for additional debt financing, as at the Latest Practicable Date, the Board has attempted to obtain loan financing from its principal bankers and was advised that it is not feasible for the Company to obtain loan facilities in amount comparable to gross proceeds from the Rights Issue under the recent financial status of the Company. For the existing bond and borrowings, the coupon/interest rate is up to 8.0% per annum which is significantly higher than the implied cost of capital of the Rights Issue of approximately 4.96% (being the total estimated expenses of the Rights Issue as percentage of gross proceeds assuming an underwriting fee for underwriting all the Rights Shares). Since the Company is unable to obtain any new borrowings from its principal bankers in the amount comparable to the gross proceeds from the Rights Issue and was advised by the holder of the bond and lender of other borrowings that they would not extend the due dates of relevant bond or borrowings, the Company has no practicable means to obtain new debt financing. In addition, the Board is of the view that the debt financial may result in a higher gearing ratio of the Group, and this will also increase the ongoing interest expenses of the Group and in turn affect the profitability of the Company.
- (b) As for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company.
- (c) As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing its net asset position without the ongoing burden of interest expenses, and also offers all the Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid dilution for those Shareholders who take up their entitlement under the Rights Issue in full.

LETTER FROM THE BOARD

- (d) As for realisation of existing investments, the Company's portfolio comprises securities listed on the Stock Exchange which, as at 31 March 2020, amounted to (i) approximately HK\$2.7 million (classified as financial assets at fair value through profit or loss of current assets); and (ii) approximately HK\$2.7 million (classified as financial assets at fair value through other comprehensive income of non-current assets) as the Group intends to hold for the long term for strategic purposes. In view of the investment strategy towards certain equity investment by the Company, i.e. long-term holding, and disposal of its short term investments under recent weak market sentiment would result in loss of the Group, the Directors are of the view that it is not advisable at this moment for the Company to realise the existing investments.
- (e) The Board considers that the Rights Issue, which is on a fully underwritten basis, can make the Company raise sufficient funds to satisfy its demands on funds as aforementioned. In addition, the Rights Issue would give the Qualifying Shareholders the opportunity to maintain their respective prorata shareholding interest in the Company and provide an opportunity to all Qualifying Shareholders to participate in the growth of the Company in proportion to their shareholdings. Although those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Excluded Shareholders may make their shareholdings diluted, the Rights Issue requires the Independent Shareholders' approval so that the Independent Shareholders are given an opportunity to decide whether the Company shall proceed to the Rights Issue by voting for or against at the EGM to approve the Rights Issue.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities involving issue of its securities in the past 12 months immediately preceding the date of the Underwriting Agreement and up to the Latest Practicable Date.

POSSIBLE ADJUSTMENTS RELATING TO THE SHARE OPTIONS

As at the Latest Practicable Date, there are (i) 17,119,650 outstanding Share Options, which are exercisable during the period from 13 March 2019 to 12 March 2021 at the exercise price of HK\$0.36 each; and (ii) 20,543,400 outstanding Share Options, which are exercisable during the period from 22 April 2020 to 21 April 2022 at the exercise price of HK\$0.24 each.

LETTER FROM THE BOARD

Pursuant to the terms of the Share Option Scheme, the exercise prices and/or number of new Shares to be issued upon exercise of the Share Options may be adjusted in accordance with the Share Option Scheme, if any, upon the Rights Issue becoming unconditional. Set out below is the expected adjustment to be made to the Share Options upon the Rights Issue becoming unconditional.

Date of grant	Before adjustments		After adjustments	
	Exercise price per Share	Number of Shares to be issued upon exercise of all share options granted under the Share Option Scheme	Exercise price per Share	Number of Shares to be issued upon exercise of all share options granted under the Share Option Scheme
13 March 2019	0.36	17,119,650	0.35	17,423,189
22 April 2020	0.24	20,543,400	0.24	20,907,644

Shareholders should note that the above expected adjustment results are calculated based on the closing price of HK\$0.082 the Shares as at the Latest Practicable Date and therefore may not be same as the results to be certified by an independent financial adviser or auditors of the Company (as the case may be) upon the Rights Issue becoming unconditional. The Company will notify the holders of the Share Options the adjustments upon the Rights Issue becoming unconditional by further announcement.

GEM LISTING RULES IMPLICATIONS

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders in general meeting by a resolution at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has no controlling Shareholder and no Directors and chief executive is interested in any Shares, accordingly all Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the proposed resolution approving the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the date of the Underwriting Agreement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period. The Rights Issue does not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 16 October 2020 to Thursday, 22 October 2020 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Thursday, 29 October 2020 to Wednesday, 4 November 2020 (both days inclusive) for determining the entitlements to the Rights Issue.

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

GENERAL

The EGM will be convened for the Shareholders to consider and, if thought fit, approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder.

The Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 10.29A of the GEM Listing Rules. To the best knowledge and information of the Directors, after reasonable enquiries, as at the Latest Practicable Date, no Directors and their respective associates are interested in any Shares. As such no Shareholders is required to abstain from voting in the EGM.

The notice convening the EGM to be held at Portion 2, 12th Floor, The Center, 99 Queen's Road Central, Hong Kong on Thursday, 22 October 2020 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Union Registrars Limited, the branch share registrar of the Company in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM (i.e. 11:00 a.m. on Tuesday, 20 October 2020, Hong Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

Subject to the approval of the Rights Issue by the Independent Shareholders at the EGM, the Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and PAL(s) and EAF(s) are expected to be despatched to the Qualifying Shareholders on Thursday, 5 November 2020.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

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

The Shares are expected to be dealt in on an ex-rights basis from Tuesday, 27 October 2020. Dealings in the Rights Shares in nil-paid form are expected to take place from Monday, 9 November 2020 to Monday, 16 November 2020 (both days inclusive). Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

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

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

LETTER FROM THE BOARD

RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Tam Chak Chi, Mr. Liu Yongsheng and Mr. Chan Ka Hung, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. Proton Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, and the letter from Proton Capital set out on pages 43 to 77 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the members of the Independent Board Committee) consider that the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the members of the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Wealth Glory Holdings Limited
Tse Sing Yu
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue and the Underwriting Agreement.

WEALTH GLORY HOLDINGS LIMITED

富譽控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8269)

30 September 2020

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
FIVE RIGHTS SHARES FOR EVERY TWO SHARES
HELD ON THE RECORD DATE
AND
CHANGE IN BOARD LOT SIZE**

We refer to the circular of the Company dated 30 September 2020 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

Proton Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Rights Issue and the Underwriting Agreement, and the advice from Proton Capital, we are of the opinion that the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

Mr. Tam Chak Chi

Mr. Chan Ka Hung

Mr. Liu Yongsheng

Independent non-executive Directors

LETTER FROM PROTON CAPITAL

The following is the full text of a letter of advice from Proton Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in the Circular.



普頓資本有限公司
PROTON CAPITAL LIMITED

Room 2503, 25/F, China Insurance Group Building,
141 Des Voeux Road Central, Central, Hong Kong

30 September 2020

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue 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 30 September 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 24 August 2020, the Board announced that the Company entered into the Underwriting Agreement with the Underwriter pursuant to which the Company proposes to raise gross proceeds of approximately HK\$41.1 million on the basis of five (5) Rights Shares for every two (2) Shares held on the Record Date by issuing 513,585,000 Rights Shares at the Subscription Price of HK\$0.08 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date). The Subscription Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

LETTER FROM PROTON CAPITAL

GEM LISTING RULES IMPLICATIONS

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders in general meeting by a resolution at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, the Company has no controlling Shareholder and no Directors and chief executive is interested in any Shares, accordingly all Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the proposed resolution approving the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the date of the Underwriting Agreement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period. The theoretical dilution effect of the Rights Issue is approximately 8.50% which is below 25% as required under Rule 10.44A of the GEM Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Tam Chak Chi, Mr. Liu Yongsheng and Mr. Chan Ka Hung, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM.

We, Proton Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM PROTON CAPITAL

OUR INDEPENDENCE

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

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Company, the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its officers, its advisers and/or the Directors, which have been provided to us.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

LETTER FROM PROTON CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, or their respective subsidiaries or associates. We have not considered the taxation implication on the Group or the Shareholders as a result of the proposed Rights Issue. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the proposed Rights Issue

Background of the Group

The Group is principally engaged in (i) trading of natural resources and commodities; (ii) trading of trendy fashion merchandises and other consumer products (“**Consumer Products Business**”); (iii) money lending; and (iv) investment in securities in Hong Kong.

For the Consumer Products Business segment, the Group is engaged in design, manufacture, produce, market, sales and distribution of bags, storage cases for electronic accessories and components, trendy fashion apparels and accessories in Hong Kong and Asia markets.

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Historical financial performance of the Group

Set out below is a summary of the financial highlight of the Group for the two years ended 31 March 2020 as extracted from the annual report of the Company for the year ended 31 March 2020 (the “**2020 Annual Report**”) and the first quarterly report of the Company for the three months ended 30 June 2020 (the “**2021 Q1 Report**”):

(a) *Consolidated statement of profit and loss*

	For the year ended 31 March		For the three months ended 30 June			
	2020	2019	2020	2019		
	(“FY 2020”)	(“FY 2019”)	(“2021 Q1”)	(“2020 Q1”)		
	HK\$’000	HK\$’000	HK\$’000	HK\$’000		
	(audited)	(audited)	(unaudited)	(unaudited)		
Revenue						
– Natural resources and commodities	28,239	42.7%	57,278	59.2%	10,635	13,655
– Consumer Products Business	35,930	54.3%	36,835	38.1%	7,020	13,131
– Money lending	2,029	3.0%	2,608	2.7%	513	504
	66,198	100%	96,721	100%	18,168	27,290
Gross profit	5,999		6,103		1,378	2,478
Loss attributable to owners of the Company	(19,855)		(16,745)		(3,126)	(1,370)

For the year ended 31 December 2018

For the FY 2020, the Group’s operations recorded a revenue of approximately HK\$66.2 million as compared to approximately HK\$96.7 million in the previous year, representing a decrease of approximately 31.5%. According to the 2020 Annual Report, the decrease was mainly attributable to the outbreak of Coronavirus Disease 2019 (“**COVID-19**”) epidemic in January 2020 in the PRC and the contagion of COVID-19 has spread worldwide.

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Among the business segments of the Company, after dilution of the Company's equity interest in the coal trading company from approximately 33.3% to 0.7% in the year ended 31 March 2018, the Company continued engaging in the trading of crude palm oil and in FY 2020, approximately 42.7% of the Group's revenue was generated from the natural resources and commodities segment (FY 2019: approximately 59.2%).

In FY 2020, the Group continued to switch more resources to the Consumer Products Business segment and approximately 54.3% of its total revenue (FY 2019: approximately 38.1%) was generated from this segment. Nevertheless, the COVID-19 has affected this business segment in the first three months in 2020 and therefore, the amount of revenue of this segment had slightly decreased by approximately 2.5% from approximately HK\$36.8 million in FY 2019 to approximately HK\$35.9 million in FY 2020.

Regarding the money lending segment, revenue, which comprised interest income generated, decreased by approximately 22.2% from approximately HK\$2.6 million in FY 2019 to approximately HK\$2.0 million in FY 2020.

Notwithstanding the aforesaid 31.5% decrease in total revenue, the Group was able to maintain its gross profit in relation to its operations at a comparable level between FY 2020 (approximately HK\$6.0 million) and FY 2019 (approximately HK\$6.1 million).

The Group recorded a loss attributable to owners of the Company of approximately HK\$19.9 million for FY 2020 as compared the amount in FY 2019 of approximately HK\$16.7 million, representing an increase of approximately HK\$3.2 million. Such increase was mainly due to the impairment of goodwill of approximately HK\$4.9 million and the loss on disposal of financial assets at fair value through profit and loss of approximately HK\$3.8 million, as per the 2020 Annual Report.

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For the three months ended 30 June 2020

The 2021 Q1 Report disclosed that the outbreak of COVID-19 epidemic in January 2020 in the PRC and the contagion of COVID-19 has spread worldwide materially affected the Group's revenue in 2021 Q1 in which its consolidated revenue decreased from approximately HK\$27.3 million in 2020 Q1 to approximately HK\$18.2 million in 2021 Q1, representing a decrease of approximately 33.4%. In line with and mainly due to the decrease in revenue generated during the period, the Group's gross profit decreased by approximately 44.4% to approximately HK\$1.4 million as compared to approximately HK\$2.5 million in the corresponding period last year. The Group recorded a loss attributable to owners of the Company of approximately HK\$3.1 million in 2021 Q1 as compared to a loss of approximately HK\$1.4 million in the corresponding period last year. The increase was mainly due to the recognition of share-based payment of approximately HK\$1.8 million and the effect of COVID-19.

(b) *Consolidated statement of financial position*

	As at 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(audited)	(audited)
Non-current assets	41,928	51,131
Current assets	87,919	90,230
Current liabilities	26,007	17,726
Net current assets	61,912	72,504
Total assets less current liabilities	103,838	123,635
Non-current liabilities	10,011	8,829
Net assets	93,827	114,806
Cash and cash equivalents	462	13,756
Gearing ratio (<i>Note</i>)	11.5%	9.0%

Note: The Group defines its gearing ratio as ratio of net debt over equity plus net debt in which net debt represents total of promissory note, bonds, bank overdraft and bank and other borrowings (where applicable) and exclude non-interest bearing item, being an amount due to director of approximately HK\$6.50 million and approximately HK\$6.55 million as at 31 March 2019 and 31 March 2020 respectively which were included in accruals and other payables as set out in the 2020 Annual Report, from the calculation of the aforesaid gearing ratio.

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We note that the Group's current assets decreased from approximately HK\$90.2 million as at 31 March 2019 to approximately HK\$87.9 million as at 31 March 2020, mainly due to the combined effect of (i) material increase in trade receivables; (ii) decrease in financial assets at fair value through profit and loss; (iii) reclassification of loans to investees as current assets; and (iv) significant decrease in cash and cash equivalents. The aforesaid current assets of approximately HK\$87.9 million as at 31 March 2020 mainly comprised of (i) inventories of approximately HK\$768,000; (ii) financial assets at fair value through profit and loss of approximately HK2.7 million; (iii) trade receivables of approximately HK\$33.7 million; (iv) loans receivables of approximately HK\$27.3 million; (v) prepayments, deposits and other receivables of approximately HK\$17.3 million; (vi) loans to investees of approximately HK\$5.8 million; and (vii) cash and cash receivables of approximately HK\$462,000, which is at a very low level and can only cover around one month of the Company's average monthly expenses for rent, salary and relevant mandatory contribution and other office expenses of approximately HK\$420,000.

We note from the 2020 Annual Report that the total trade receivables materially increased from approximately HK\$20.8 million as at 31 March 2019 to approximately HK\$33.7 million as at 31 March 2020 and the Group allows an average credit period of 30 days to its customers from Consumer Products Business. The receivables turnover day of the Group in relation to its Consumer Products Business (calculated as average trade receivables over revenue relevant to Consumer Products Business times the number of days in respective financial year/quarter) increase significantly from approximately 91.8 days as at 31 March 2019 to approximately 130.6 days as at 31 March 2020. For the first three months ended 30 June 2020, the receivable turnover day of the Group in relation to its Consumer Products Business further increased to approximately 155.3 days.

The Group's current liabilities increased materially from approximately HK\$17.7 million as at 31 March 2019 to approximately HK\$26.0 million as at 31 March 2020 mainly due to the increase in accruals and other payables.

Net assets decreased from approximately HK\$114.8 million as at 31 March 2019 to approximately HK\$93.8 million as at 31 March 2020, mainly due to the loss for FY 2020.

Taking into account of the loss making position of the Group, its low cash balance position and majority of its current assets are receivables which may not be readily available for the Group's use, we consider that the Group has an imminent need to enhance its liquidity.

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Reasons for the Rights Issue and intended use of proceeds

According to the Letter from the Board, notwithstanding the impact of PRC-US trade conflict and more recently the COVID-19 outbreak on Hong Kong, the Group was able to maintain its results at comparable level. Revenue attributable to the Consumer Products Business amounted to approximately 51.3%, 38.1%, 54.3% and 38.6% of total revenue of the Group for each of the three years ended 31 March 2020 and the first three months ended 30 June 2020. As mentioned in the 2020 Annual Report and the 2021 Q1 Report, the Group will continue to develop its existing business either via organic growth or by acquisition of related businesses if appropriate and to switch more resources to the Consumer Products Business segment which has a great potential on its business performance. Meanwhile, the Board will also utilize its business connections to identify other investment opportunities in order to diversify its existing business for enhancing its shareholder's return.

Therefore, the Company proposes to raise equity capital by the Rights Issue to supplement its operation needs and particularly for its Consumer Products Business.

The estimated gross proceeds and the estimated net proceeds from the Rights Issue (after deduction of expenses, including underwriting commission (assuming underwriting all the Rights Shares) and professional fees payable to financial advisers, legal advisers, financial printer and other parties involved in the Rights Issue of approximately HK\$2.0 million) will be approximately HK\$41.1 million and approximately HK\$39.1 million respectively. The Company intends to apply the net proceeds from the Rights Issue for the following purposes:

- (i) approximately HK\$13.1 million (or approximately 33.6% of the total net proceeds) for the repayment of bond in principal amount of HK\$10.0 million and other unsecured borrowings at the value of approximately HK\$3.1 million;
- (ii) approximately HK\$9.7 million (or approximately 24.8% of the total net proceeds) for the expansion of sales channels in various third-party department stores and chain stores in the PRC;
- (iii) approximately HK\$4.4 million (or approximately 11.1% of the total net proceeds) for the development of new merchandises and other consumer products;
- (iv) approximately HK\$4.0 million (or approximately 10.2% of the total net proceeds) for the marketing activities and use of third-party intellectual properties; and
- (v) approximately HK\$7.9 million (or approximately 20.3% of the total net proceeds) for general working capital of the Group.

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(i) Repayment of bond and other unsecured borrowings

According to the Letter from the Board, as set out in the 2020 Annual Report, the Group had (i) other unsecured borrowings of approximately HK\$3.0 million as at 31 March 2020 bearing interest rate of 8.0% per annum and payable within one year; and (ii) issued an unsecured bond to an independent third party with principal amount of HK\$10.0 million and with coupon rate of 5.33% per annum which has been fully prepaid. During the year ended 31 March 2020, the relevant finance costs incurred by the Group was approximately HK\$748,000. Since the implied cost of capital of the Rights Issue of approximately 4.96% (being the total estimated expenses of the Rights Issue as percentage of gross proceeds assuming an underwriting fee for underwriting all the Rights Shares) is lower than the aforesaid interest rate of the unsecured borrowings, the Company considers that it is economically justifiable to obtain equity financing to repay such borrowings in order to save finance costs. Since the unsecured bond will be due in May 2021 and the Company will be required to repay the principal to subscriber unless extension of the maturity is mutually agreed. Having taken into account of its cash position and financial performance, the Company considers that it is necessary to obtain financing in advance to prepare for full repayment. The Rights Issue can facilitate the need of the Group in this respect at a lower cost. Furthermore, given the gearing ratio of the Company increased from approximately 9.0% for the year ended 31 March 2019 to approximately 11.5% for the year ended 31 March 2020, the repayment of both bond and other borrowings by using proceeds from the Rights Issue would reduce the gearing ratio of the Company. As advised by the Company, it intends to repay the aforesaid borrowings upon receipt of the proceeds from the Rights Issue and the bond upon its expiry in May 2020.

We have reviewed and noted that the aforesaid other unsecured borrowings of the Group were originally due in 2017 but have been extended for several times with the latest due dates fall in June 2020 and the Company has not paid the relevant interests since 2017. For the unsecured bond of HK\$10 million, it was issued by the Company in 2013 and will be due in May 2021, which is less than 8 months from the Latest Practicable Date. We understand from the Company that both the lender and the bondholder have already refused to extend the maturity dates. Although the amount of unaudited cash and cash equivalents of the Group had been increased to approximately HK\$9.2 million as at 31 August 2020, such an amount is still insufficient to repay its debts. Given the low cash position of the Company and majority of its current assets are receivables which may not be readily available for the Company's use, the Company may get into possible financial distress if it does not take any immediate action to increase its financial resources to prepare for repayment of its borrowings.

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(ii) Expansion of sales channels in various third-party department stores and chain stores in the PRC

Based on our discussion with the Company, we understand that the Group has since 2018 switched its resources to other profitable segment including the Consumer Trading Business and has already started to increase its sale channels, provide a flexible credit terms to customers and add a new profit sharing sales model to attract the dealers and maximise its profit. Upon our enquiry, we understand that the Group currently sold its products, mainly traditional bag products, to around 12 points-of-sale (“POS”) run by third-party retailers in certain major cities of the PRC.

The Group intends to leverage this established sales network and reputation of retail chain stores and department stores to expeditiously expand the coverage of the Group’s products to capture any market opportunities by increasing the number of POS to around 65 POS operated by nationwide department stores, kids wear chain stores, household product chain stores, trendy jewellery and accessories stores etc. located in Beijing, Shanghai, Nanjing, Chongqing, Guangzhou, Wuhan, Zhengzhou and other cities in Jiangsu Province, Sichuan Province, Shaanxi Province, Inner Mongolia etc. upon receipt of the proceeds from the Rights Issue and agreement with the relevant dealers on the sale arrangement. As at the Latest Practicable Date, the Company is still in negotiation with the relevant dealers in respect of the sale arrangement of the Group’s products at their POS.

Since the Company may launch new bag products with various interactive functions subject to the results of research and development, the Company considers that it is necessary to prepare for the display of small computers and interactive electronic devices supported by online system to (i) attract customers’ attention by allowing them to play interactive online games and command robots at the POS as well as to enhance the Group’s product image; (ii) add more innovative elements to the Group’s marketing activities at shopping malls and department stores of the relevant POS when necessary; and (iii) enhance the features and playability of certain new bag products since certain new products will be designed for children.

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Among the approximately HK\$9.7 million assigned for expansion of sales channels in various third-party department stores and chain stores in the PRC, the Company expects to respectively incur approximately HK\$4.0 million for engaging third-party to develop and/or provide online system and games for use at both of the current and new POS and approximately HK\$2.1 million for initial setup costs for electronic devices for use at these POS. The Company expects that the procurement of devices and the installation of which at all the POS would take around six to eight weeks. Upon establishment of such sales channels with relevant dealers, the Group would be able to sell products of existing style and newly developed products as mentioned above. The Company currently expects to place around 20 styles of its products and maintain inventories of around 300 pieces of these products at each POS. The Group may adjust its inventory level at each POS to cope with the then market condition and the launch of its new products. If income sharing arrangement is adopted by relevant dealers, the Group would be able to record income equivalent to receive portion of sales of products at retail prices at the POS rather than previously selling at wholesale prices.

The Company also plans to expand its sales network to some other retail places in the PRC by offering around 50 smart vending machines for sale of its products by cooperating with retail dealers or e-commerce platform and therefore, the remaining HK\$3.6 million will be applied for purchasing these machines with relevant operation system. The Company expects to launch these smart vending machines in the first quarter of 2021 after determining the locations with retail dealers or e-commerce platform based on, among others, economy of cities, general spending power of customers and brand names of the retail places. As the Group would be able to monitor the sales data of smart vending machines, the Group could adjust continuously the product mix of its existing products and newly developed products at the smart vending machines in response to market demand.

Further details on the rational and the online system and games for use at the POS are set out in the Letter of the Board under the subsection headed “Expansion of sales channels in various third-party department stores and chain stores in the PRC” in the section headed “Reasons for the Rights Issue and Use of Proceeds”.

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As part of our due diligence exercise, we have obtained information for the new POS planning to be opened by the Group. We note that subject to signing of the relevant agreements, the proposed new POS will be operated by national department stores and retain chain stores located in the PRC. As stated in earlier part of this letter, Consumer Products Business is one of the principal businesses of the Group contributing approximately 54.3% of the revenue of the Group in FY 2020. Although the performance of this business segment in the final quarter of FY 2020 and 2021 Q1 was severely affected by the outbreak of COVID-19, economic activities in the PRC, where approximately 85% of the Group's revenue in FY 2020 was generated, have quickly resumed and the expansion plan of the Group may allow the Group to capture the restoration in market demand for consumer goods in the PRC.

(iii) Development of new merchandise and other consumer products

By leveraging the experience of the Group in design and production of traditional bag products, the Company intends make use of information and communication technology to enhance features of its new bag products. The Company expects to develop over ten products with different features/functions in the coming year and incur development cost approximately HK\$4.4 million. Further details and functionalities of the new bag products intended to be developed by the Group were set out in the Letter of the Board under the sub-section headed "Development of new merchandises and other consumer products" in the section headed "Reasons for the Rights Issue and Use of Proceeds".

We have obtained information on the proposed new bags of the Group and noted that the new bags integrate with certain updated technology such as GPS and camera which differentiate them from traditional bag products in the market thus may be able to increase the attractiveness of the Group's bag products to customers.

(iv) Marketing activities and use of third-party intellectual properties

The Letter from the Board disclosed that to cope with the development of the Group's new products and along with the expansion of sales channels through the POS and smart vending machines, the Group will need to put more marketing effort for increase of its brand awareness. The Company expects to spend approximately HK\$4.0 million to engage third-parties to (i) carry out marketing activities in Greater China area for up to three years; (ii) provide multimedia contents for the Group to apply in its new products and promotion; and (iii) authorize the use of their intellectual properties, such as popular cartoon characters, by the Group.

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We note from the 2020 Annual Report that MD Inc. Limited (“MD”), the Company’s wholly-owned subsidiary for operating the Consumer Products Business, had approached and cross designed with several favorable brands, even Nintendo and FILA. In order to increase the brand appearance, MD has been actively participated in different marketing activities such as trade fairs and exhibitions in particular those organized in the major cities of the PRC such as the 20th Shanghai International Children Baby Maternity Industry Expo. At the Expo, MD displayed a variety of merchandises which were designed and produced by MD. MD had also developed different somatosensory games and made use of this hot technology to promote the brand name in the coming years and linked up with other merchandises to be produced by MD. We were advised by the Company that the response received by MD was positive.

We note that it is not uncommon for consumer products to cross-over popular cartoon characters in order to promote their brands and booster sales. In view that the Group has a relatively short period of operation in Consumer Products Business segment and there are numerous competing brands in the bag industry, we concur with the view of the Company that it is important to adopt effective measures to increase customers’ awareness of its brand/products in order to booster sales.

(v) General working capital

According to the Letter from the Board, approximately HK\$8.0 million will be for general working covering the Company’s regular monthly expenses and for monthly purchase of consumer products. During the year ended 31 March 2020, the average monthly expenses for rent, salary and relevant mandatory contribution and other office expenses was approximately HK\$420,000 while the monthly purchase in relation to Consumer Products Business was approximately HK\$2.0 million in late 2019. As set out in the 2020 Annual Report, the total trade receivables of the Group increased from approximately HK\$20.8 million as at 31 March 2019 to approximately HK\$33.7 million as at 31 March 2020 and the Group allows an average credit period of 30 days to its customers from the Consumer Products Business. The receivables turnover day of the Group in relation to its Consumer Products Business (calculated as average trade receivables over revenue relevant to Consumer Products Business times the number of days in respective financial year/quarter) increase significantly from approximately 91.8 days as at 31 March 2019 to approximately 130.6 days as at 31 March 2020. For the first three months ended 30 June 2020, the receivables turnover day of the Group in relation to its Consumer Products Business further increased to approximately 155.3 days.

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Having considered (i) the settlement of customers may continue to be delayed as affected by the COVID-19 in near future; (ii) international brand or sizeable customers generally have larger bargaining power and may generally require for longer credit period; (iii) the planned expansion of the Group at retail level will require the Group to maintain additional inventories at the POS; and (iv) the current financial position of the Group, in particular, the unaudited cash and cash equivalents of the Group of approximately HK\$9.2 million as at 31 August 2020, the Board is of the view that it is necessary to secure the financial resources to support the operation of the Group and apply approximately HK\$5.0 million and approximately HK\$2.9 million of the net proceeds from the Rights Issue for its general working capital requirement on the aforesaid overheads in the coming 12 months and the expected inventory costs for few months respectively.

As part of our due diligence exercise, we have reviewed the components of the regular monthly expenses of the Company which amounts to approximately HK\$420,000 covering rent, salary and relevant mandatory contribution and other office expenses. The increase in receivables turnover day also exert additional pressure on the amount of working capital required by the Group for its business operation.

As mentioned in the section head “Historical financial performance of the Group” of this letter, we note that as at 31 March 2020, the Company only had a cash balance of approximately HK\$462,000 which can only cover around one month of the Company’s regular expenses. In addition, the Group’s inventories only amounted to approximately HK\$768,000 as at 31 March 2020. We concur with the Company’s expectation that additional inventories will be required when the Group open up the proposed POS and set up the vending machines as well as for possible increase in receivables turnover days as mentioned above.

In addition to the aforesaid, the Letter from the Board disclosed that the Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Qualifying Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue on a 5-to-2 ratio. As at the Latest Practicable Date, the Company has no intention to conduct further fundraising activities in near future.

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On the basis that:

- (i) given the low cash position of the Company, majority of the Group's current assets are receivables which may not be readily available for the Company's use, and the Company had net current liabilities of approximately HK\$10.0 million as at 31 March 2020, the Company may get into possible financial distress if it does not take any immediate action to increase its financial resources to prepare for repayment of its borrowings;
- (ii) part of the net proceeds will be applied for the Consumer Products Business, which is the principal business and has been the focal point of the Group's business development since 2018;
- (iii) to copy with the proposed increase in POS, it is desirable for the Group to develop new products and adopt effective measures to increase customers' awareness of its brand/products in order to booster sales; and
- (iv) additional working capital will be required by the Group in view of the increase in receivables turnover day and for purchasing additional inventories when the Group open up the proposed POS and set up the vending machines,

We concur with the view of the Board that it is in the interests of the Company and the Shareholders as a whole to conduct a fund raising exercise.

Alternative financing alternatives

We have discussed with the Company about other financing alternative and understand that the Directors have considered other financing alternatives including (i) additional debt financing, and (ii) equity fund raising such as placement of new Shares and open offer, and (iii) realisation of existing investments in order to alleviate the Company's liquidity pressure and for expansion of its business. The Directors' view is as follows:

- (a) As for additional debt financing, as at the Latest Practicable Date, the Board has attempted to obtain loan financing from its principal bankers, and was advised that it is not feasible for the Company to obtain loan facilities in amount comparable to gross proceeds from the Rights Issue under the recent financial status of the Company. For the existing bond and borrowings, the coupon/interest rate is up to 8.0% per annum which is significantly higher than the implied cost of capital of the Rights Issue of approximately 4.96% (being the total estimated expenses of the Rights Issue as percentage of gross proceeds assuming an underwriting fee for

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underwriting all the Rights Shares). Since the Company is unable to obtain any new borrowings from its principal bankers in the amount comparable to the gross proceeds from the Rights Issue and was advised by the holder of the bond and lender of other borrowings that they would not extend the due dates of relevant bond or borrowings, the Company has no practicable means to obtain new debt financing. In addition, the Board is of the view that the debt financial may result in a higher gearing ratio of the Group, and this will also increase the ongoing interest expenses of the Group and in turn affect the profitability of the Company.

- (b) As for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company.
- (c) As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing its net asset position without the ongoing burden of interest expenses, and also offers all the Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid dilution for those Shareholders who take up their entitlement under the Rights Issue in full.
- (d) As for realisation of existing investments, the Company's portfolio comprises securities listed on the Stock Exchange which, as at 31 March 2020, amounted to (i) approximately HK\$2.7 million (classified as financial assets at fair value through profit or loss of current assets); and (ii) approximately HK\$2.7 million (classified as financial assets at fair value through other comprehensive income of non-current assets) as the Group intends to hold for the long term for strategic purposes. In view of the investment strategy towards certain equity investment by the Company, i.e. long-term holding, and disposal of its short term investments under recent weak market sentiment would result in loss of the Group, the Directors are of the view that it is not advisable at this moment for the Company to realise the existing investments.

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- (e) The Board considers that the Rights Issue, which is on a fully underwritten basis, can make the Company raise sufficient funds to satisfy its demands on funds as aforementioned. In addition, the Rights Issue would give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interest in the Company and provide an opportunity to all Qualifying Shareholders to participate in the growth of the Company in proportion to their shareholdings. Although those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Excluded Shareholders may make their shareholdings diluted, the Rights Issue requires the Independent Shareholders' approval so that the Independent Shareholders are given an opportunity to decide whether the Company shall proceed to the Rights Issue by voting for or against at the EGM to approve the Rights Issue.

While we concur with the aforesaid view of the Directors, we also consider that in view of the loss-making position of the Company for the past few years, it is unlikely for the Company to obtain loans from financial institutions in the absence of providing material fixed assets as collateral. According to the 2020 Annual Report, the Group only had property, plant and equipment of HK\$6.3 million, which is far less than the amount of fund required by the Company. We have asked for and obtained information on the investment portfolio of the Group and noted that the market value of the Group's securities investment as at 31 August 2020 was lower than the amount of the other borrowings to be repaid by the Company in 2020, not to say for repayment of the Bond in 2021 and for development of the Consumer Products Business as detailed in the section headed "Reasons for the Rights Issue and Use of Proceeds" in the Letter from the Board. As such, realization of the Company's existing investments cannot meet with the funding needs of the Company. Based on the aforesaid, we agree that equity fund raising is a more appropriate fund raising method to the Company for the time being. In view that all the Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares and, if possible, can trade the nil-paid rights in the open market should they do not want to participate in the Rights Issue, we consider that the Rights Issue, when compares with share placing and open offer, is a fair method to allow the Qualifying Shareholders to reinvest in the Company, if they so wish to, in priority to other potential investor.

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2. Principal terms of the Rights Issue

The table below summarises the major terms of the Rights Issue:

Basis of the Rights Issue	:	Five (5) Rights Shares for every two (2) Shares held at the close of business on the Record Date
Subscription Price	:	HK\$0.08 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	205,434,000 Shares
Number of Rights Shares	:	513,585,000 Rights Shares with an aggregate nominal value of HK\$12,326,040, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued shares of the Company upon completion of the Rights Issue	:	719,019,000 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record
Amount to be raised:	:	Approximately HK\$41.1 million before expenses
Right of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment

As at the Latest Practicable Date, there are (i) 17,119,650 outstanding Share Options, which are exercisable during the period from 13 March 2019 to 12 March 2021 at the exercise price of HK\$0.36 each; and (ii) 20,543,400 outstanding Share Options, which are exercisable during the period from 22 April 2020 to 21 April 2022 at the exercise price of HK\$0.24 each. Pursuant to the terms of the Share Option Scheme, the exercise prices and/or number of new Shares to be issued upon exercise of the Share Options may be adjusted in accordance with the Share Option Scheme, if any, upon the Rights Issue becoming unconditional. Information on the expected adjustment to be made to the Share Options upon the Rights Issue becoming unconditional are set out in the section headed “Possible Adjustments relating to the Share Options” in the Letter from the Board.

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Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

As at 24 August 2020, being the date of the Underwriting Agreement, each of the holders of the Share Options (including two Directors) has signed an Optionholder's Undertaking not to exercise any and all of the Share Options granted to him/her from the date of the Optionholder's Undertaking to the close of business on the Record Date.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 250.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 71.43% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue. The theoretical dilution effect of the Rights Issue is approximately 8.50% which is below 25% as required under Rule 10.44A of the GEM Listing Rules.

Subscription Price

The Subscription Price of HK\$0.08 per Rights Share represents:

- (i) a discount of approximately 2.4% to the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable date;
- (ii) a discount of approximately 11.1% to the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 3.6% to the theoretical ex-rights price of approximately HK\$0.083 per Share based on the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 12.1% to the average of the closing prices of approximately HK\$0.091 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 12.1% to the average of the closing prices of HK\$0.091 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day; and

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- (vi) a discount of approximately 82.5% to the audited net asset value per Share of approximately HK\$0.457 (based on the latest published audited consolidated net asset value of the Group of approximately HK\$93,827,000 as at 31 March 2020 as disclosed in the 2020 Annual Report and 205,434,000 Shares in issue as at the Latest Practicable Date).

According to the Letter of the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter taking into account, among others, (i) the prevailing market price of the Shares since August 2020 and up to the Last Trading Day which were generally around HK\$0.091 per Share and a discount with reference to the recent completed rights issue; (ii) the latest business performance and financial position of the Group; and (iii) the funding and capital needs of the Company.

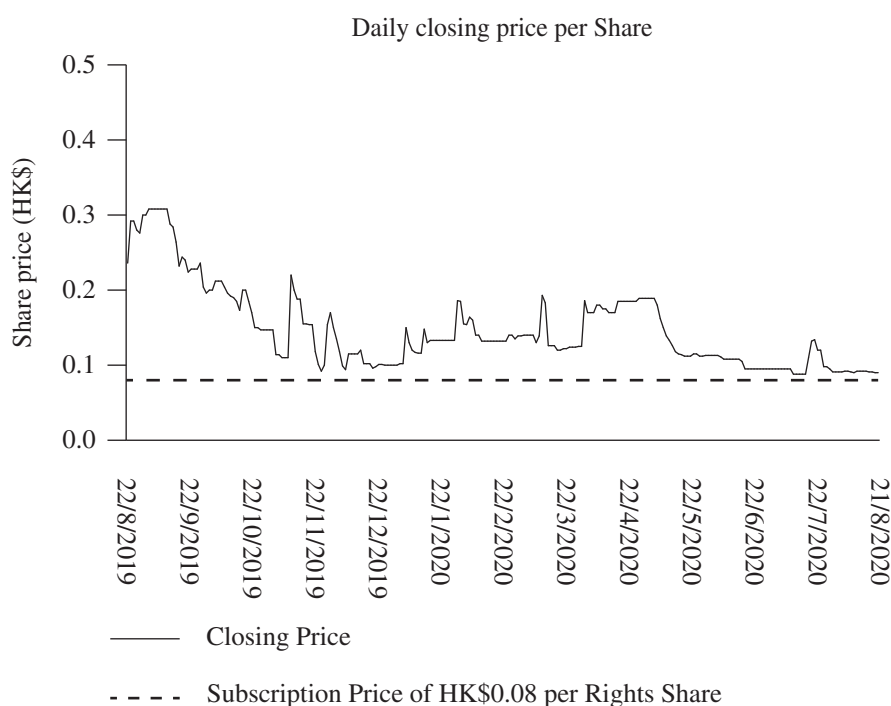
The Directors also consider that the Subscription Price was set at a discount to the recent closing prices of the Shares aiming at lowering the further investment cost of the Shareholders so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimizing possible dilution impact.

The Directors consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; (ii) the Qualifying Shareholders who choose to accept their provisional entitlements in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and (iii) the Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the recent market price of the Shares.

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(i) *Comparison with historical closing prices and net asset value*

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 22 August 2019 to the Last Trading Day (the “**Review Period**”)(being a period of approximately 1 year prior to and including the Last Trading Day, which is commonly used for analysis purpose to illustrate the general trend of the closing prices and the level of movement of the Shares) and compared with the Subscription Price. We consider that a period of 1 year is representative and adequate to illustrate the price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.



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

Note: The Company completed a share consolidation (“**Share Consolidation**”) on 8 October 2019 by consolidating every four issue and unissued shares of par value HK\$0.06 each in the share capital of the Company to one consolidated share of par value of HK\$0.24 each, details of which were set out in its circular dated 18 September 2019. On 8 May 2020, the Company further completed a reduction of issued shares and sub-division of unissued share, details of which were set out in its circular dated 8 January 2020. Prices of the Share from 22 August 2019 to 8 October 2019 have been adjusted based on the Share Consolidation.

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During the Review Period, the average daily closing price of the Shares was HK\$0.147. The highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.308 per Share recorded from 2 September 2019 to 10 September 2019 and HK\$0.088 per Share recorded from 14 July 2020 to 20 July 2020. Prices of the Shares fluctuated but showed a sliding trend during the Review Period.

Although the Subscription Price of HK\$0.08 appears to be at a substantial discount to the audited net asset value (“NAV”) per Share of approximately HK\$0.457 as at 31 March 2020, we consider that the NAV per Share is not a meaningful benchmark to assess the Subscription as in the entire Review Period, the Shares have been traded in the Stock Exchange at significant discount to the NAV per Share of HK\$0.457. The discount of the closing price to the NAV per Share ranged from approximately 32.6% based on the highest closing price per Share of HK\$0.308 to approximately 80.7% based the lowest closing price of HK\$0.088. Given the recent market prices of the Shares have already reflected the expectation of the investors to the Company such as financial results and corporate actions of the Company and the recent market sentiment, we consider that recent market price of the Shares to be more relevant for our assessment to the fairness and reasonableness of the Subscription Price.

In view that the prices of the Shares showed a sliding trend during the Review Period, the loss making position of the Company for the past few years, the low cash position of the Group, the imminent financial needs of the Company to obtain further funding as general working capital, for repayment of debts and development of its principal business, and the Subscription Price was determined after arm’s length negotiations between the Company and the Underwriter, we concur with the Directors that a discount on the Subscription Price would encourage Shareholders to reinvest in the Company through the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future development of the Group. For this reason, we are of the view that a discount to the Share price as represented by the Subscription Price is justifiable.

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(ii) Review on trading liquidity of the Shares

We have also reviewed the historical trading volume of the Shares during the Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period are shown in the table below.

Month	Average daily trading volume of the Shares (the “Average Volume”) (Note 1) Number of Shares	% of the Average Volume to total number of issued Shares held by the public (Note 2) %	% of the Average Volume to total number of issued Shares (Note 3) %	No. of trading days in each month
2019				
August (Notes 4 & 5)	71,429	0.037	0.035	7
September (Note 5)	53,664	0.027	0.026	21
October (Note 5)	71,420	0.037	0.035	21
November	66,651	0.034	0.032	21
December	29,363	0.015	0.014	20
2020				
January	145,791	0.075	0.071	20
February	21,742	0.011	0.011	20
March	47,852	0.025	0.023	22
April	106,601	0.055	0.052	19
May	217,912	0.112	0.106	20
June	6,952	0.004	0.003	21
July	140,595	0.072	0.068	22
August (up to and including the Last Trading Day) (Note 6)	82,661	0.042	0.040	15

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

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Notes:

1. Number of the Shares from 22 August 2019 to 8 October 2019 had been adjusted according to the Share Consolidation.
2. Calculated based on the total number of the Shares held in public hands at the end of the month.
3. Calculated based on the total number of the Shares in issue at the end of the month.
4. Represents the information for the period from 22 August 2019 to 31 August 2019, both days inclusive.
5. The Company completed the Share Consolidation on 8 October 2019 by consolidating every four issue and unissued shares of par value HK\$0.06 each in the share capital of the Company to one consolidated share of par value of HK\$0.24 each, details of which were set out in its circular dated 18 September 2019. On 8 May 2020, the Company further completed a reduction of issued shares and sub-division of unissued share, details of which were set out in its circular dated 8 January 2020. Trade volume of the Share from 22 August 2019 to 8 October 2019 have been adjusted based on the Share Consolidation.
6. Represents the information for the period from 1 August 2020 to 21 August 2020 (i.e. the Last Trading Day), both days inclusive.

As demonstrated in the table above, during the Review Period, the average daily trading volume of the Shares by month were in the range of approximately 0.003% to 0.106% as to the total number of issued Shares and approximately 0.004% to 0.112% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low. We further noted that during the Review Period which involve 249 trading days, the Share recorded zero trade volume for 85 days, representing approximately 34.14% of the Review Period. This further demonstrated that the Share were generally illiquid in the open market.

On the basis that the Shares were generally illiquid in the open market and the price of the Shares showed a sliding trend during the Review Period, we concur with the Directors that the discount to the Share price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future development of the Group. For this reason, we are of the view that the discount to the Share price as represented by the Subscription Price is justifiable.

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(iii) Comparison with other rights issue transactions

As part of our analyses, we have identified those rights issue transactions conducted by companies (the “**Comparables**”) from 22 May 2020 up to the Last Trading Day, being three-month period prior to and including the Last Trading Day (the “**RI Review Period**”).

To the best of our knowledge, we found 13 transactions which met the said criteria. The 13 Comparables have been identified through our research using public information. We believe that it is an exhaustive list based on our selection criteria. Shareholders should note that the subject companies in the Comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. Although the circumstances surrounding such Comparables may be different from those relating to the Company, we consider that the RI Review Period of three-month period is representative, adequate and fair and reasonable to capture the current market conditions of companies listed on the GEM of the Stock Exchange in view of the rapid changing market condition in Hong Kong especially in view of the impacts of COVID-19 and deterioration in relationship between the US and the PRC.

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Summarised below is our relevant findings:

Company name (Stock code)	Date of prospectus	Basis of entitlement (Note 1)	Maximum dilution (Note 1) (%)	Premium/ (discount) of the subscription price of rights share over/to the closing price of the share as at the last trading date (Note 2) (%)	Premium/ (discount) of the subscription price of rights share over/to the theoretical ex-rights price/ex-entitlement price (%)	Theoretical dilution effect (Note 3) (%)	Underwriting commission (%)	Excess application
Merdeka Financial Group Limited (8163)	29/05/2020	4 for 1	80.0	(8.33)	(1.79)	(6.67)	2.00	Yes
Forebase International Holdings Limited (now known as Times Universal Group Holdings Limited) (2310)	17/06/2020	1 for 2	33.3	0.00	0.00	(0.09)	N/A (Note 4)	No
Anxian Yuan China Holdings Limited (922)	08/07/2020	3 for 2	60.0	(32.89)	(18.09)	(21.34)	N/A (Note 4)	Yes
Honda Financial Holding Limited (now known as China Wood International Holding Co., Limited) (1822)	09/07/2020	1 for 5	17.0	0.00	0.00	0.00	N/A (Note 4)	Yes
Future World Financial Holdings Limited (now known as Future World Holdings Limited) (572)	15/07/2020	1 for 2	33.3	(10.00)	(7.22)	(10.95)	3.50	No
Cathay Pacific Airways Limited (293)	22/07/2020	7 for 11	38.9	(46.90)	(35.00)	(Note 5)	2.00	Yes
Victory City International Holdings Limited (539)	23/07/2020	2 for 1	66.7	(30.35)	(12.50)	(20.40)	1.75	Yes
China Merchant Securities Co., Ltd. (6099) (Note 6)	28/07/2020	3 for 10	23.1	(24.79)	(20.33)	(9.64)	(Note 7)	Yes
Teamway International Group Holdings Limited (1239)	10/08/2020	2 for 1	66.7	(14.89)	(5.51)	(10.70)	N/A (Note 4)	Yes
Luxey International (Holdings) Limited (8041)	19/08/2020	1 for 2	33.3	(58.30)	(48.20)	(19.9)	N/A (Note 4)	Yes
GreatWalle Inc. (8315)	19/08/2020	1 for 3	25.0	(27.54)	(21.88)	(7.25)	(Note 8)	Yes
China Strategic Holdings Limited (8089)	21/08/2020	1 for 2	33.3	(24.53)	(17.81)	(9.90)	3.00	Yes
Longham Hospitality Investments and Longham Hospitality Investments Limited (1270)	21/08/2020	1 for 2	33.3	(13.6)	(9.5)	(5.2)	N/A (Note 4)	Yes
		Maximum	80.00	(8.33)	(1.79)	0	3.50	
		Minimum	17.00	(58.30)	(48.20)	(21.34)	1.75	
		Average	44.87	(26.56)	(17.98)	(10.17)	2.04	
The Company		5 for 2	71.43	(11.10)	(3.60)	(8.50)	2.50	Yes

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

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Notes:

1. Maximum dilution is calculated according to the basis of entitlement of each rights issue with formula as follows:

$$\frac{\text{Number of rights shares to be issued under the basis of entitlement}}{\text{Number of shares held for the entitlement for the rights shares under the basis of entitlement} + \text{Number of rights shares to be issued under the basis of entitlement}} \times 100\%$$

2. The last trading day of the Comparables means the price determination date for the rights shares, or the last trading on or immediately before the release of the rights issue announcement of the Comparables.
3. The theoretical dilution effect refers to:
 - (a) Rule 7.27B of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited for companies listed on the main board of the Stock Exchange; or
 - (b) Rule 10.44A of the GEM Listing Rules for companies listed on the GEM.
4. The rights issue was conducted on a non-underwritten basis.
5. No such information had been disclosed.
6. China Merchant Securities Co., Ltd. is a joint stock company incorporated in the PRC, its issued shares compose of A Shares and H Shares. The information presented herein are related to its H shares only, which are listed on the Stock Exchange.
7. No separate disclosure on the underwriting commission.
8. The underwriting commission equals to a lump sum amount of HK\$200,000.00. The Company shall also pay all legal fees and other reasonable out-of-pockets expenses of the underwriter in respect of the rights issue.

As shown on the above table, out of the 13 Comparables, 11 Comparables offered rights shares at a discount to (i) their respective closing price on the last trading day (“**LTD Price**”); and (ii) respective theoretical ex-rights price (“**Ex-right Price**”). These reveal that it is a common practice in the market for setting subscription price at a discount to the LTD Price and the Ex-right Price.

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The discount to LTD Price of the 11 Comparables ranged from approximately 8.33% to 58.30%, with an average of approximately 26.56%. We note that the Company's Subscription Price, which is at a discount of approximately 11.10% to the LTD Price falls within the aforesaid range and lower than the average discount of approximately 26.56%.

The discount to Ex-right Price of the 11 Comparables ranged from a discount of approximately 1.79% to 48.20%, with an average discount of approximately 17.98%. The Company's Subscription Price represents a discount of approximately 3.60% to the Ex-right Price, which falls within such range and is also lower than the average discount of approximately 17.98%.

As further shown on the above table, among those 12 Comparables with disclosure on the theoretical dilution effect in its rights issue prospectus, the theoretical dilution effect range from nil to a discount of approximately 21.34% with an average discount of approximately 10.17%. The Company's Rights Issue has a theoretical dilution effect of approximately 8.50%, falls within such range and is also lower than the average discount of approximately 10.17%.

We have considered to compare the discount of the Subscription Price to the NAV of the Company with that of the Comparables. However, in view that the Comparables cover a number of companies which are materially diverse in background, business nature, scale of operation, capital structure and share price and their only similarity is having conducted a rights issue in the past three months, we consider that it is inappropriate to make such a direct comparison. Nevertheless, we have compared the Subscription Price with the NAV of the Company and our view is set out in the sub-section headed "Comparison with historical closing prices and net asset value" at earlier part of this letter.

Taking into account that (i) it is a normal market practice that the subscription price of a rights issue be set at a discount to the LTD Price and the Ex-right Price in order to enhance the attractiveness of a rights issue and to encourage the qualifying shareholders to take part in the rights issue; (ii) the discounts of the Subscription Price to the LTD Price and to the Ex-right Price fall within discount ranges of the Comparables; (iii) the theoretical dilution effect of the Rights Issue of approximately 8.50% is within the range of the Comparables and below 25% as required under Rule 10.44A of the GEM Listing Rules; and (iv) the Subscription Price is a commercial decision arrived at after arm's length negotiations between the Company and the Underwriter and considered the prevailing market prices of the Shares and the financial conditions of the Group, we consider that the Subscription Price is fair and reasonable.

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Other terms

(i) Underwriting commission

With reference to the Letter from the Board, the number of Rights Shares to be issued pursuant to the proposed Rights Issue would be 513,585,000 Rights Shares. The Company had entered into the Underwriting Agreement with the Underwriter, which to the best of the knowledge and information of the Directors after reasonable enquiries, the Underwriter and its ultimate beneficial owner are Independent Third Parties and not connected with the Company and its connected persons as defined under the GEM Listing Rules.

As at the Latest Practicable Date, there are (i) 17,119,650 outstanding Share Options, which are exercisable during the period from 13 March 2019 to 12 March 2021 at the exercise price of HK\$0.36 each; and (ii) 20,543,400 outstanding Share Options, which are exercisable during the period from 22 April 2020 to 21 April 2022 at the exercise price of HK\$0.24 each. Save for the aforesaid, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date. As at 24 August 2020, being the date of the Underwriting Agreement, each of the holders of the Share Options (including two Directors) has signed an Optionholder's Undertaking not to exercise any and all of the Share Options granted to him/her from the date of the Optionholder's Undertaking to the close of business on the Record Date.

The number of Rights Shares underwritten by the Underwriter would be all the Rights Shares, being 513,585,000 Rights Shares.

As stated in the Letter from the Board, the terms of the Underwriting Agreement, including the underwriting commission of 2.50%, were determined after arm's length negotiation between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the proposed Rights Issue, and the current and expected market condition. From the Comparables as listed in the sub-section headed "Comparison with other rights issue transactions" of this letter, the underwriting commission rate of the Comparables ranged from 1.75% to 3.50%, after excluding those Comparables which right issue were on non-underwritten basis, no separate disclosure of underwriting commission or underwriter charged a fixed fee with payment of certain expenses. The underwriting commission of the Underwriter of 2.50% falls within the range. Further, as discussed with the Company, given the unsatisfactory financial performance of the Group, the relatively thin trading volume of the Shares during the Review Period and the required funding size of the proposed Rights Issue, it was difficult to procure underwriters with more favourable terms to

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the Company. Therefore, we consider that the underwriting commission of 2.5% payable to the Underwriter is in line with the normal market practice and is fair and reasonable so far as the Company and the Shareholders are concerned.

(ii) Application for excess Rights Shares

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

Among the Comparables as set out in the sub-section headed “Comparison with other rights issue transactions” of this letter, out of the 13 Comparables, 11 Comparables allow for application of excess rights shares. As such, we consider that it is a market practice for providing application for excess rights shares, and the possibility of applying for excess Rights Shares under the proposed Rights Issue is in normal commercial terms.

3. Potential dilution effect of the proposed Rights Issue

The proposed Rights Issue will allow all the Qualifying Shareholders the equal opportunity to subscribe for their respective pro-rata provisional entitlement of the Rights Shares and hence avoids dilution in their shareholdings in the Company, which we consider to be a fair and reasonable arrangement. Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue have the opportunity to sell the nil-paid rights in the market, if they so wish. However, Qualifying Shareholders who do not wish to take up their provisional entitlements and the Non-Qualifying Shareholders will have their shareholdings in the Company diluted upon completion of the proposed Rights Issue. Details of such dilutive effective are presented in the section headed “Shareholding Structure of the Company” in the Letter from the Board.

Meanwhile, those Qualifying Shareholders who wish to increase their proportional shareholding interests in the Company through the Rights Issue may (i) subject to availability, acquire additional nil-paid rights in the market; and (ii) apply for the excess Rights Shares since the Rights Issue also allows for excess application of the Rights Shares.

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The basis of entitlement of the Rights Issue is five Rights Shares for every two Shares held on the Record Date. The Letter from the Board stated that having considered the recent trading prices of the Shares in open market and the existing share capital of the Company, the Company is of the view that the capital to be raised by the Rights Issue at a ratio of five Rights Shares for every two Shares held on the Record Date would meet the abovementioned capital need of the Group whereas (i) a larger ratio would require the Qualifying Shareholders to take up more entitlements to avoid being diluted and increase underwriting effort of underwriters leading to higher commission; and (ii) a smaller ratio would not cater for sufficient capital meeting the Group's requirement as detailed above.

While we concur with the aforesaid view of the Board, we have, according to the basis of entitlement, calculated the underlying maximum dilution effect of the rights issue of the Company and the Comparables for the purpose of assessing the fairness and reasonableness of the basis of entitlement of five Rights Shares for every two Shares held on the Record Date. Among the Comparables as set out in the sub-section headed "Comparison with other rights issue transactions" of this letter, the maximum dilution on shareholding ranged from approximately 17.00% to 80.00%, and the maximum dilution under the proposed Rights Issue of approximately 71.43% falls within the upper end of the range. Nonetheless, we consider that the foregoing should be balanced against by the following factors:

- (a) Independent Shareholders are offered a chance to express their views on the terms of the Rights Issue and the Underwriting Agreement through their votes at the EGM;
- (b) Qualifying Shareholders have their choice whether to accept the Rights Issue or not;
- (c) Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market;
- (d) liquidity of the Shares in the open market during the Review Period as analyzed above was low and there is no guarantee that Qualifying Shareholders can realise their nil-paid rights to subscribe for the Rights Shares in the market but the proposed Rights Issue rather than debt financing, realization of existing investments, placement of new Shares or open office is a more appropriate fund raising method to the Company for the time being. All the Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares, which is a fair method to allow the Qualifying Shareholders to reinvest in the Company, if they so wish to, in priority to other potential investor;

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- (e) the Rights Issue offers the Qualifying Shareholders a chance to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market price of the Shares;
- (f) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue;
- (g) given the low cash position of the Company, net current liabilities position and majority of its current assets are receivables which may not be readily available for the Company's use, the Company may get into possible financial distress if it does not take any immediate action to increase its financial resources to prepare for repayment of its borrowings;
- (h) part of the net proceeds of the Rights Issue will be applied for the Consumer Goods Business, which is one of the principal businesses of the Group and has been the focal point of the Group's business development since 2018; and
- (i) additional working capital will be required by the Group in view of the increase in receivables turnover day and for purchasing additional inventories when the Group open up the proposed POS and set up the vending machines.

Having considered the above, we consider the basis of entitlement of five Rights Shares for every two Shares held on the Record Date and the potential dilution effect on the shareholding interests of the Qualifying Shareholders, the latter may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, to be acceptable.

4. Possible financial effects of the proposed Rights Issue

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

(a) Effect on NTA

An unaudited pro forma statement of adjusted consolidated net tangible assets ("NTA") of the Group attributable to owners of the Company as at 31 March 2020, as derived from the 2020 Annual Report, is set out in Appendix II to the Circular (the "Statement").

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The unaudited consolidated NTA of the Group was approximately HK\$61,359,000 as at 31 March 2020 according to the Statement. Upon completion of the Rights Issue, based on 513,585,000 Rights Shares to be issued at the Subscription Price of HK\$0.08 per Rights Share, the unaudited pro forma adjusted consolidated NTA of the Group attributable to the owners of the Company after completion of the Rights Issue would increase to approximately HK\$100,531,000 according to the Statement. The unaudited consolidated net tangible assets attributable to owners of the Company per Share as at 31 March 2020 was approximately HK\$0.2987, which would increase to approximately HK\$0.1398 per Share immediately after completion of the proposed Rights Issue.

(b) Effect on liquidity

With reference to the 2020 Annual Report, the cash and cash equivalents of the Group were approximately HK\$462,000 as at 31 March 2020. As part of the net proceeds from the Rights Issue will be applied as additional working capital of the Group, the Group's liquidity position would be improved upon completion of the Rights Issue.

(c) Effect on gearing position

According to the 2020 Annual Report, the Group's gearing ratio ("**Gearing Ratio**") was approximately 11.5% as at 31 March 2020. According to the Letter from the Board, the Group defines gearing ratio as ratio of net debt over equity plus net debt in which net debt represents total of promissory note, bonds, bank overdraft and bank and other borrowings (where applicable) and exclude non-interest bearing item, being an amount due to director included in accruals and other payables in 2020 Annual Report, from the calculation of the aforesaid gearing ratios. Such item is also presented as loan from a director in the paragraph headed "2. Statement of indebtedness" in appendix I to the Circular which was approximately HK\$6.55 million as at 31 August 2020.

The shareholders fund of the Group would be enlarged upon completion of the Rights Issue. As part of the net proceeds from the Rights Issue will be applied as for repayment of both bond and other borrowings and, as advised by the Company, the Group had no other interest bearing debt as at the Latest Practicable Date and assuming the Group will not incur any additional interest-bearing debts, the net interest bearing debts of the Group is expected to decrease due to the Rights Issue. Consequently, the Gearing Ratio, as calculated based on the aforesaid formula, will be reduced to zero.

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

LETTER FROM PROTON CAPITAL

RECOMMENDATION

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

Yours faithfully,
For and on behalf of
Proton Capital Limited
Josephine Lau
Director – Corporate Finance

Note: Ms. Josephine Lau has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2007. She has participated in and completed various advisory transactions in respect of debt and equity fund raising, including rights issue, of listed companies in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial information of the Group for each of the years ended 31 March 2018, 2019 and 2020 and the unaudited financial information of the Group for the three months ended 30 June 2020 are disclosed in the following annual reports of the Company for the years ended 31 March 2018, 2019 and 2020 and first quarterly report for the three months ended 30 June 2020 respectively which have been published and are available on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (<http://www.wealthglory.com/>):

- (a) the annual report of the Company for the year ended 31 March 2018 published on 28 June 2018 (pages 40 to 129) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/gem/2018/0628/gln20180628359.pdf>);
- (b) the annual report of the Company for the year ended 31 March 2019 published on 28 June 2019 (pages 38 to 131) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0628/gln20190628133.pdf>);
- (c) the annual report of the Company for the year ended 31 March 2020 published on 24 June 2019 (pages 35 to 126) in relation to the financial information of the Group for the same year (<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0630/2020063002260.pdf>); and
- (d) the first quarterly report of the Company for the three months ended 30 June 2020 published on 14 August 2020 (pages 2 to 9) in relation to the financial information of the Group for the same period (<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0814/2020081400709.pdf>).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2020, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

	<i>HK\$'000</i>
Loan from a director (<i>note 1</i>)	6,550
Other borrowing (<i>note 2</i>)	3,032
Bonds (<i>note 3</i>)	<u>9,505</u>
Total	<u><u>19,087</u></u>

Notes:

- 1) The loan from a director, Mr. Tse Sing Yu, is interest free, unsecured, unguaranteed and repayable after April 2021.
- 2) The other borrowing represents unsecured and unguaranteed short-term borrowings which bears interest rate at 8% per annum and repayable within one year.
- 3) On 28 November 2013, the Company issued an unsecured and unguaranteed bond to an independent third party with principal amount of HK\$10,000,000, and with coupon rate of 5.33% per annum. The aggregate consideration of the bond amounted to HK\$6,000,000 which has been netted with the fully prepaid interest of HK\$4,000,000. The effective interest rate of the bond is 7.04%. The maturity date of the bond is 7.5 years

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of the business, as at the close of business on 31 August 2020, the Group did not have any debt securities, issued and outstanding, and authorised or otherwise created but unissued, and term loans, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstances, taking into account the financial resources available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements for at least the next twelve (12) months following the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in (i) trading of natural resources and commodities; (ii) trading of trendy fashion merchandises and other consumer products; (iii) money lending; and (iv) investment in securities in Hong Kong.

For the year ended 31 March 2020, the Company recorded a revenue of approximately HK\$66.2 million, representing a decrease of approximately of 31.5% as compared to approximately HK\$96.7 million for the year ended 31 March 2019. For the three months ended 30 June 2020, the Company recorded a revenue of approximately HK\$18.2 million, representing a decrease of approximately of 33.3% as compared to approximately HK\$27.3 million for the three months ended 30 June 2019. Nevertheless, sale of consumer products remained as a major source of income of the Group which represented approximately 54.3% and 38.6% of the total revenue of the Group for the year ended 31 March 2020 and the three months ended 30 June 2020 respectively.

As set out in the 2020 Annual Report and the Q1 Report, the Company continues to switch more resources to the sales of consumer products and trendy fashion merchandises segment, and the Company has approached and designed for several brands such as Nintendo and FILA in relation to the Company's new product. Looking ahead, the Company will continue to pursue its strategy to develop its existing business and products and strengthen its relationship with other famous and sizable brands as well as to enhance its brand awareness by participating in various trade fairs and exhibitions. The Company would closely monitor the market conditions when implementing its business strategies to cope with the fluctuation of the markets of its core business segments.

The Group intends to expand its consumer product business by (i) development of new bag products to cope with the trend of application of 5G and internet-of-things technology; (ii) increasing marketing effort in Greater China area to promote its brand and products; (iii) expansion of its sales channels via new POS and smart vending machines in the PRC after receiving proceeds from the Rights Issue. The Company believes that this sales and development plan is in line with the abovementioned strategy and would broaden the Group's market to capture more business opportunities.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2020 (the “**Unaudited Pro Forma Financial Information**”) which has been prepared by the directors of the Company in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), with reference to Accounting Guideline 7 “**Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars**” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and on the basis of the notes set out below for the purpose of illustrating the effects of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had taken place on 31 March 2020.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Rights Issue been completed as at 31 March 2020 or at any future date.

The following Unaudited Pro Forma Financial Information of the adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2020, extracted from the published annual report of the Group for the year ended 31 March 2020, with adjustment described below:

	Consolidated net tangible assets attributable to owners of the Company as at 31 March 2020 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 31 March 2020 <i>HK\$'000</i>	Consolidated net tangible assets attributable to owners of the Company per Share before the completion of the Rights Issue <i>HK\$</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share immediately after completion of the Rights Issue <i>HK\$</i> <i>(Note 4)</i>
Based on 513,585,000 Rights Shares at subscription price of HK\$0.08 per Rights Share	61,359	39,049	100,408	0.2987	0.1396

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

- 1) The consolidated net tangible assets attributable to owners of the Company as at 31 March 2020 has been extracted from the published annual report of the Company for the year ended 31 March 2020, adjusted by right-of-use assets, intangible assets and goodwill of approximately HK\$2,097,000, HK\$977,000 and HK\$29,394,000 respectively.
- 2) The estimated net proceeds from the Rights Issue is approximately HK\$39,049,000 are based on 513,585,000 Rights Shares to be issued at the Subscription Price of HK\$0.08 per Rights Share and after deducting estimated related expenses, including among others, legal and professional fees, which are directly attributable to the Rights Issue, of approximately HK\$2,038,000.
- 3) The consolidated net tangible assets of the Group per share attributable to the owners of the Company before the completion of the Rights Issue is determined based on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020 of approximately HK\$61,359,000 as disclosed in note 1 above, divided by 205,434,000 Shares of the Company in issue as at 31 March 2020.
- 4) The unaudited pro forma adjusted consolidated net tangible assets of the Group after the completion of the Rights Issue per share is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020 for the Rights Issue of approximately HK\$100,408,000 divided by Shares which comprise 205,434,000 Shares in issue as at 31 March 2020 and 513,585,000 Rights Shares to be issued after the completion of the Rights Issue, assuming that no outstanding share options of the Company will be exercised and the convertible bonds will not be converted into ordinary shares.
- 5) No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 31 March 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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



The Board of Directors
Wealth Glory Holdings Limited
12/F, The Pemberton,
No. 22-26 Bonham Strand,
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Wealth Glory Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (“**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets as at 31 March 2020, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Appendix II of the circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II of this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue on the basis of five rights share at the subscription price of HK\$0.08 per rights share (the “**Rights Share**”) for every two existing shares held on the record date (the “**Rights Issue**”) as if the transaction had taken place as at 31 March 2020. As part of this process, information about the consolidated statement of financial position of the Group as at 31 March 2020 as extracted by the Directors from the Group’s published consolidated financial statements as included in the annual report for the year ended 31 March 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of the significant transaction on consolidated net tangible assets of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

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

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

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

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Opinion

In our opinion:

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

Your faithfully,

Elite Partners CPA Limited
Certified Public Accountants

Hong Kong, 30 September 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL AND OPTIONS**(a) Share capital**

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company, on or before the Record Date) are as follows:

(I) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>4,166,666,666_{2/3}</u>	Shares of HK\$0.024 each	<u>100,000,000</u>
<i>Issued and fully-paid:</i>		
<u>205,434,000</u>	Shares of HK\$0.024 each	<u>4,930,416</u>

(II) Immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company on or before the Record Date)

<i>Authorised:</i>		<i>HK\$</i>
<u>4,166,666,666_{2/3}</u>	Shares of HK\$0.024 each	<u>100,000,000</u>
<i>Issued and fully-paid:</i>		
205,434,000	Shares of HK\$0.024 each	4,930,416
<u>513,585,000</u>	Rights Shares to be issued pursuant to the Rights Issue	<u>12,326,040</u>
<u>719,019,000</u>	Shares in issue immediately after completion of the Rights Issue	<u>17,256,456</u>

All of the Rights Shares to be issued will rank *pari passu* in all respects with each other. Holder of the Rights Shares in their fully-paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

Save as the Share Options, as at the Latest Practicable Date, the Company did not have any outstanding derivatives, options, warrants and convertible securities or other similar rights which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any convertible securities, warrants and/or options on or before the Record Date.

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

(b) Share Options

Details of the outstanding Share Options as at the Latest Practicable Date were as follows:

Name of grantee	Number of underlying Shares subject to outstanding Share Options	Date of grant	Exercise price (HK\$ per Share)	Exercise Period
Directors				
Mr. Tse Sing Yu	2,000,000	13 March 2019	0.36	13 March 2019 to 12 March 2021
	2,054,340	22 April 2020	0.24	22 April 2020 to 21 April 2022
Ms. Lin Su	2,000,000	13 March 2019	0.36	13 March 2019 to 12 March 2021
	2,054,340	22 April 2020	0.24	22 April 2020 to 21 April 2022
Others				
Employees	7,496,975	13 March 2019	0.36	13 March 2019 to 12 March 2021
	16,434,720	22 April 2020	0.24	22 April 2020 to 21 April 2022
Consultants	5,622,675	13 March 2019	0.36	13 March 2019 to 12 March 2021
Total	37,663,050			

Three consultants were granted with equal Share Options as incentive for their contribution to the Group's major business segments, namely (i) trading of natural resources and commodities; and (ii) trading of trendy fashion merchandises and other consumer products. These consultants are either experienced in procurement of natural resources and or product promotion and mainly responsible for relevant industry analysis, marketing strategy and promotion. According to the announcement of the Company dated 13 March 2019, none of them is a Director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined under the GEM Listing Rules).

Save as disclosed above, as at the Latest Practicable Date, the Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

3. INTEREST IN SECURITIES

(a) Directors' and chief executive's interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Name of Director	Capacity	Interest in underlying of Share Options	Approximate percentage of total issued shares
Mr. Tse Sing Yu	Beneficial owner	4,054,340	1.97%
Ms. Lin Su	Beneficial owner	4,054,340	1.97%

(b) Interests of substantial shareholders

Save as disclosed below, as at the Latest Practicable Date, none of the shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Name of substantial Shareholders	Capacity	Number of Shares held	Approximate percentage of the total issued shares
Mr. Shan Zumao	Beneficial owner	10,280,000 (long position)	5.00%
The Underwriter	Underwriter	513,585,000 (long position) (notes 1 and 2)	71.43%
Dillon Vision Limited	Interest of controlled corporation	513,585,000 (long position) (notes 1 and 2)	71.43%
Mr. Wong Hiu Yeung	Interest of controlled corporation	513,585,000 (long position) (notes 1 and 2)	71.43%

Notes:

1. These Shares were the Underwritten Shares. The interests are based on the Rights Issue has completed.
2. The Underwriter is wholly-owned by Dillon Vision Limited, which in turn is wholly-owned by Mr. Wong Hiu Yeung.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competed, or might compete, either directly or indirectly, with the business of the Group pursuant to the GEM Listing Rules.

6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (b) none of the Directors had any direct and indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2020, being the date to which the latest published audited financial statements of the Company were made up.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACT

Save as disclosed below, there had been no contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by members of the Group, entered into by members of the Group after the date falling two years prior to 24 August 2020, i.e. the date of entered into the Underwriting Agreement, and up to the Latest Practicable Date which is or may be material:

- (a) the sale and purchase agreement in respect of the disposal of Chance Winning Limited

9. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission (assuming underwriting all the Rights Shares), printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$2.0 million, which are payable by the Company.

10. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Board of Directors	: Ms. Lin Su Flat 6B, Block 2, Xingfuhaiian, 20 Luotian Road, Baoan District, Shengzhen, Guangdong, the PRC Mr. Tse Sing Yu Flat 1716, Hung Cheong House, Hung Fuk Estate, Hung Yuen Road, Yuen Long, Hong Kong Mr. Tam Chak Chi Flat 1, 8/F., Block C, Beverly Hill, 6 Broadwood Road, Happy Valley, Hong Kong Mr. Liu Yongsheng 6A Block 3, No. 2046 Huali Road, Luohu District, Shengzhen, Guangdong, the PRC Mr. Chan Ka Hung Flat 14B, Block 5, Site 5, Whampoa Garden, Kowloon, Hong Kong
Registered office	: Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands

Head office and principal place of business in Hong Kong	:	12/F, The Pemberton, No. 22-26 Bonham Strand, Hong Kong
Underwriters	:	Sorrento Securities Limited 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong
Financial advisers to the Company	:	Sorrento Capital Limited 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	:	Proton Capital Limited Room 2503, 25th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Central, Hong Kong
Legal adviser to the Company as to Hong Kong law in relation to the Rights Issue	:	Khoo & Co. 15th & 16th Floors, Tern Centre Tower 2, 251 Queen's road Central, Hong Kong
Reporting accountants	:	Elite Partners CPA Limited 10/F, 8 Observatory Road, Tsim Sha tsui, Kowloon, Hong Kong

Principal bankers in Hong Kong	: Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower, 3 Garden Road, Central, Hong Kong DBS Bank (Hong Kong) Ltd. 11 th Floor, The Centre, 99 Queen's Road, Central, Hong Kong Bank of Communications Co., Ltd., Hong Kong Branch Unit B, B/F & G/F, Unit C G/F, 1-3/F, 16/F Room 01 & 18/F, Wheelock House, 20 Pedder Street, Central, Hong Kong Bank of China (Hong Kong) Limited 14/F Bank of China Tower, No. 1 Garden Road, Hong Kong China Construction Bank (Asia) Corporation Limited 28/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong
Principal share registrar	: SMP Partners (Cayman) Limited Royal Bank House, 3rd Floor, 24 Shedden Road P.O. Box 1586, Grand Cayman KY1-1110, Cayman Islands
Hong Kong branch share registrar and transfer office	: Union Registrars Limited Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong
Authorised representatives	: Mr. Yung Kai Wing 12/F, The Pemberton, No. 22-26 Bonham Strand, Hong Kong Mr. Tse Sing Yu 12/F, The Pemberton, No. 22-26 Bonham Strand, Hong Kong
Compliance officer	: Mr. Tse Sing Yu

Company secretary : Mr. Yung Kai Wing
Certified Public Accountant of the Hong Kong
Institute of Certified Public Accountants

11. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised all of the independent non-executive Directors, namely Mr. Tam Chak Chi (the Chairman of the Audit Committee), Mr. Chan Ka Hung and Mr. Liu Yongsheng. The background, directorship and past directorship (if any) of each of the members of the Audit Committee are set out in the section headed “13. Particulars of the Directors and Senior Management” in this appendix.

The primary role and function of the Audit Committee are to oversee the relationship with the external auditors, to review the Group’s preliminary quarterly results, interim results and annual results and to monitor compliance with statutory and listing requirements.

12. EXPERTS AND CONSENTS

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
Proton Capital	A corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Elite Partners CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinions or advice and references to its name, in the form and context in which they appear;

- (b) did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, each of the above experts was not materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

13. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Tse Sing Yu, aged 39, was appointed as an executive director in September 2016 and was appointed as a chairman of the executive committee (the “**Executive Committee**”) and the nomination committee (the “**Nomination Committee**”), a member of the remuneration committee (the “**Remuneration Committee**”) and investment committee (the “**Investment Committee**”) of the Company in December 2016. Mr. Tse is currently the chief operating officer of the Company and appointed as a director for the subsidiaries for the Group, namely Allied Gear Limited, Billion Revenue Holdings Limited, Bliss Castle Investments Limited, Bright Billion Holdings Limited, Elegant Spread Limited, Eminent Along Limited, Euto Consulting Limited, Excel Wealth International Holdings Limited, Grand Charm Commodities Limited, Speedy Track Inc. and Welly Honour International Holdings Limited. He is specialized in strategic planning with extensive experience in corporate management and business promotion particularly in the catering and retail industries.

Ms. Lin Su, aged 36, was appointed as an executive director in September 2016 and was appointed as a member of the Executive Committee. Ms. Lin has over ten years of experience in the finance industry. Prior to joining the Company, she held senior position in a sizeable financial institution in the PRC.

Independent non-executive Directors

Mr. Tam Chak Chi, aged 43, was appointed as an independent non-executive Director and was appointed as a chairman of the Remuneration Committee and the Audit Committee and a member of the Nomination Committee in September 2013. Mr. Tam has more than 15 years of experience in providing accounting, auditing and financial services and has served various senior positions at various private and listed companies. He is currently an independent non-executive director of Hong Kong Finance Investment Holding Group Limited (Stock Code: 0007), the shares of which is listed on the Main Board of the Stock Exchange. Mr. Tam is an independent non-executive director of AL Group Limited (Stock Code: 8360) and an executive director of My Heart Bodibra Group Limited (Stock Code: 8297), both companies' shares are listed on the GEM of the Stock Exchange and a financial consultant of various private companies.

Mr. Liu Yongsheng, aged 65, was appointed as an independent non-executive director in October 2016 and was appointed as a member of the Audit Committee. Mr. Liu has extensive experience in the real estate industry and the jewelry industry in The People's Republic of China. He has over 30 years of marketing management experience in the said industries.

Mr. Chan Ka Hung, aged 38, was appointed as an independent non-executive director in October 2016. He was a member of the Executive Committee, the Investment Committee, the Nomination Committee, the Remuneration Committee and the Audit Committee. He has over 12 years of experience in project management and business development in the industrial and manufacturing field particularly in the semiconductor industry.

Company Secretary

Mr. Yung Kai Wing, aged 33, was appointed as a company secretary in January 2017. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

14. MISCELLANEOUS

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (except Saturdays, Sundays and public holidays) at 12/F, The Pemberton, No. 22-26 Bonham Strand, Hong Kong, for a period of 14 days from the date of this circular (both days inclusive):

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the year ended 31 March 2018;
- (c) the annual report of the Company for the year ended 31 March 2019;
- (d) the annual report of the Company for the year ended 31 March 2020;
- (e) the Underwriting Agreement;
- (f) Optionholder's Undertakings;
- (g) the letter from the Board, the text of which is set out on pages 12 to 40 of this circular;
- (h) the letter from the Independent Board Committee, the text of which is set out on pages 41 to 42 of this circular;
- (i) the letter from Proton Capital, the text of which is set out on pages 43 to 77 of this circular;
- (j) the accountant's report on the unaudited pro forma financial information of the Group issued by Elite Partners CPA Limited, the text of which is set out in Appendix II to this circular;
- (k) the material contract as referred to in the section headed "8. Material contract" in this appendix;
- (l) the written consent referred to in the section headed "12. Experts and consents" in this appendix; and
- (m) this circular.

NOTICE OF EGM

WEALTH GLORY HOLDINGS LIMITED

富譽控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8269)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Wealth Glory Holdings Limited (the “**Company**”) will be held at Portion 2, 12th Floor, The Center, 99 Queen’s Road Central, Hong Kong on Thursday, 22 October 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed with or without amendment as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) the Underwriting Agreement (as defined below) becoming unconditional and not being terminated in accordance with its terms:

- (a) the issue by way of rights issue (the “**Rights Issue**”) of 513,585,000 ordinary shares (the “**Rights Shares**”) at the subscription price of HK\$0.08 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the date (the “**Record Date**”) by reference to which entitlement under the Rights Issue will be determined (other than those shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of five (5) Rights Shares for every two (2) Shares of the Company then held on the Record Date at the subscription price of HK\$0.08 per Rights Share and otherwise on the terms and conditions set out in the Circular be and is hereby approved;
- (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 24 August 2020 and entered into among the Company and Sorrento Securities Limited (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

NOTICE OF EGM

- (c) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may (i) make such exclusions or other arrangements in relation to the Excluded Shareholders as they may deem necessary, desirable or expedient having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and (ii) offer for application under forms of excess application for any Rights Shares provisionally allotted but not accepted, and to do all such acts and things as they consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (d) the Directors be and are hereby authorised to sign or execute such documents and do all such acts and things in connection with the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as they may in their discretion consider to be appropriate, necessary desirable or expedient to carry out, to give effect to or in connection with the Rights Issue or any transaction contemplated thereunder."

Yours faithfully,
For and on behalf of the Board of
Wealth Glory Holdings Limited
Tse Sing Yu
Executive Director

Hong Kong, 30 September 2020

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681 Grand Cayman
KY1-1111 Cayman Islands

*Principal place of business in
Hong Kong:*
12/F, The Pemberton
No. 22-26 Bonham Strand
Hong Kong

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the EGM is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's Hong Kong branch share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong at least 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.
3. The register of members of the Company will be closed from Friday, 16 October 2020 to Thursday, 22 October 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong no later than 4:00 p.m. on Thursday, 15 October 2020.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The EGM is expected to last for less than half a day. Members (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses. Members or their proxies attending the EGM shall present their identity certifications.
6. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning or "extreme conditions after super typhoons" announced by the Government of Hong Kong is/are in effect any time after 8:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the websites of the Company at www.wealthglory.com and the GEM at www.hkgem.com to notify Shareholders of the date, time and place of the rescheduled meeting.
7. Any voting at the EGM shall be taken by poll.

NOTICE OF EGM

8. In view of the recent development of the COVID-19 pandemic, and in order to better protect the safety and health of the Shareholders, the Company will not serve refreshments at the EGM to avoid the coming into close contact amongst participants at the EGM. The Company wishes to remind the Shareholders and other participants who will attend the EGM in person to take personal precautions and abide by the requirements of pandemic precaution and control at the venue of the EGM. The Company also advises the Shareholders to attend and vote at the EGM by way of non-physical presence. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the EGM, and appoint the chairman of the EGM as a proxy to vote on the relevant resolution as instructed in accordance with the relevant proxy form instead of attending the EGM in person. For details, please refer to the proxy form of the EGM. The Company will keep monitoring the evolving COVID-19 situation and may implement additional measures which, if any, will be announced closer to the date of the EGM.

As at the date of this notice, the Board comprises five Directors, including two executive Directors, namely Mr. Tse Sing Yu, Ms. Lin Su and three independent non-executive Directors, namely Mr. Chan Ka Hung, Mr. Tam Chak Chi and Mr. Liu Yongsheng.

This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this notice misleading.

This notice will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for seven days from the date of its publication and on the website of the Company at www.wealthglory.com.