**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 **Cornerstone Financial 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).



This circular is 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 Cornerstone Financial Holdings Limited.

基 石 金 融 控 股 有 限 公 司
CORNERSTONE FINANCIAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8112)**

# PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE; AND NOTICE OF EGM

**Financial Adviser to the Company**

六福金融
LUKFOOK FINANCIAL

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

Giraffe
智富

**Giraffe Capital Limited**

**Underwriter of the Rights Issue**

禹洲金控
YUZHOU FINANCIAL HOLDINGS

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 14 to 39 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 40 to 41 of this circular. A letter from Giraffe Capital containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 85 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 24 March 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Friday, 9 April 2021 to Friday, 16 April 2021 (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 Friday, 9 April 2021 to Friday, 16 April 2021 (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 Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong at 11:00 a.m. on Monday, 22 March 2021 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 Tricor Investor Services Limited, the branch share registrar of Cornerstone Financial Holdings Limited in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, 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 Saturday, 20 March 2021, 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.

1 March 2021

# 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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*Page*

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

| | |
|---|---|
| "Announcement" | the announcement of the Company dated 27 January 2021 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 |
| "CSL" | Cornerstone Securities Limited, which is indirectly owned as to 91.19% by the Company |
| "Company" | Cornerstone Financial 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: 8112) |
| "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 |

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|---|---|
| "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 |
| "Financial Resources Rule" | Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) |
| "GEM" | GEM of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited |
| "GCL Group" | Glory Creator Limited, an indirect wholly-owned subsidiary of the Company, together with its subsidiaries |
| "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 |

| | |
|---|---|
| "iMHA" | iMediaHouse Asia Limited, a company incorporated in Hong Kong and owned as to 67.09% by iMediaHouse.com Limited, which is in turn wholly owned by Mr. Wong Hong Gay Patrick Jonathan, an executive Director |
| "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 |
| "Independent Financial Adviser" or "Giraffe Capital" | Giraffe Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the 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) or company(ies) who is (are) third party(ies) independent of the Company and connected persons of the Company |
| "Latest Practicable Date" | 25 February 2021, being the latest practicable date before the printing of this circular for the purpose of ascertaining certain information contained herein |
| "Last Trading Day" | 27 January 2021, 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 Wednesday, 21 April 2021 (or such other time as the Stock Exchange may consent to), 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 Thursday, 22 April 2021 (or such later date as the Stock Exchange may consent to), being the latest time for the termination of the Underwriting Agreement |

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| "Optionholder's Undertaking(s)" | the undertaking(s) dated 25 January 2021 executed by the holders of the Share Options, whereby each of such Share Option holders unconditionally and irrevocably undertake to the Company and the Underwriter, among other things, that he/she will not exercise such Share Options (or any part thereof) granted to him/her from the date of such undertaking to the close of business on the Record Date (both dates inclusive) |
| "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 |
| "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 |
| "PCG" | Profit Cosmo Group Limited, a company incorporated in the British Virgin Islands and owned as to 60% by Mr. Liu Yanhong and 40% by Mr. An Xilei, an executive Director. PCG is a Substantial Shareholder of the Company |
| "PRC" | the People's Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan |
| "Pre-IPO Share Option Scheme" | the pre-IPO share option scheme of the Company adopted on 26 March 2011 |
| "Prospectus" | the prospectus to be despatched to the Shareholders containing details of the Rights Issue |
| "Prospectus Documents" | the Prospectus, PAL and EAF |

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|---|---|
| "Prospectus Posting Date" | Wednesday, 7 April 2021, or such other date as may be agreed between the Company and the Underwriter for the despatch of the Prospectus Documents |
| "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" | Thursday, 1 April 2021 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" | Tricor Investor Services Limited |
| "Rights Issue" | the proposed issue of the Rights Shares by way of rights on the basis of four (4) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price pursuant to the Prospectus Documents and as contemplated under the Underwriting Agreement |
| "Rights Share(s)" | 229,418,448 new Shares proposed to be allotted and issued by the Company 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 |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | share(s) of HK$0.01 each in the share capital of the Company |
| "Share Option Scheme" | the share option scheme of the Company adopted on 26 March 2011 |
| "Share Options" | the share options granted by the Company pursuant to the Pre-IPO Share Option Scheme and/or the Share Option Scheme |

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|---|---|
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Shareholder's Irrevocable Undertaking" | the irrevocable undertaking, referred to in the subsection headed "The Shareholder's Irrevocable Undertaking" under the section headed "The Underwriting Agreement" in this circular, dated 26 January 2021 and executed by PCG in favour of the Company and the Underwriter |
| "Specified Event" | an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscription Price" | HK$0.142 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" | Yuzhou Financial |
| "Underwriting Agreement" | the underwriting agreement entered into between the Company and the Underwriter on 27 January 2021 in relation to the underwriting arrangement in respect of the Rights Issue |
| "Underwritten Shares" | 161,418,448 Rights Shares, being the maximum number of the Rights Shares not taken up by Qualifying Shareholders other than those Rights Shares to be taken up under the Shareholder's Irrevocable Undertaking 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 |
| "Yuzhou Financial" | Yuzhou Financial Holdings Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO |
| "%" | per cent |

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 flulike 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** | **2021** |
|---|---|
| Latest time for lodging transfers of Shares to qualify for attendance and voting at the EGM | 4:30 p.m. on Monday, 15 March |
| Closure of register of members of the Company for attending and voting at the EGM (both days inclusive) | Tuesday, 16 March to Monday, 22 March |
| Latest time for lodging forms of proxy for the purpose of the EGM | 11:00 a.m. on Saturday, 20 March |
| Record date for determining attendance and voting at the EGM | Monday, 22 March |
| Expected date and time of the EGM | 11:00 a.m. on Monday, 22 March |
| Announcement of poll results of the EGM | Monday, 22 March |
| Register of members of the Company re-open | Tuesday, 23 March |
| Last day of dealings in Shares on a cum-rights basis | Tuesday, 23 March |
| First day of dealings in Shares on an ex-rights basis | Wednesday, 24 March |
| Latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue | 4:30 p.m. on Thursday, 25 March |
| Closure of register of members of the Company for the Rights Issue (both days inclusive) | Friday, 26 March to Thursday, 1 April |

| Event | 2021 |
|---|---|
| Record Date for determining entitlements to the Rights Issue | Thursday, 1 April |
| Register of members of the Company re-opens | Wednesday, 7 April |
| Despatch of Prospectus Documents | Wednesday, 7 April |
| First day of dealings in nil-paid Rights Shares | 9:00 a.m. on Friday, 9 April |
| Latest time for splitting the PAL(s) | 4:30 p.m. on Tuesday, 13 April |
| Latest day of dealings in nil-paid Rights Shares | Friday, 16 April |
| 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 Wednesday, 21 April |
| Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional | 4:00 p.m. on Thursday, 22 April |
| Announcement of results of the Rights Issue | Wednesday, 28 April |
| 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) | Thursday, 29 April |
| Share certificates for fully paid Rights Shares to be despatched | Thursday, 29 April |
| Commencement of dealings in fully-paid Rights Shares | 9:00 a.m. on Friday, 30 April |

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

## 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**

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 "extreme conditions" caused by super typhoons is announced by the Government of Hong Kong or a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains in force 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 "extreme conditions" caused by super typhoons is announced by the Government of Hong Kong or 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):

(i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction on trading in securities) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(iii) any event of force majeure occurs, including without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which in the absolute opinion of the Underwriter would materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole,

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

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

(i) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(ii) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate and no party shall have any claim against the other party for costs, damages, compensation or otherwise save for any antecedent breaches.

**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.**

基石金融控股有限公司
CORNERSTONE FINANCIAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8112)**

*Executive Directors:*
Mr. Gao Ran
Mr. An Xilei
Mr. Wong Hong Gay Patrick Jonathan
Mr. Mock Wai Yin
Mr. Wang Jun

*Independent non-executive Directors:*
Mr. Chan Chi Keung Alan
Mr. Lee Chi Hwa Joshua
Ms. Lau Mei Ying

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

*Principal place of business in Hong Kong:*
Room 802, 8th Floor
Lee Garden Five
18 Hysan Avenue
Causeway Bay
Hong Kong

1 March 2021

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

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE**

## INTRODUCTION

Reference is made to the Announcement, in relation to, among other matters, the Rights Issue. On 27 January 2021, the Board announced that the Company proposed to raise gross proceeds of approximately HK$32.58 million on the basis of four (4) Rights Shares for every one (1) Share held on the Record Date by issuing 229,418,448 Rights Shares at the Subscription Price of HK$0.142 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.

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 27 January 2021 (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 | : | Four (4) Rights Shares for every one (1) Share held at the close of business on the Record Date |
| Subscription Price | : | HK$0.142 per Rights Share |
| Number of Shares in issue as at the Latest Practicable Date | : | 57,354,612 Shares |
| Number of Rights Shares | : | 229,418,448 Rights Shares with an aggregate nominal value of HK$2,294,184.48, 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 | : | 286,773,060 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 |
| Gross proceeds to be raised | : | Approximately HK$32.58 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) 25,688 outstanding Share Options granted on 30 June 2011 under the Pre-IPO Share Option Scheme, which are exercisable during the period from 28 July 2011 to 27 July 2021 at the exercise price of HK$55.160 each; and (ii) 18,848 outstanding Share Options granted on 20 December 2011 under the Share Option Scheme, which are exercisable during the period from 20 December 2011 to 19 December 2021 at the exercise price of HK$55.540 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.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 400.00% of the Company's issued share capital as at the Latest Practicable Date and approximately 80.00% 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.

**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, a Shareholder must lodge the relevant transfer documents (together with the relevant share certificates) with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 March 2021.

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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 March 2021.

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.**

**Basis of provisional allotments**

The basis of the provisional allotment shall be four (4) Rights Shares (in nil-paid form) for every one (1) Share 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. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

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 Overseas Shareholder.

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).

**Subscription Price**

The Subscription Price for the Rights Shares is HK$0.142 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 42.74% to the closing price of HK$0.248 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 21.11% to the closing price of HK$0.180 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 5.08% to the theoretical ex-rights price of approximately HK$0.1496 per Share based on the closing price of HK$0.180 per Share as quoted on the Stock Exchange on the Last Trading Day;

(d) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 22.57%, represented by the discount of the theoretical diluted price of approximately HK$0.153 per Share to the benchmarked price of HK$0.198 per Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.180 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Last Trading Day of approximately HK$0.198 per Share);

(e) a discount of approximately 25.26% to the average of the closing prices of approximately HK$0.190 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;

(f) a discount of approximately 27.66% to the average of the closing prices of HK$0.1963 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;

(g) a discount of approximately 96.67% to the audited net asset value per Share of approximately HK$4.258 (based on the latest published audited consolidated net asset value of the Group of approximately HK$244,229,882 as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 and 57,354,612 Shares in issue as at the Latest Practicable Date); and

(h) a discount of approximately 96.44% to the unaudited net asset value per Share of approximately HK$3.985 (based on the latest unaudited consolidated net asset value of the Group of approximately HK$228,575,338 as at 30 June 2020 as disclosed in the interim report of the Company for the six months ended 30 June 2020 and 57,354,612 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 prior to the Last Trading Day 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, details of which are set out in the section headed "Reasons for the Rights Issue and Use of Proceeds" in this circular.

The Directors note that the Subscription Price represents a discount of approximately 96.44% to the unaudited net asset value per Share as at 30 June 2020. In view that (i) the Shares were traded at a deep discount to the audited/unaudited net asset value per Share for the last year and up to the Last Trading Day; (ii) the prevailing market prices of the Shares have already reflected the market valuation of the Company in general, the Directors consider it is reasonable to make reference to the market price of the Shares, rather than the audited/unaudited net asset value per Share, in determining the Subscription Price and that the discount of the Subscription Price to the audited/unaudited net asset value per Share is justifiable.

In determining the Subscription Price, the Board has reviewed the prevailing market prices of the Shares prior to the Last Trading Day and considered the discounts with reference to the recent five completed rights issue activities by Hong Kong listed companies from mid of December 2020 to January 2021 on their respective last trading days ranging from 17.81% to 28.57% with an average discount of approximately 22.89% and their theoretical dilution effects ranging from 14.03% to 23.81% with an average of approximately 18.36%, the discount of approximately 21.11% to the closing price of the Shares on the Last Trading Day and the theoretical dilution effect of 22.57% are within the aforesaid ranges.

Set out below is the information of the five completed rights issue activities:

| Date of announcement in relation to results of rights issue | Name of company (Stock code) | Basis of entitlement | Discounts of the subscription price to the closing price on the last trading day immediately prior to the release of the relevant rights issue announcement (%) | Theoretical dilution effect (%) |
|---|---|---|---|---|
| 15 January 2021 | National Investments Fund Limited (1227) | 5 for 1 | 28.57 | 23.81 |
| 13 January 2021 | Amber Hill Financial Holdings Limited (33) | 3 for 1 | 23.66 | 20.41 |
| 11 January 2021 | Wan Cheng Metal Packaging Company Limited (8291) | 3 for 1 | 19.40 | 14.52 |
| 28 December 2020 | Royal Century Resources Holdings Limited (8125) | 2 for 1 | 25.00 | 19.05 |
| 15 December 2020 | Green International Holdings Limited (2700) | 1 for 1 | 17.81 | 14.03 |

Furthermore, taking into account (i) the loss-making position of the Group for six consecutive years since 2014 till the six months ended 30 June 2020; (ii) the downward trend of the market price of the Shares in January 2021; and (iii) a favourable discount would attract the Qualifying Shareholders to participate in the Rights Issue and invest in the Company so as to enable the Company to satisfy its funding and capital needs, the Directors (including the members of Independent Board Committee) are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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; (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; and (iv) the Qualifying Shareholders are given opportunity to increase their investment in the Company through excess application of the Rights Shares to participate in the future growth of the Company.

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 80%. The theoretical dilution effect of the Rights Issue is approximately 22.57% 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) is estimated to be approximately HK$0.131.

**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.

**Fractions of the Rights Shares**

On the basis of four (4) Rights Shares for every one (1) Share held on the Record Date, no fractional entitlement will arise under the Rights Issue. No odd lot matching services will be provided by the Company in respect of the Rights Shares.

**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 Thursday, 29 April 2021 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 Thursday, 29 April 2021 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 by the Qualifying Shareholders.

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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Wednesday, 21 April 2021.

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; and

(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.

If the aggregate number of Rights Shares being available for excess application 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 of the Rights Shares**

The Company will apply to 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.

**Stamp duty and other applicable fees**

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

**Taxation**

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

**THE UNDERWRITING AGREEMENT**

On 27 January 2021 (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 the Underwritten Shares, subject to the terms and conditions of the Underwriting Agreement.

| | | |
|---|---|---|
| Date | : | 27 January 2021 (after trading hours) |
| Underwriter | : | Yuzhou Financial Holdings Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and its ordinary course of business includes underwriting of securities.<br><br>To the best knowledge and information of the Directors after reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) and/or associates are Independent Third Parties. As such, the Underwriter complies with Rule 10.24A(1) of the GEM Listing Rules. |
| Number of Underwritten Shares | : | 161,418,448 Rights Shares, being the maximum number of the Rights Shares not taken up by Qualifying Shareholders other than those Rights Shares to be taken up under the Shareholder's Irrevocable Undertaking 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 3.00% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission. |

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.

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 Shareholder's Irrevocable Undertaking**

As at the Latest Practicable Date, PCG was beneficially interested in 17,000,000 Shares, representing approximately 29.64% of the existing issued share capital of the Company. Pursuant to the Shareholder's Irrevocable Undertaking, PCG has provided an irrevocable and unconditional undertaking to the Company and the Underwriter that it, among other things, (i) shall not sell, transfer or otherwise dispose of the Shares (or any part thereof) held by it during the period from the date of the Shareholder's Irrevocable Undertaking to the close of business on the Record Date (both dates inclusive); (ii) shall accept and subscribe, and procure its nominee(s) (if applicable) to accept and subscribe, in full for all the Rights Shares in which it is beneficially entitled under the Rights Issue on and subject to the terms and conditions of the Rights Issue; and (iii) shall procure its nominee(s) (if applicable) to, lodge the PAL(s) despatched to it together with remittance for the full amount payable on acceptance in accordance with the instructions printed on the Prospectus and the PAL and, in any event, not later than the time specified therefor in the PAL.

Save for the Shareholder's Irrevocable Undertaking given by PCG, as at the Latest Practicable Date, the Board has not received any information from any other Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them under the Rights Issue.

**The Optionholder's Undertakings**

As at the Latest Practicable Date, each of the holders of the Share Options (including two Directors) has signed an Optionholder's Undertaking not to exercise the Share Options (or any part thereof) granted to him/her from the date of the Optionholder's Undertaking to the close of business on the Record Date (both dates inclusive).

**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 "extreme conditions" caused by super typhoons is announced by the Government of Hong Kong or a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains in force 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 "extreme conditions" caused by super typhoons is announced by the Government of Hong Kong or 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):

(i) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction on trading in securities) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(iii) any event of force majeure occurs, including without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which in the absolute opinion of the Underwriter would materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole,

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

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

(i) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(ii) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

Upon giving of notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate and no party shall have any claim against the other party for costs, damages, compensation or otherwise save for any antecedent breaches.

**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 delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) in accordance with section 342C of the Companies (WUMP) Ordinance as having been approved by resolutions of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules, the Companies Ordinance and the Companies (WUMP) Ordinance not later than the Prospectus Posting Date;

(c) the posting of the Prospectus Documents to the 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 on or before the Prospectus Posting Date;

(d) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) by no later than the first day of their dealings;

(e) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof prior to the Latest Time for Termination;

(f) the execution and delivery of the Shareholder's Irrevocable Undertaking and Optionholder's Undertakings on or before the date of the Underwriting Agreement;

(g) the compliance with and performance by the Company in all material respects of the undertakings and obligations under the Underwriting Agreement; and

(h) there being no Specified Event occurring prior to the Latest Time for Termination.

Conditions (a), (b), (c), (d), (e) and (f) above are incapable of being waived. If any of the conditions of the Rights Issue is not satisfied (or waived, as the case maybe) in whole or in part by the Company by the Latest Time for Termination or such other time and/or date as the Company and the Underwriter may agree in writing, the Underwriting Agreement will terminate and none of the parties shall, have any claim against the other party for costs, damages, compensation or otherwise save for any antecedent breaches. The Shareholder's Irrevocable Undertaking and the Optionholder's Undertaking shall lapse upon the termination of the Underwriting Agreement.

## 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), Type 4 (advising on securities) and Type 9 (asset management) 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 the GEM Listing Rules that it is licensed under the SFO for Type 1 (dealing in securities) 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 ultimate beneficial owner(s) and/or associates are Independent Third Parties.

## SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 57,354,612 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 other than those taken up under the Shareholder's Irrevocable Undertaking:

| | **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 other than those taken up under the Shareholder's Irrevocable Undertaking** | |
|---|---|---|---|---|---|---|
| | *Number of Shares* | *Approx.%* *(Note 1)* | *Number of Shares* | *Approx.%* *(Note 1)* | *Number of Shares* | *Approx.%* *(Note 1)* |
| PCG *(Note 2)* | 17,000,000 | 29.64 | 85,000,000 | 29.64 | 85,000,000 | 29.64 |
| iMHA *(Note3)* | 3,453,990 | 6.02 | 17,269,950 | 6.02 | 3,453,990 | 1.20 |
| Public Shareholders | 36,900,622 | 64.34 | 184,503,110 | 64.34 | 36,900,622 | 12.87 |
| Underwriter *(Note 4)* | – | – | – | – | 161,418,448 | 56.29 |
| Total | 57,354,612 | 100.00 | 286,773,060 | 100.00 | 286,773,060 | 100.00 |

*Notes:*

1. 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.

2. PCG is owned as to 60% by Mr. Liu Yanhong ("**Mr. Liu**"). Mr. Liu is therefore deemed to be interested in these Shares by virtue of the SFO. The remaining 40% interest in PCG is held by Mr. An Xilei, an executive Director.

3. iMHA is owned as to approximately 67.09% by iMediaHouse.com Limited ("**iMH**") which is in turn wholly owned by Mr. Wong Hong Gay Patrick Jonathan ("**Mr. Wong**"), an executive Director. The remaining interest in iMHA is held by entities ultimately wholly owned by Mr. Wong. Therefore, iMH and Mr. Wong are deemed to be interested in these Shares by virtue of the SFO.

4. This scenario is for illustrative purpose only. Pursuant to the Underwriting Agreement, the Underwriter has undertaken to the Company that if it or any of its sub-underwriters is required to take up the Rights Shares pursuant to its underwriting/sub-underwriting obligations, (i) it and parties acting in concert (within the meaning of the Takeovers Code) with it will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of it in respect of performing its obligation hereunder; (ii) it shall ensure that the public float requirement under Rule 11.23 of the GEM Listing Rules is fulfilled by the Company upon completion of the Rights Issue; (iii) it shall and shall cause its sub-underwriters to use its best endeavours to ensure that each of the subscribers of the Rights Shares procured by it shall be an Independent Third Party not acting in concert (within the meaning of the Takeovers Code) with the Company, the Directors, the chief executive or the Substantial Shareholders of the Company or its subsidiaries or any of their respective associates; and (iv) none of the persons to be procured by it and its sub-underwriters to subscribe for the Shares not taken up by the Qualifying Shareholders will be holding 9.9% or more of the total issued share capital of the Company immediately after completion of the Rights Issue. As at the Latest Practicable Date, the Underwriter had approached four sub-underwriters. No sub-underwriting agreement had been signed as at the Latest Practicable Date. It is expected that sub-underwriting agreements will be entered into in late March 2021 and no later than the date of despatch of the Prospectus Documents.

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

In 2016, the Group commenced its financial services business through the acquisition of GCL Group which included CSL. Initially, CSL was a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO. The Company considered it to be crucial for CSL to improve its profitability by focusing on financial products and services which would provide a higher profit margin rather than traditional securities brokerage services. In order to achieve this business objective, CSL commenced the margin financing business in 2017 and the GCL Group established its asset management arm in 2018. Since then, the Group's financial services business has successfully positioned itself as one of the most prestigious financial groups in Hong Kong under the name of "Cornerstone" which provides a full range of services including Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

Over the past few years, the financial services business has proven its ability to generate stable revenue for the Group and approximately 90% of the revenue of the financial services business was contributed by the margin financing business. According to the financial records of the Group, the revenue of the margin financing business for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 were approximately HK$5.10 million, HK$13.72 million and HK$13.81 million, respectively. Despite considerable turbulence in 2020, particularly, the outbreak of COVID-19 and the Sino-US trade war that caused severe economic uncertainties and social unrest, the performance of the Group's margin financing business remained stable and demonstrated its potential to further develop into a reliable source of revenue. Moreover, the breakthrough in the development of vaccine against COVID-19 and the economic measures taken by various governments such as quantitative easing and stimulus packages to accelerate economic recovery are expected to have positive impact on the Group's business. Major stock markets including the Hong Kong stock market have prompted positive expectations as reflected in the surge increase in Hang Seng Index, the high trade volumes of securities and the number of large scale initial public offerings ("**IPO(s)**") starting from the second half of 2020. The Company considered it is an appropriate time to devote more funding in the margin financing business. Rights issue usually takes a few months to complete and therefore, it is better to start as soon as possible to catch the growth in business opportunities.

Since incorporation, CSL has positioned itself as a premium professional securities firm targeting at high net-worth individuals and institutional clients. With a focus on a niche market serving a small number of clients, CSL strives to provide premium service quality to its clients by fulfilling different needs from its clients. Currently, majority of CSL's clients are margin financing clients. CSL provides margin loans to clients which are secured by securities in the client's margin account. As reported by the responsible officers of CSL, due to the bullish market in the past few months, they received requests from existing and potential clients for the granting of margin loans for stock trading activities, including but not limited to, IPO loans. The loan amount requested by the clients for IPO loans is usually high. Due to the limited financial resources of CSL, CSL has turned down approximately 20 requests from existing and potential clients for the granting of IPO loans ranging from HK$5.00 million to HK$30.00 million in the past six months. It has also turned down approximately 10 enquiries for sizable margin loans.

As confirmed by the management of CSL, it is their intention to continue to focus CSL's business on margin financing. However, in order to satisfy the strong demand from its existing and potential clients so as to broaden CSL's client base, it is believed that CSL has to increase its capital base and diversify its offerings by providing IPO loans as well. Failing to meet the demand for margin financing credit from some margin clients, including high net-worth clients, may cause them to cast doubt on the financial strength and the credibility of the business.

The management of CSL considered it necessary to strengthen the capital base of CSL and to expand the margin financing business in order to reap the opportunities arising from the economic recovery and the increased number of listings of giant companies in Hong Kong in the future. The management of CSL believes that there will be much room for expanding the margin financing business as CSL has a potential client base of high-worth individuals in the PRC. It is expected that once the border restrictions are uplifted or relaxed when COVID-19 is under control, there will be an influx of potential investors from the PRC. The Company therefore needs to act proactively to get hold of such opportunity.

As CSL is engaged in the securities brokerage and margin financing business, its performance is highly dependent on the stock market performance and market sentiment and hence, its cash resources available for providing margin loans and/or IPO loans would fluctuate from time to time depending on the then demand for margin loans and/or IPO loans from its clients. CSL received different or occasionally high level of demand for margin loans and/or IPO loans from its clients in the past. As at each month end of the 12 months in 2020, CSL recorded a cash balance ranging from approximately HK$28.04 million to approximately HK$64.37 million. As at 31 December 2020, CSL maintained a cash balance of approximately HK$64.37 million. However, CSL generally maintains a cash balance of not less than 50% of the closing balance of the previous month as reserve to ensure its liquid capital (as defined under Financial Resources Rule) not to fall below 50% of its last reported liquid capital and maintain approximately HK$5 million to meet its daily needs. Therefore, even though CSL had a cash balance of approximately HK$64.37 million, only approximately HK$30 million is available for providing margin loans. Based on the historical fluctuation of the cash balance of CSL and high level of demand for margin loans and/or IPO loans from its clients, the Company is of the view that without additional funding, CSL would not be able to meet the demands for margin financing credit from existing and potential clients. The Company had been closely monitoring the utilisation rate of margin financing of CSL, as well as the requirements of the Financial Resources Rule. It is a fact that the contribution from margin financing income is the core component for a securities company, and the Directors anticipated that with more capital, more interest income and brokerage commission would be generated.

Apart from the Rights Issue, the Directors have considered other debt or equity financing alternatives such as bank loans, issuance of bonds and/or convertible bonds, placing of new Shares and an open offer.

Given the provision of margin financing services requires high capital input, the lack of traditional assets to pledge to the banks, for instance land and buildings, are obstacles for the Company to negotiate with banks for meaningful financing. Other debt financing methods such as issuance of bonds and/or convertible bonds would carry additional liabilities and interest costs to the Group and in turn adversely affect the profitability and create further pressure on the financial liquidity of the Group. Given the loss-making position of the Group in recent years and the small market capitalisation of the Company, the Company expects the net amount raised will be small due to low market response and will be even smaller if the Company offers a great discount and higher interest rate to attract subscriber(s). In addition, issuance of convertible bonds will also lead to dilution in the shareholding interests of existing Shareholders if conversion rights under the convertible bonds are exercised in full. In this regard, the Directors consider debt financing is not in the interests of the Shareholders.

As regards equity fundraising methods available to the Company, the Directors consider that based on the current market capitalisation of the Company of around HK$14.22 million, a placement of new Shares under the Company's general mandate of 20% of the number of issued Shares would only raise approximately HK$2.84 million, which is insufficient and insignificant for the expansion of the margin financing business of the Group. In addition, the Directors also note that placing of new Shares, whether under general mandate or specific mandate, will inevitably dilute the interests of Shareholders without giving them the opportunity to take part in the exercise. 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.

Based on the above, having considered that the Rights Issue (i) is on a fully underwritten basis which can allow the Company to strengthen its capital base and raise sufficient funds to satisfy its funding needs as mentioned above without having to bear the interest costs as in debt financing; (ii) gives all Qualifying Shareholders the first right to maintain their respective pro-rata shareholding interests in the Company and an opportunity to participate in the growth and development of the Group in proportion to their shareholdings; (iii) offers the Qualifying Shareholders the flexibility to sell their entitled nil-paid rights in the open market for their own economic benefit if they do not wish to take up the entitlements of the Rights Shares as compared with an open offer; and (iv) requires the Independent Shareholder's approval so that the Independent Shareholders are given an opportunity to decide whether the Company shall proceed with the Rights Issue by voting for or against it at the EGM, although those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Excluded Shareholders may have their shareholdings being diluted, the Directors consider that fund raising through the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

Therefore, the Company proposes to raise equity capital by the Rights Issue to expand its margin financing business. It is estimated that the Company will raise a gross proceeds of approximately HK$32.58 million from the Rights Issue and the relevant expenses would be approximately HK$2.54 million, which include underwriting commission and professional fees payable to financial advisers, legal advisers, reporting accountants, financial printer and other parties involved in the Rights Issue. The estimated net proceeds from the Rights Issue will accordingly be approximately HK$30.04 million (equivalent to a net price of approximately HK$0.131 per Rights Share), which is expected to be fully utilised within 2021.

In determining the utilisation and allocation basis of net proceeds from the Rights Issue, the Company considers the following factors: (i) rapid revenue growth of securities margin financing business of the Group from approximately HK$5.10 million for the year ended 31 December 2017 to approximately HK$13.81 million for the year ended 31 December 2019; (ii) great business opportunities arising from recent positive stock market sentiments and IPOs with large market capitalisations; (iii) recent request for granting IPO loans and/or additional margin loans ranging from HK$5.00 million to HK$30.00 million from existing and potential margin clients in the past six months; and (iv) working capital needs of the Group to maintain daily operations in 2021 such as payment of salaries and remuneration of approximately HK$3.00 million, and other legal and professional expenses of approximately HK$2.00 million. Based on the above and in line with the aforesaid business objectives, the Company intends to utilise the net proceeds from the Rights Issue as follows:-

(i) approximately HK$25.00 million (or approximately 83.22% of the total net proceeds) for the expansion of the Group's margin financing business; and

(ii) approximately HK$5.04 million (or approximately 16.78% of the total net proceeds) for general working capital of the Group.

The Directors note that the amount to be raised from the Rights Issue is limited by (i) the small number of issued Shares and market capitalisation of the Company as at the Latest Practicable Date; (ii) the Subscription Price which was at a deep discount to the Share price with reference to recent completed rights issue activities; and (iii) the subscription ratio of the Rights Issue. A higher subscription ratio would require the Qualifying Shareholders to take up more entitlements to avoid their shareholdings being diluted and would increase the commission expenses to be paid by the Company to the Underwriter; and a lower subscription ratio would raise less amount of funds which would lead to a higher proportion of expenses arising from a rights issue to the gross proceeds and thus making the rights issue less meaningful. The Company had approached various licensed corporations (including the Underwriter) to explore their interests in participating in the underwriting of the Rights Issue on a fully underwritten basis. Save and except for the Underwriter which agreed to fully underwrite the Rights Shares at the Subscription Price at a commission of 3.00%, other licensed corporations did not show interests to underwrite the Rights Shares on a fully underwritten basis or required a higher commission rate than that of the Underwriter. Accordingly, the Subscription Price is the best available price for the Underwriter to accept the underwriting of the Rights Issue and the terms of the Rights Issue including the Subscription Price and the subscription ratio are the best available terms to the Company to conduct the Rights Issue. As such, the Directors consider that the net proceeds of approximately HK$30.04 million is the optimum amount the Group can receive after taking into account the abovementioned factors. Taking into account the expected working capital needs of approximately HK$5.04 million, the Directors intend to utilise approximately HK$25.00 million of the net proceeds from the Rights Issue for the expansion of the Group's margin financing business and the management of CSL also expects the net proceeds from the Rights Issue of HK$25.00 million will be utilised to expand its margin financing business, of which HK$12.50 million will be available for providing margin loans while the remaining HK$12.50 million will be placed in the bank accounts of CSL for satisfying the requirements under the Financial Resources Rule. The management of CSL will closely monitor and review the performance of the margin financing business of CSL thereafter and assess from time to time whether further fundraising exercise should be made. As at the Latest Practicable Date, the Company had no plan on any other fundraising activities and would focus on the Rights Issue.

The Board considers that the Rights Issue provides a good opportunity for the Group 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.

## 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 Announcement.

## POSSIBLE ADJUSTMENTS RELATING TO THE SHARE OPTIONS

Pursuant to the terms of the Pre-IPO Share Option Scheme and 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 Pre-IPO Share Option Scheme and Share Option Scheme, if any, 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, if necessary.

## 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, since the Company has no controlling Shareholder, 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 proposed resolution approving the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules. As at the Latest Practicable Date, (i) Mr. An Xilei, an executive Director and deputy chairman of the Board, is interested in 17,000,000 Shares through his shareholding in PCG, representing approximately 29.64% of the total issued share capital of the Company; and (ii) Mr. Wong Hong Gay Patrick Jonathan, an executive Director and chief executive officer of the Company, is interested in 3,453,990 Shares through his shareholding in iMHA, representing approximately 6.02% of the total issued share capital of the Company. For details of their interests, please refer to "Shareholding Structure of the Company" in this section. Accordingly, Mr. An Xilei, Mr. Wong Hong Gay Patrick Jonathan, PCG and iMHA shall abstain from voting in favour of the proposed resolution approving the Rights Issue.

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 Tuesday, 16 March 2021 to Monday, 22 March 2021 (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 Friday, 26 March 2021 to Thursday, 1 April 2021 (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, except for Mr. An Xilei, Mr. Wong Hong Gay Patrick Jonathan, PCG and iMHA, no Shareholder is required to abstain from voting in the EGM. The persons who are required to abstain from voting in favour at the EGM has no intention to vote against the resolution of the Rights Issue.

The notice convening the EGM to be held at Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 22 March 2021 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

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 the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, 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 Saturday, 20 March 2021, 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 Wednesday, 7 April 2021.

## 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 Wednesday, 24 March 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Friday, 9 April 2021 to Friday, 16 April 2021 (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.**

## RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Chan Chi Keung Alan, Ms. Lau Mei Ying and Mr. Lee Chi Hwa Joshua, 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 on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned 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. Giraffe 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 40 to 41 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 Giraffe Capital set out on pages 42 to 85 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
**Cornerstone Financial Holdings Limited**
**Gao Ran**
*Chairman*

*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.*

基石金融控股有限公司
CORNERSTONE FINANCIAL HOLDINGS LIMITED
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 8112)**

1 March 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 1 March 2021 (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 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.

Giraffe Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

Having taken into account the terms of the Rights Issue and the Underwriting Agreement, and the advice from Giraffe 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 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. Chan Chi Keung Alan** | **Ms. Lau Mei Ying** | **Mr. Lee Chi Hwa Joshua** |
| *Independent non-executive Directors* | *Independent non-executive Directors* | *Independent non-executive Directors* |

*The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*

Giraffe
智富

**Giraffe Capital Limited**

1 March 2021

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

## PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON RECORD DATE

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") in the circular issued by the Company to the Shareholders dated 1 March 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, on 27 January 2021, the Company proposed to raise gross proceeds of approximately HK$32.58 million on the basis of four (4) Rights Shares for every one (1) Share held on the Record Date by issuing 229,418,448 Rights Shares at the Subscription Price of HK$0.142 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 Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

As such, on 27 January 2021 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue, pursuant to which the Underwriter has conditionally agreed to fully underwrite 161,418,448 Rights Shares subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfillment of the conditions precedent contained therein.

As at the Latest Practicable Date, PCG is beneficially interested in 17,000,000 Shares, representing approximately 29.64% of the existing issued share capital of the Company. Pursuant to the Shareholder's Irrevocable Undertaking, PCG has provided an irrevocable and unconditional undertaking to the Company and the Underwriter that it, among other things, (i) shall not sell, transfer or otherwise dispose of the Shares (or any part thereof) held by it during the period from the date of the Shareholder's Irrevocable Undertaking to the close of business on the Record Date (both dates inclusive); (ii) shall accept and subscribe, and procure its nominee(s) (if applicable) to accept and subscribe, in full for all the Rights Shares in which it is beneficially entitled under the Rights Issue on and subject to the terms and conditions of the Rights Issue; and (iii) shall procure its nominee(s) (if applicable) to, lodge the PAL(s) despatched to it together with remittance for the full amount payable on acceptance in accordance with the instructions printed on the Prospectus and the PAL and, in any event, not later than the time specified therefor in the PAL.

As at the Latest Practicable Date, each of the holders of the Share Options (including two Directors) has signed an Optionholder's Undertaking not to exercise the Share Options (or any part thereof) granted to him/her from the date of the Optionholder's Undertaking to the close of business on the Record Date (both dates inclusive).

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 condition on, amongst other things, the approval by the Independent Shareholder 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, since the Company has no controlling Shareholder, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associate 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. As at Latest Practicable Date, (i) Mr. An Xilei, an executive Director and deputy chairman of the Board, is interested in 17,000,000 Shares through his shareholding in PCG, representing approximately 29.64% of the total issued share capital of the Company; and (ii) Mr. Wong Hong Gay Patrick Jonathan, an executive Director and chief executive officer of the Company, is interested in 3,453,990 Shares through his shareholding in iMediaHouse Asia Limited, representing approximately 6.02% of the total issued share capital of the Company. Accordingly, Mr. An Xilei, Mr. Wong Hong Gay Patrick Jonathan, PCG and iMediaHouse Asia Limited shall abstain from voting in favour of the proposed resolution approving the Rights Issue.

**THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Chi Keung Alan, Ms. Lau Mei Ying and Mr. Lee Chi Hwa Joshua, has been established to provide recommendation to the Independent Shareholders in connection with the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in this regard.

**OUR INDEPENDENCE**

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 17.96 of the GEM Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

Besides, apart from the normal advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

**BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have reviewed, among others, (i) the Announcement, (ii) the Circular, (iii) the Underwriting Agreement, (iv) the Shareholder's Irrevocable Undertakings, (v) the Optionholder's Undertakings, (vi) the annual report of the Company for the year ended 31 December 2018 (the "**Annual Report 2018**") and 31 December 2019 (the "**Annual Report 2019**"), (vii) the interim report for the six months ended 30 June 2020 (the "**Interim Report 2020**"), (viii) the quarterly report of the Company for the nine months ended 30 September 2020 (the "**Third Quarterly Report 2020**"), (ix) the unaudited management accounts of the Company for the nine months ended 30 September 2020, (x) the Financial Resources Rule, (xi) the research on margin financing and IPOs market in Hong Kong, and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company. We have also discussed with the management of the Company with respect to the terms of and reasons for the Rights Issue, and the current business plans, financial performance and future outlook of the Group.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors were true and accurate at the time when they were made and continue to be true up to the date of EGM. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, the PCG or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue. Our opinion is necessarily based on the market, financial, economic, industry-specific and other conditions in effect and the information made available to us as at the date of EGM. Shareholders should note that subsequent developments (including any change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the date of EGM or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Rights Issue, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Rights Issue, we have taken into account the following principal factors and reasons:

### 1. Information on the Group

#### *1.1 Business of the Group*

As disclosed in the Letter from the Board and the Third Quarterly Report 2020, the Group is principally engaged in the financial services and advertising and media business. The Group's advertising and media business, which principally comprises the provision of out-of-home media services in Hong Kong and Singapore, remained the main contributor to the Group's revenue. In 2016, the Group commenced its financial services business, which are mainly conducted under the brand name of "Cornerstone" and consisted of Type 1 (dealing in securities), Type 4 (advising on securities), Type 9 (asset management) regulated activities under the SFO and a wholly owned subsidiary of the Group also obtained the license to conduct money lending business. The financial services continued to generate stable revenue for the Group.

#### *1.2 Financial performance of the Group*

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2019 and the Third Quarterly Report 2020:

| | For the year ended 31 December | | For the nine months ended 30 September | |
|---|---|---|---|---|
| | 2018 | 2019 | 2019 | 2020 |
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | (audited) | (audited) | (unaudited) | (unaudited) |
| **Revenue** | | | | |
| – Advertising and media | 81,547 | 77,613 | 62,208 | 27,502 |
| – Retail of skin care products | 6,551 | – | – | – |
| – Financial services | 14,936 | 14,427 | 10,942 | 10,264 |
| | 103,034 | 92,040 | 73,150 | 37,766 |
| Gross profit | 61,258 | 55,980 | 42,656 | 24,991 |
| *Gross profit margin* | *59.5%* | *60.8%* | *58.3%* | *66.2%* |
| **Loss for the year from:** | | | | |
| – continuing operations | (132,109) | (17,072) | (5,112) | (20,951) |
| – a discontinued operation *(Note)* | (160) | (189) | (194) | – |
| **Loss attributable to owners of the Company** | (107,934) | (18,108) | (6,341) | (20,974) |

*Note:* On 4 March 2019, the Group sold its entire equity interest (i.e. 70% of equity interest) in Babysteps Limited ("**Babysteps**"), which was engaged in provision of early childhood education services, to an independent third party. Upon the disposal, the results of Babysteps are presented as the discontinued operation.

For the years ended 31 December 2018 and 2019 and the nine months ended 30 September 2019 and 2020, the Group generated revenue mainly from engaging in advertising and media business and financial services business. Revenue from the advertising and media business is mainly generated from the deployment of flat-panel displays in elevator lobbies of office and commercial buildings as well as the residential buildings to sell advertisement. Financial services business mainly comprises securities dealings and brokerage services and margin financing business.

As disclosed in the Annual Report 2019, to allocate more resources in the development of the Group's principal businesses, the Group has disposed of the business in the provision of early childhood education and ceased the business in the retail of skin care products during the year ended 31 December 2019 ("**FY2019**").

*Comparison of financial performance between the nine months ended 30 September 2019 and 2020*

Based on the Third Quarterly Report 2020, the Group's revenue and gross profit decreased from approximately HK$73.2 million and HK$42.7 million for the nine months ended 30 September 2019 ("**3Q2019**") to approximately HK$37.8 million and HK$25.0 million for the nine months ended 30 September 2020 ("**3Q2020**"), respectively, primarily due to the decrease in revenue generated from advertising and media business. Such decrease was mainly due to the "lockdown" in Singapore during the period when the Group had to temporarily halt its business operations to comply with the preventive measures introduced by the Government of Singapore in response to the COVID-19 pandemic. As advised by the management of the Company, the abovementioned business operation has resumed since June 2020.

The Group's gross profit margin increased from approximately 58.3% in 3Q2019 to approximately 66.2% in 3Q2020 due to lower cost of sales of the advertising and media business as a result of the decrease in sales of the segment.

The Group's loss attributable to the owners of the Company increased from approximately HK$6.3 million in 3Q2019 to approximately HK$21.0 million in 3Q2020. The increase in loss was mainly attributable to the decrease in gross profit generated from advertising and media business.

*Comparison of financial performance between the years ended 31 December 2018 and 2019*

Based on the Annual Report 2019, the Group's revenue and gross profit decreased from approximately HK$103.0 million and HK$61.3 million for the year ended 31 December 2018 ("**FY2018**") to approximately HK$92.0 million and HK$56.0 million in FY2019, respectively, primarily due to the absence of revenue generated from retail of skin care products as a result of its cessation of business in FY2019.

The Group's gross profit margin remained relatively stable at approximately 59.5% and 60.8% in FY2018 and FY2019, respectively.

The Group's loss attributable to the owners of the Company improved from approximately HK$107.9 million in FY2018 to approximately HK$18.1 million in FY2019, which was mainly attributable to the provision for impairment loss on film deposits and rights of approximately HK$102.1 million in FY2018. Based on the Annual Report 2019, the Group recognized further impairment loss on film deposits and rights of approximately HK$102.1 million in FY2018 because it is considered that the recoverable amount of such film deposits and rights were highly uncertain and difficult to predict.

### *1.3 Financial position of the Group*

Set out below is a summary of the Group's financial position as extracted from the Annual Report 2019, the Interim Report 2020 and the management accounts of the Company as at 30 September 2020:

| | **As at 31 December 2019** *HK$000* (audited) | **As at 30 June 2020** *HK$000* (unaudited) | **As at 30 September 2020** *HK$000* (unaudited) |
|---|---|---|---|
| **Assets** | | | |
| – Margin loans receivable | 162,190 | 165,266 | 158,356 |
| – Cash held on behalf of brokerage clients | 8,938 | 26,019 | 5,890 |
| – Cash and cash equivalents | 60,901 | 55,772 | 61,351 |
| **Liabilities** | | | |
| – Accounts payable to brokerage clients | 14,185 | 27,396 | 7,418 |
| **Net current assets** | 218,633 | 204,772 | 198,218 |
| **Total equity** | 244,230 | 228,575 | 222,870 |

*Margin loans receivable*

This represents the Group's margin loans to third parties, which are denominated in HK dollars, bearing interest at commercial rates, secured by the underlying pledged securities and are repayable on demand. Margin loans receivable remained relatively stable at approximately HK$162.2 million, HK$165.3 million and HK$158.4 million as at 31 December 2019, 30 June 2020 and 30 September 2020, respectively. The advances to customers in margin financing were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of approximately HK$351.6 million, HK$360.4 million and HK$267.5 million as at 31 December 2019, 30 June 2020 and 30 September 2020, respectively. Based on the Letter from the Board, as the amount of margin financing was limited by the scale of CSL's capital base as governed by the Financial Resources Rule against corporations licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO on the liquid capital, the Group has to turn down the demand for margin loans from some margin clients from time to time.

*Cash held on behalf of brokerage clients*

Cash held on behalf of brokerage clients represents clients' monies held by the Group in segregated deposit accounts with banks and authorised institutions, which is restricted and governed by the Securities and Futures (Client Money) Rules under the SFO. The balance increased from approximately HK$8.9 million as at 31 December 2019 to approximately HK$26.0 million as at 30 June 2020, and decreased to approximately HK$5.9 million as at 30 September 2020, which was in line with the changes in accounts payable to brokerage clients.

*Cash and cash equivalents*

The Group's cash and cash equivalents remained relatively stable at approximately HK$60.9 million, HK$55.8 million and HK$61.4 million as at 31 December 2019, 30 June 2020 and 30 September 2020, respectively. Based on the Letter from the Board, the Company is of the view that without additional funding, the Group would not be able to meet the growing demands for margin financing credit from clients.

Although the cash and cash equivalent of the Company as at 31 December 2020 amounted to approximately HK$64.37 million, accordingly to the Letter from the Board, CSL generally maintains a cash balance of not less than 50% of the closing balance of the previous month as reserve to ensure its liquid capital (as defined under the Financial Resources Rule) not to fall below 50% of its last reported liquid capital and maintain approximately HK$5 million to meet its daily needs. We understood from the management of the Company that even though CSL had a cash balance of approximately HK$64.37 million, only the remaining HK$30 million will be used for providing margin loans.

*Accounts payable to brokerage clients*

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. The balance increased from approximately HK$14.2 million as at 31 December 2019 to approximately HK$27.4 million as at 30 June 2020, which was in line with the increase in margin loans receivable and cash held on behalf of brokerage clients for the period.

The balance decreased from approximately HK$27.4 million as at 30 June 2020 to approximately HK$7.4 million as at 30 September 2020, primarily due to the decrease in cash held on behalf of brokerage clients for the period.

*Net current assets*

The Group had net current assets of approximately HK$218.6 million as at 31 December 2019 and approximately HK$204.8 million as at 30 June 2020. The decrease in the net current assets was the combined effect of (i) the decrease in trade and other receivables; (ii) the decrease in cash and cash equivalents for the period; and (iii) the increase in accounts payable to brokerage clients.

The Group's net current assets decreased from approximately HK$204.8 million as at 30 June 2020 to approximately HK$198.2 million as at 30 September 2020, which was mainly due to the decrease in cash held on behalf of brokerage client.

Having considered the historical financial information of the Group, in particular, (i) the Group has recorded losses attributable to owners of the Company for each of the year ended 31 December 2018 and 2019, as well as each of the nine months ended 30 September 2019 and 2020; (ii) the decreasing trend of revenue generated from its advertising and media business; (iii) the continuing uncertainties in the global economy resulted from the recent outbreak of COVID-19 pandemic; and (iv) the Group's limited balance of cash and cash equivalents and decreasing amounts of net current assets as at 31 December 2019, 30 June 2020 and 30 September 2020, we concur with the management of the Company that additional fund raising is needed by the Group to strengthen its capital base so as to develop the margin financing business.

### *1.4 Business outlook*

*Overview of the licensed securities margin financing service industry in Hong Kong*

The licensed securities margin financing industry comprises corporations conducting Type 8 (securities margin financing) regulated activity, and these corporations are generally referred to as margin financiers. Margin financiers provide financing to margin clients for their purchase of stocks whereby clients' stocks and cash in client accounts are typically posted as collateral to secure the repayment of outstanding amounts on margin loans. Under the SFO, securities margin financing refers to the provision of financial accommodation for facilitating the acquisition and continued holding of listed securities. As at 30 June 2020, there were approximately 1,383 margin financiers in Hong Kong. Pursuant to the Financial Resources Rule, securities dealing service providers who are already licensed for Type 1 regulated activity (dealing in securities) are not required to be licensed for Type 8 regulated activity (securities margin financing), but are required to satisfy the minimum paid-up share capital and minimum liquid capital requirements of Type 8 regulated activity (securities margin financing).

Pursuant to the Financial Resources Rule, licensed corporations are required under section 145 of the SFO to maintain at all times a minimum level of paid-up share capital and liquid capital. Depending on the types of regulated activity that the licensed corporation is applying for, a licensed corporation has to maintain at all times paid-up share capital and liquid capital not less than the specified amounts according to the Financial Resources Rule. Where the licensed corporation is licensed to carry on two or more regulated activities, the respective required minimum paid-up share capital and minimum liquid capital to be maintained by the licensed corporation shall be the highest applicable amounts among the activities.

Liquid capital is the amount by which a licensed corporation's liquid assets exceeds its ranking liabilities where (i) liquid assets are the amount of assets held by the licensed corporation, adjusted for such factors to take into account liquidity of certain assets as well as credit risks; and (ii) ranking liabilities are the sum of liabilities on the balance sheet of the licensed corporation (including, without limitation, any amounts payable by it in respect of any overdraft or loan, any accrued interest payable to any other person, accrued expenses, taxes and provisions for contingent liabilities), adjusted for such factors to take into account market risks and contingency. The method of calculating liquid assets and ranking liabilities is set out in Divisions 3 and 4 of the Financial Resources Rule, respectively.

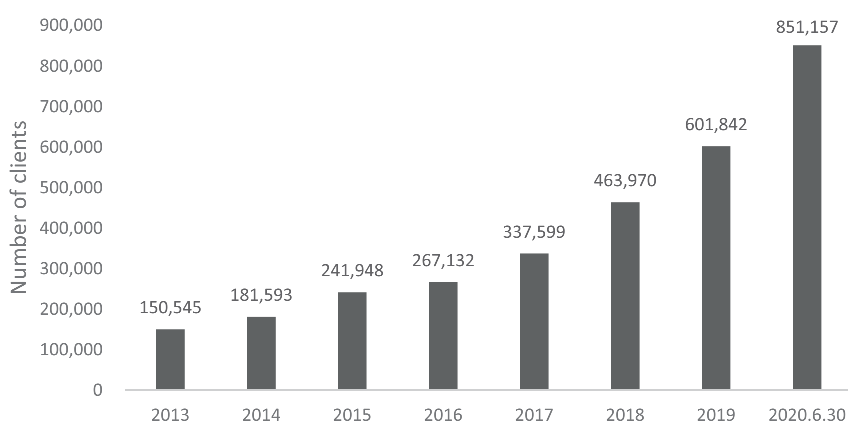
If the licensed corporation applies for more than one type of regulated activity, the minimum paid-up share capital and liquid capital that the corporation should maintain shall be the higher or the highest amount required amongst those regulated activities applied for.

In order to obtain margin financing, margin clients are required to deposit an initial margin to pay for a portion of the total cost of buying securities, and the purchased securities would be treated as collateral by the margin financiers. The portion of the security which is pledged, known as margin loan-to-value ratio, normally depends on the quality of the designated stocks. Licensed securities margin financiers generate revenue from interest income for providing margin loans to clients for their purchases of securities on the secondary market and IPOs.

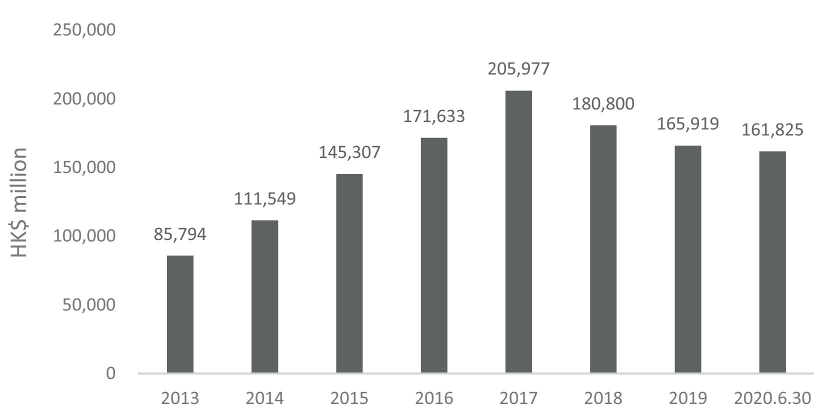
(a) Number of active margin clients in Hong Kong

The charts below set forth the (i) number of active margin clients, and (ii) amounts receivable from margin clients in Hong Kong over the period from 2013 to 30 June 2020:

(i) Number of active margin clients:




(ii) Amounts receivable from margin clients in Hong Kong over the period from 2013 to 30 June 2020:



*Note:* Active margin clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules, and who have completed at least one transaction during the year.

*Source:* The SFC – Financial Review of the Securities Industry (https://www.sfc.hk/en/Regulatory-functions/Intermediaries/Supervision/Publications-and-statistics/Financial-review-of-the-securities-industry)

From 2013 to 30 June 2020, the total number of active margin clients in Hong Kong grew at a CAGR of approximately 30.5%, and the amounts receivable from margin clients experienced an overall increase at a CAGR of approximately 10.3%. The increase was mainly in line with the growing stock market in Hong Kong, supported by an increase in number of listings and growing interests from mainland investors for trading on securities listed on the Stock Exchange.

(b) Competitive analysis of the licensed securities dealing service and licensed securities margin financing service industries in Hong Kong

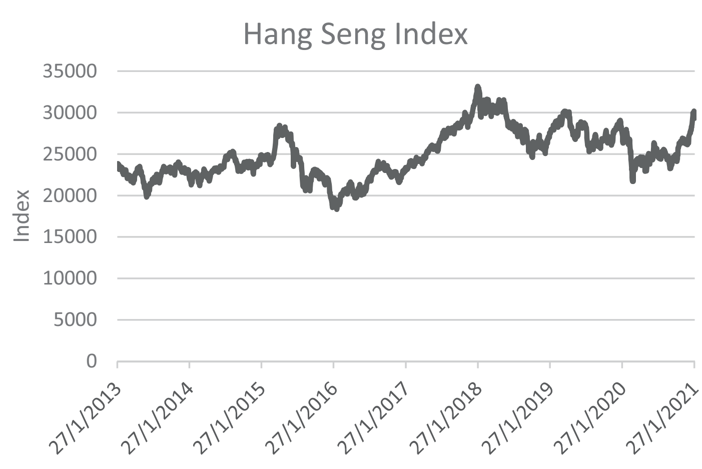
According to the website of SFC, there were approximately 714 HKEX Participants in Hong Kong in 2020. HKEX Participants are divided into 3 categories; "A", "B" and "C". Category A consists of the top 14 brokerage firms by transaction size, while Category B refers to the participants ranked from 15 to 65. The remaining participants in the market are grouped in Category C. The licensed securities dealing service industry in Hong Kong is fairly consolidated and dominated by certain large Category A firms, with Category A participants accounting for approximately 59.07% of the total market turnover in 2020, while Category B participants accounted for a share of approximately 33.77% of the total market turnover in the same year. Category B firms generally engage in a range of overseas and local institutional trading as well as retail trading. Category C firms accounted for approximately 7.16% of total market share in terms of turnover in 2020, and capture a majority of the retail trading in Hong Kong. The competition in this category is intense, with the brokerage firms also competing with the firms in Categories A and B.

As advised by the management of the Company, CSL is classified as a Category C HKEX Participant. In addition to providing securities dealing services, Category C firms also provide similar services to other services which CSL offer, including securities margin financing services and securities advisory services. We understood from the Directors that CSL as a Category C firm has a streamlined organisational structure which the Directors believe would facilitate efficient execution and settlement of client orders.

(c) Market drivers and opportunities

The demand for securities dealing and securities margin financing services is closely related to the performance of the stock market in Hong Kong. As an important performance indicator of the Hong Kong stock market, the HSI registered solid earnings growth during the period of eight years immediately prior to the date of the Underwriting Agreement (i.e. 27 January 2013 to 27 January 2021) (the "**HSI Review Period**"), representing growth at a CAGR of approximately 2.7%. Emerging sectors (including the technology and telecommunications sectors) are expected to lead the HSI higher in the future and thus increase potential investors' interest and confidence in Hong Kong's stock market, which will further drive demand for securities dealing and securities margin financing services and support the development of the industries.

Set out below is the historical closing points of the benchmark Hang Seng Index ("**HSI**") during the HSI Review Period:




*Source:* Bloomberg terminal

According to the Stock Exchange, the historical turnover value of listed securities in Hong Kong in 2019 and 2020 ("**Turnover Review Period**") are as set out below:

| | Monthly turnover value *HK$ million* | | Average daily turnover value *HK$ million* | |
|---|---|---|---|---|
| | **2019** | **2020** | **2019** | **2020** |
| January | 1,944,233 | 2,078,682 | 88,374 | 103,934 |
| February | 1,796,918 | 2,302,454 | 105,701 | 115,122 |
| March | 2,322,090 | 3,117,403 | 110,576 | 141,700 |
| April | 1,978,957 | 1,909,446 | 104,156 | 100,497 |
| May | 2,045,495 | 2,294,253 | 97,404 | 114,712 |
| June | 1,565,610 | 2,637,568 | 82,401 | 125,599 |
| July | 1,512,297 | 3,632,257 | 68,741 | 165,102 |
| August | 1,900,650 | 2,838,336 | 86,393 | 135,159 |
| September | 1,592,652 | 2,698,527 | 75,841 | 122,661 |
| October | 1,593,778 | 2,115,527 | 75,894 | 117,529 |
| November | 1,671,008 | 3,387,017 | 79,572 | 161,286 |
| December | 1,516,361 | 3,098,678 | 75,818 | 140,849 |
| **Total** | **21,440,049** | **32,110,148** | **87,155** | **129,476** |

*Source:* The website of the Stock Exchange (https://www.hkex.com.hk/Market-Data/Statistics/Consolidated-Reports/HKEX-Monthly-Market-Highlights?sc_lang=en)

As illustrated in the table, the aggregate amount of turnover value of listed securities in 2020 was approximately HK$32,110 billion, representing an increase of approximately 49.80% as compared to the aggregate amount of turnover value in 2019. The average daily turnover value for the Turnover Review Period increased by approximately 48.60% to approximately HK$129,476 million as compared to average daily turnover value for 2019.

(d) Comprehensive and evolving regulatory regime

Supervision of the securities and futures markets by the SFC and the Stock Exchange ensures the regular and normative operation of the market, and strengthens and protects the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry. Hong Kong's regulatory regime continues to evolve with an aim of capturing the latest opportunities and market dynamics in the capital market, including through China Connect and the new listing regime for emerging and innovative companies. Hong Kong's comprehensive and evolving regulatory regime has been a key driver for the licensed securities dealing service industry in Hong Kong.

The Mainland and Hong Kong Closer Economic Partnership Arrangement ("**CEPA**") has strengthened the relationship in securities trading between Hong Kong and the PRC. With the rapid development of the PRC economy, demand for capital raising from PRC enterprises, as well as investors' interest in investing in PRC securities have increased. CEPA has fostered trade and investment between Hong Kong and the PRC. For example, pursuant to the agreement on economic and technical cooperation to CEPA signed in June 2017, the PRC government shall further streamline the relevant requirements for overseas listings of PRC enterprises and create favourable conditions to support qualified PRC enterprises that satisfy Hong Kong's listing requirements to list in Hong Kong. Therefore, it is expected that the number of listed PRC securities will continue to increase in Hong Kong, driving demand for securities dealing services.

Regarding the margin financing market in Hong Kong, according to "Financial Review of the Securities Industry" published by SFC in June 2020, the outstanding margin loans totalled HK$161.8 billion at the end of June 2020, which is 2% lower than the end of 2019. The 20 largest providers of securities margin financing collectively accounted for 77% of the industry's total outstanding margin loans. It is also observed that securities margin financing brokers (the "**SMF brokers**") have been taking more financial risks. The SFC noted that certain SMF brokers may have adopted aggressive margin lending practices and may not have robust risk controls in place. As such, the SFC issued the Guidelines for Securities Margin Financing Activities (the "**Guidelines for SMF**") in April 2019 to provide guidance for margin lending policies and risk controls on securities margin financing activities. The Guidelines for SMF that took effect in October 2019 apply to (i) persons licensed for Type 1 (dealing in securities) regulated activity who provide financial accommodation to any of their clients in order to facilitate acquisitions or holdings of listed securities by the persons for their clients; and (ii) persons licensed for Type 8 (securities margin financing) regulated activity.

The Guidelines for SMF specified the minimum standard expected of SMF brokers, for instance, an SMF broker may adopt a total margin loans to capital multiple benchmarks up to five only if it has high quality margin loan portfolio and complies with all other applicable provisions in the Guidelines for SMF. An SMF broker with lower quality margin loan portfolio or weak SMF risk controls should adopt a lower total margin loans-to-capital multiple benchmarks. The Guidance for SMF however does not apply to IPO loans.

A failure by any SMF broker to comply with any applicable provision of the Guidelines for SMF (a) shall not by itself render it liable to any judicial or other proceedings, but in any proceedings under the SFO before any court, the Guidelines for SMF shall be admissible in evidence, and if any provision set out in the Guidelines for SMF appears to the court to be relevant to any question arising in the proceedings, it shall be taken into account in determining the question; and (b) may cause the SFC to consider whether such failure adversely reflects on the SMF broker's fitness and properness and the need for regulatory action.

(e) Launching of China Connect

The launches of the Shanghai-Hong Kong Stock Connect in 2014 and the Shenzhen-Hong Kong Stock Connect in 2016 have enabled mutual trading accessibility between the Hong Kong and Shanghai/Shenzhen stock markets. China Connect offers international investors a mechanism for investing directly into the PRC stock markets via brokerage firms in Hong Kong. At the end of 2019, investors had the option to choose from the 916 eligible stocks for northbound trading under the Shanghai-Hong Kong Stock Connect and 1,238 eligible stocks under the Shenzhen-Hong Kong Stock Connect. As the number of stock options are expected to continue to increase, investors will have more trading options and opportunities. The licensed securities dealing service industry in Hong Kong will be benefited from the potential increase in the number of securities trading transactions.

(f) New listing regime is expected to bring greater securities transactions in emerging and innovative sectors

The Stock Exchange's new rules to broaden Hong Kong's listing regime became effective on 30 April 2018. Under the new listing regime, companies from emerging and innovative sectors, including biotech companies, are encouraged to seek listing in Hong Kong. The new Listing Rules offer domestic and international investors greater access to fast-growing companies from emerging and innovative sectors, and hence may generate an increase in equity issues and investments. Therefore, the new regime is expected to provide a growth opportunity for placing and underwriting services providers in Hong Kong.

(g) Future trends and developments

The number of PRC companies listed on the Stock Exchange increased from 797 in 2013 to 1,308 in 2020, representing a CAGR of approximately 18.0%. Over the same period, PRC companies' contribution to the total market capitalisation of the Hong Kong securities market increased from approximately 56.9% to approximately 80.0%. The increase in the number of PRC enterprises listed in Hong Kong may support the growth of funds raised through the Hong Kong stock market, facilitating the development of the placing and underwriting services market. The PRC government nowadays plans to promote the development of the Greater Bay Area, and Hong Kong's central role in the area is expected to lead an active equity market in a long run.

**2. Reasons for and benefits of the Rights Issue and use of proceeds**

***2.1 Expansion of margin financing business***

As stated in the Letter from the Board, the Group commenced its financial services business through the acquisition of GCL Group which included CSL in 2016. Initially, CSL was a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO. The Company considered it to be crucial for CSL to improve its profitability by focusing on financial products and services which would provide a higher profit margin rather than traditional securities brokerage services. Over the past few years, the financial services business has proven its ability to generate stable revenue for the Group and approximately 90% of the revenue of the financial services business was contributed by the margin financing business.

According to the management of the Company, CSL offers margin financing services to its clients who wish to purchase securities on a margin basis and provide margin financing to clients for the purchase of securities on the secondary market and derive interest income from the provision of margin loans. According to the Letter from the Board, the Company received requests from clients and other securities firms for the granting of margin financing for stock trading activities, including but not limited to IPO loans. The loan amount requested by the clients for IPO loans is usually high. Due to the limited financial resources of CSL, CSL has turned down approximately 20 requests from existing and potential clients for the granting of IPO loans ranging from HK$5 million to HK$30 million in the past six months. It has also turned down approximately 10 enquiries for sizable margin loans.

We understood from the management of the Company that the amount of margin financing was limited by the scale of CSL's capital base as governed by the Financial Resources Rule against corporations licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO on the liquid capital which were discussed in sub-sections headed "1.3 financial position of the Group" and "1.4 business outlook" above. The management of CSL considered it necessary to strengthen the capital base of CSL and to expand the margin financing business in order to reap the opportunities arising from the economic recovery and the increased number of giant companies listed in Hong Kong in the future. The management of CSL believes that there will be much room for expanding the margin financing business as CSL has a potential client base of high-worth individuals in the PRC. It is expected that once the border restrictions are uplifted or relaxed when COVID-19 is under control, there will be an influx of potential investors from the PRC. The Company therefore needs to act proactively to get hold of such opportunity. As such, according to the management of the Company, the Group intends to apply its proceeds from the Rights Issue in expanding its margin book and in providing margin financing and/or IPO financing to clients for subscriptions to shares offered under IPOs to tap into IPO financing market (the "**IPO financing business**").

We understood from the management of the Company that there has been an increasing demand on the margin financing business from CSL's client since its establishment. According to the Annual Report 2018 and the Annual Report 2019, the revenue of the margin financing business for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 were approximately HK$5.10 million, HK$13.72 million and HK$13.81 million, respectively.

We noted from the financial review of the securities industry published by the SFC as shown in sub-section headed "1.4 business outlook" above, notwithstanding the decrease in the amounts receivable from margin clients in Hong Kong from 2017 to 30 June 2020, given that (i) the business of CSL commenced in 2017 and has recorded an increasing revenue from 2017 to 2019 and the management of the Company considers there is robust potential for business growth; (ii) the increasing demand on the margin financing business from CSL's client since its establishment as discussed above; and (iii) the increasing demand for granting IPO loans and/or additional margin loans ranging from HK$5.00 million to HK$30.00 million from existing and potential margin clients in the past six months as advised by the management of the Company, we concurred with the Director's view that the prospect of margin financing business of CSL is optimistic.

According to the Letter from the Board, the management of CSL expects the net proceeds from the Rights Issue of HK$25.00 million will be fully utilised to expand its margin financing business (for both margin financing and/or IPO financing) within 2021 but they will closely monitor and review the performance of the margin financing business and/or IPO financing business of CSL thereafter and assess from time to time whether further fundraising exercise should be made. We understood from the management of the Company that should the Company apply all the HK$25.00 million in margin financing business, only HK$12.50 million would be available for providing margin loan as the remaining HK$12.50 million has to be placed in the bank accounts of CSL for satisfying the requirements under the Financial Resources Rule (i.e. its liquid capital not falling below 50% of the liquid capital stated in its last return submitted to the SFC). As advised by the management of the Company, the expansion of margin book enables CSL to expand its business scale and therefore enhance its profitability. As such, the Directors consider and we concur that it is in the interest of the Company and its Shareholders as a whole.

As income derived from the margin financing business of CSL has continued to contribute materially to the Group's revenue and demand for the margin financing services has continued to grow, in light of the more stringent rules on margin loans-to-capital ratio as described above, taking into account the following which were discussed in sub-section headed "1.4 business outlook" above, of which:

(i) Hong Kong's central role in the PRC government's plan to promote the development of the Greater Bay Area has driven, and is expected to continue to drive, demand for financial services, including equity investments and financing, which will likely lead to an active equity market;

(ii) growing interests from southbound investors in the Hong Kong stock market because of the development of the China Connect;

(iii) increasing level of disposable income in the PRC and Hong Kong, coupled with an increasing number of PRC investors seeking to diversify their investments offshore;

(iv) the leading position of the Stock Exchange as one of the most active stock exchanges globally for the listing of securities, the total securities market turnover of the Stock Exchange is expected to continue to grow in the near future and the expected increase in total securities market turnover may lead to an increase in the demand for brokerage services, which could in turn stimulate the demand for margin financing services to support securities trading on a leveraged basis; and

(v) the demand for margin financing services is closely linked to the performance of the equity market, and has experienced a substantive increase in terms of active margin client numbers (which has grown at a CAGR of approximately 30.5% from 2013 to 30 June 2020 supported by a growing stock market), and the amounts receivable from margin clients in Hong Kong also increased by a CAGR of approximately 10.3%, supported by increasing number of listed companies and growing southbound investor interest in the Hong Kong stock market,

we concur with the management of the Company that it is commercially justifiable for them to expand the margin book (i.e. increase the amount of share capital which may be utilised for the purpose of granting margin loans) of CSL to support and finance the securities trading activities of its clients on a leverage basis.

According to the Letter from the Board, it is the Company's intention to continue to focus CSL's business on margin financing. However, in order to satisfy the strong demand from its existing clients, it is believed that CSL has to diversify its offerings by providing IPO loans as well. Failing to meet the demand for margin financing credit from some margin clients, including high net-worth clients, may cause them to cast doubt on the financial strength and the credibility of the business.

According to the management of the Company, the interest rate CSL plans to offer to the clients for IPO financing will generally be determined based on a mark-up to the prevailing best lending rate for Hong Kong dollars offered by The Hongkong and Shanghai Banking Corporation Limited from time to time. CSL intends to offer IPO financing for selected IPOs, taking into consideration, among others, the overall market sentiment, the quality of relevant shares being listed and investors' reaction. The maximum amount of loan that an individual client may obtain in respect of subscription to an IPO is 90% of the total subscription amount. Clients who apply for IPO financing must maintain a margin account with CSL and deposit no less than 10% of the total subscription amount. With tapping into IPO financing business, the management of the Company believes that, it would not only diversify its revenue and income stream, but also through maintaining good relationships with its existing clients, benefit from client referrals through the word-of-mouth of its clients, whereby to further expand its clients' base and the profitability of the Group as a whole.

Having considered IPO financing business will be limited by the capital resources of the Group and subject to the capital requirements of CSL under the Financial Resources Rule without the proceeds from the Rights Issue, taking into account:

(i) the anticipated increasing demand from the clients of CSL in IPO financing;

(ii) the further integration of economics and bilateral opening of capital market between Hong Kong and the PRC (such as the launch of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect) have promoted cross-boundary investments between Hong Kong and the PRC, and in particular, they have increased the amount of southbound investments into Hong Kong as the PRC investors continue to seek access to offshore investment opportunities and wealth diversification;

(iii) comprehensive and evolving regulatory regime, of which several amendments to The Rules Governing the Listing of Securities on the Stock Exchange which took effect in 2018, attracted and is expected to further attract (a) listings of pre-revenue biotech issuers that did not meet financial eligibility tests under the Listing Rules before; (b) listings of companies with weighted voting right structures; and (c) more PRC and international companies that wish to pursue secondary listing in Hong Kong; and

(iv) the general increasing trend of the number of companies getting listed on the Stock Exchange,

we concur with the management of the Company that the profitability of CSL is expected to improve by tapping into the IPO financing business through utilising the proceeds from the Rights Issue.

***2.2 General Working Capital***

As disclosed in the Letter from the Board, the Company considers that the Rights Issue provides a good opportunity for the Group to enhance its financial position and the Company intends to utilise approximately HK$5.04 million of the total net proceeds for general working capital which mainly cover salaries and remuneration and other legal and professional expenses as advised by the management of the Company.

According to the Annual Report 2019, the administrative expenses of the Group amounted to approximately HK$75.32 million for the year ended 31 December 2019, which represented an average monthly administrative expenses of approximately HK$6.28 million.

Considering (i) the balance of cash and cash equivalent of the Company as at 31 December 2020 of approximately HK$64.37 million (of which approximately HK$30 million was maintained to ensure its liquid capital (as defined under the Financial Resources Rule) not to fall below 50% of its last reported liquid capital, approximately HK$5 million to meet its daily needs and only approximately HK$30 million was available for providing margin loan and/or IPO loan as discussed above); (ii) according to the Letter from the Board, the historical fluctuation on the cash balance of CSL which as at each month end of the 12 months in 2020, CSL recorded a cash balance ranging from approximately HK$28.04 million to approximately HK$64.37 million; (iii) the historical average monthly administrative expenses of the Group of approximately HK$6.28 million; (iv) the consecutive loss-making financial performance of the Group; and (v) cash outflow recorded by the Group for the years ended 31 December 2017, 2018 and 2019, we concurred with the management of the Company that the Company has the needs to replenish its working capital.

**3. Alternative sources of financing**

As stated in the Letter from the Board, the Directors had considered alternative ways of fund raising, including but not limited to bank loans, placing of new Shares, issue of bonds and/or convertible bonds and open offer.

***3.1 Bank loans***

According to the Letter from the Board, the provision of margin financing services requires high capital input, the lack of traditional assets to pledge to the banks, for instance land and buildings, are obstacles for the Company to negotiate with banks for meaningful financing.

As advised by the management of the Company, the Company has attempted to obtain loan financing from the commercial banks in Hong Kong, but it was unable for them to grant sizeable loans due to, among others, the Group does not have any other significant assets which is satisfactory to the banks and can serve as collaterals for the bank loan. We also consider the unsatisfactory financial results of the Group as stated in the section headed "1.2 Financial performance of the Group", was also one of the reasons for the Group not being able to obtain loans from these commercial banks. In comparison, the equity raised through the Rights Issue would not be interest-bearing and hence the Company would have savings in interest payable as compared with incurring interest costs.

In light of the above, we concur with the Company that it will be unlikely for the Company to obtain any sizeable bank loans from the commercial banks in Hong Kong.

### *3.2 Placing of new Shares*

According to the Letter from the Board, the Board considers that based on the market capitalisation of the Company of around HK$14.22 million at around the date of the Underwriting Agreement, a placement of new Shares under the Company's general mandate of 20% of the number of issued Shares would only raise approximately HK$2.84 million, which is insufficient and insignificant for the expansion of the margin financing business of the Group. We understood from the management of the Company that the Board also considers the placement of new Shares under specific mandate. Although placements under specific mandate would not be subject to the 20% limit as in general mandate, the management of the Company expects that raising similar amount of proceeds as the Rights Issue would possibly involve the issue of a substantial amount of new Shares to external parties. In addition, the Directors noted that placements under both general mandate and specific mandate will dilute the interests of Shares without giving them the opportunity to take part in the exercise.

Considering (i) placing of new Shares under general mandate can only raise funds in smaller size which is insufficient for the Group to expand its margin financing business as discussed in sub-section headed "2. Reasons for and benefits of the Rights Issue and use of proceeds" above; (ii) placing of new Shares under specific mandate would involve the issue of a substantial amount of new Shares to external parties; (iii) the Rights Issue provides an exit to the Qualifying Shareholders who elect not accepting the Rights Shares by selling their nil-paid rights in the market for economic benefits; and (iv) as compared to placing of new Shares which leads to an inevitable dilution of shareholding of the Qualifying Shareholders, the Rights Issue allows the Qualifying Shareholders to maintain their respective shareholding interests in the Company upon completion of the Rights Issue should they so wish, we concurred with the Company that the Rights Issue is more favourable to the Shareholder than placing of new Shares.

### *3.3 Issue of bonds and/or convertible bonds*

According to the Letter from the Board, the issuance of bonds and/or convertible bonds would carry additional liabilities and interest costs to the Group and in turn adversely affect the profitability and create further pressure on the financial liquidity of the Group. Given the loss-making position of the Group in recent years and the bonds to be issued would unlikely be obtaining favourable credit ratings, the Company considers that it is not likely to raise funds by issuing bonds and/or convertible bonds with terms that are commercially acceptable to the Company.

In light of the above, the Directors consider and we concur that issue of bonds and/or convertible bonds is not in the interest of the Shareholders.

***3.4 Open offer***

According to the Letter from the Board, 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.

Given that an open offer does not allow the trading of rights entitlements, Shareholders who do not wish to take up their entitlements will not be offered the opportunity to sell their entitled nil-paid Rights Shares on the market as a compensation. We consider that the Rights Issue would be more favourable and attractive to the Shareholders than an open offer because it would allow the Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights attaching thereto.

***3.5 Other benefits of the Rights Issue***

The Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (i) increase their respective interests in the shareholding of the Company through application of excess Rights Shares (subject to the availability); or (ii) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market (subject to the market demand).

Having considered the abovementioned financing alternatives and the Rights Issue allow Qualifying Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights, we concur with the management of the Company that the Rights Issue is the most appropriate fund-raising option over other fund-raising alternatives under the current circumstances of the Group and in the best interests of the Company and the Shareholders as a whole.

In light of the above, we concur with the Directors that the Rights Issue will increase the capital base of the Company and give the Qualifying Shareholders equal opportunity to maintain their respective pro-rata shareholding interests in the Company. Hence, fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

**4. Principal terms of the Rights Issue, the Underwriting Agreement, the Shareholder's Irrevocable Undertaking and the Optionholder's Undertaking**

***4.1 The Rights Issue***

As set out in the Letter from the Board, the Board proposed to raise gross proceeds of approximately HK$32.58 million on the basis of four (4) Rights Shares for every one (1) Share held on the Record Date by issuing 229,418,448 Rights Shares at the Subscription Price of HK$0.142 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).

| | | |
|---|---|---|
| Basis of the Rights Issue | : | Four (4) Rights Shares for every one (1) Share held at the close of business on the Record Date |
| Subscription Price | : | HK$0.142 per Rights Share |
| Number of Shares in issue as at the Latest Practicable Date | : | 57,354,612 Shares |
| Number of Rights Shares | : | 229,418,448 Rights Shares with an aggregate nominal value of HK$2,294,184.48, 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 | : | 286,773,060 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 |
| Gross proceeds to be raised | : | Approximately HK$32.58 million before expenses |
| Right of excess applications | : | Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment |

As disclosed in the Letter from the Board, as at the Latest Practicable Date, there are (i) 25,688 outstanding Share Options granted on 30 June 2011 under the Pre-IPO Share Option Scheme, which are exercisable during the period from 28 July 2011 to 27 July 2021 at the exercise price of HK$55.160 each; and (ii) 18,848 outstanding Share Options granted on 20 December 2011 under the Share Option Scheme, which are exercisable during the period from 20 December 2011 to 19 December 2021 at the exercise price of HK$55.540 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 date of the Latest Practicable Date.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 400.0% of the Company's issued share capital as at the date of the Latest Practicable Date and approximately 80.0% 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.

***4.2 The Underwriting Agreement***

According to the Letter from the Board, on 27 January 2021 (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 the Underwritten Shares, subject to the terms and conditions of the Underwriting Agreement.

| | | |
|---|---|---|
| Date | : | 27 January 2021 (after trading hours) |
| Underwriter | : | Yuzhou Financial Holdings Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and its ordinary course of business includes underwriting of securities.<br><br>To the best knowledge and information of the Directors, after reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) and/or associates are Independent Third Parties. As such, the Underwriter complies with Rule 10.24A(1) of the GEM Listing Rules. |

| | | |
|---|---|---|
| Number of Underwritten Shares | : | 161,418,448 Rights Shares, being the maximum number of the Rights Shares not taken up by the Qualifying Shareholders other than those Rights Shares to be taken up under the Shareholder's Irrevocable Undertaking 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 3.00% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission |

### *4.3 The Shareholder's Irrevocable Undertaking*

According to the Letter from the Board, as at the Latest Practicable Date, PCG is beneficially interested in 17,000,000 Shares, representing approximately 29.64% of the existing issued share capital of the Company. Pursuant to the Shareholder's Irrevocable Undertaking, PCG has provided irrevocable and unconditional undertaking to the Company and the Underwriter that it, among other things, (i) shall not sell, transfer or otherwise dispose of the Shares (or any part thereof) held by it during the period from the date of the Shareholder's Irrevocable Undertaking to the close of business on the Record Date (both dates inclusive); (ii) shall accept and subscribe, and procure its nominee(s) (if applicable) to accept and subscribe, in full for all the Rights Shares in which it is beneficially entitled under the Rights Issue on and subject to the terms and conditions of the Rights Issue; and (iii) shall procure its nominee(s) (if applicable) to, lodge the PAL(s) despatched to it together with remittance for the full amount payable on acceptance in accordance with the instructions printed on the Prospectus and the PAL and, in any event, not later than the time specified therefor in the PAL.

Save for the Shareholder's Irrevocable Undertakings given by PCG, as at the Latest Practicable Date, the Board has not received any information from any other Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them under the Rights Issue.

### *4.4 The Optionholder's Undertaking*

According to the Letter from the Board, as at the date of the Latest Practicable Date, each of the holders of the Share Options (including two Directors) has signed an Optionholder's Undertaking not to exercise the Share Options (or any part thereof) granted to him/her from the date of the Optionholder's Undertaking to the close of business on the Record Date (both dates inclusive).

5. **Assessment of the principal terms of the Rights Issue and the Underwriting Agreement**

***5.1 The Subscription Price***

The Subscription Price for the Rights Shares is HK$0.142 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:

(i) a discount of approximately 42.74% to the closing price of HK$0.248 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 21.11% to the closing price of HK$0.180 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 5.08% to the theoretical ex-rights price of approximately HK$0.1496 per Share based on the closing price of HK$0.180 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 22.57%, represented by the discount of the theoretical diluted price of approximately HK$0.153 per Share to the theoretical benchmarked price of HK$0.198 per Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.180 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the Announcement of approximately HK$0.198 per Share);

(v) a discount of approximately 25.26% to the average of the closing prices of approximately HK$0.190 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;

(vi) a discount of approximately 27.66% to the average of the closing prices of HK$0.1963 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;

(vii) a discount of approximately 96.67% to the audited net asset value per Share of approximately HK$4.258 (based on the latest published audited consolidated net asset value of the Group of approximately HK$244,229,882 as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 and 57,354,612 Shares in issue as at the Latest Practicable Date); and

(viii) a discount of approximately 96.44% to the unaudited net asset value per Share of approximately HK$3.985 (based on the latest published consolidated net asset value of the Group of approximately HK$228,575,338 as at 30 June 2020 as disclosed in the interim report of the Company for the six months ended 30 June 2020 and 57,354,612 Shares in issue as at the Latest Practicable Date).

We understood from the management of the Company that the Company initially approached several licensed corporation underwriters and as advised by the management of the Company, the terms offered by the Underwriter were the most favourable as compared to terms offered by other potential underwriters and the Subscription Price was the best available price for the Underwriter to accept to underwrite the Rights Issue. As disclosed in the Letter from the Board, 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 price of the Shares prior to the Last Trading Day 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.

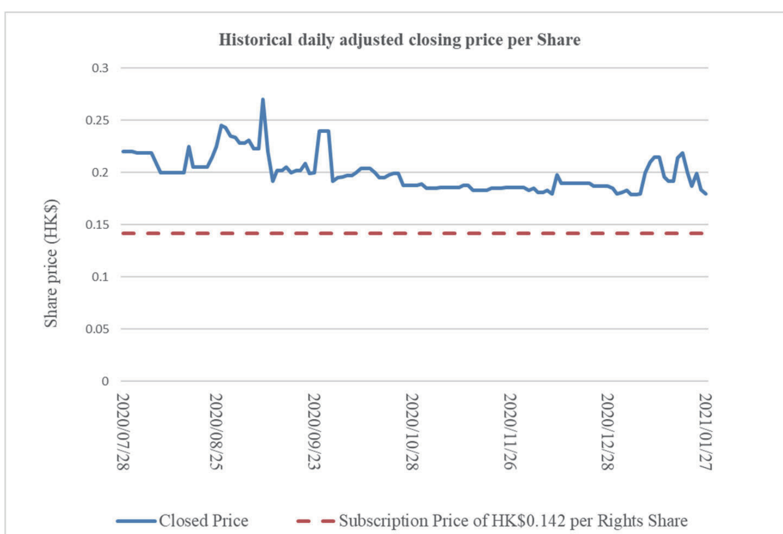
We understood from the Directors that they are mindful of the deep discount of the Subscription Price to the net asset value per Share as at 30 June 2020. However, the closing price of the Share has been maintaining at the level of around HK$0.2 per Share since April 2020, representing a deep discount to the net asset value of the Company. In order to make the Rights Issue attractive to the Shareholders and the Underwriter for them to participate in it, the Directors have decided to set the Subscription Price at HK$0.142 per Rights Share.

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; (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; and (iv) the Qualifying Shareholders are given opportunity to increase their investment in the Company through excess application of the Rights Shares to participate in the future growth of the Company.

### *5.2 Historical price performance of the Shares*

To assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices of the Shares from 28 July 2020 to and including the Last Trading Day (the "**Review Period**") (being a period of approximately six months prior to and including the Last Trading Day, which is commonly used for analysis purpose to illustrate the general trend of the daily closing prices and the level of movement of the Shares) and compared with the Subscription Price. We consider that a period of six months is representative and adequate to illustrate the price movements of the Shares to conduct a reasonable comparison between the daily closing prices of the Shares (the "**Closing Price**") and the Subscription Price.




*Source:* The website of the Stock Exchange (https://www.hkex.com.hk/Market-Data/Securities-Prices/Equities/Equities-Quote?sym=8112&sc_lang=en)

During the Review Period, the average closing price was approximately HK$0.20 per Share. The Closing Price ranged from HK$0.179 per Share (the "**Lowest Closing Price**") recorded on 5 January 2021 and 6 January 2021 to HK$0.27 per Share (the "**Highest Closing Price**") recorded on 8 September 2020 during the Review Period.

Since the beginning of the Review Period, the Closing Price remained relatively stable and went up to the Highest Closing Price on 8 September 2020. We have enquired the management regarding the rise of Closing Price and were advised that they are not aware of any particular reason that led to the rise of the Closing Price. After staying around the Highest Closing Price till 28 September 2020, the Closing Price then exhibited a downward trend and hit the low point of HK$0.179 per Share on 5 January 2021 and 6 January 2021. We have enquired the management of the Company regarding the downward trend of the Closing Price and were advised that, the recent Closing Prices have been affected by the recent downturn of stock prices of stock market globally and locally and low investors sentiment due to the recent volatility and market downturn of the global economy, in particular in Hong Kong and the PRC, as well as the unprecedented deteriorating market sentiment caused by the impacts of the COVID-19 pandemic. Save for the above and the unsatisfactory financial performance of the Group as stated in third quarterly result announcement for the nine months ended 30 September 2020 published on 11 November 2020 and discussed in sub-section headed "1.2 Financial performance of the Group" above, they are not aware of any particular reasons that led to the downward trend of the Closing Price. Thereafter, the Closing Price closed at HK$0.180 on the Last Trading Day (i.e. 27 January 2021).

The Subscription Price of HK$0.142 per Rights Share represents (i) a discount of approximately 47.41% to the Highest Closing Price; (ii) a discount of approximately 20.67% to the Lowest Closing Price; (iii) a discount of approximately 21.11% over the Closing Price of HK$0.180 per Share as quoted on the Stock Exchange on the Last Trading Day; (iv) a discount of approximately 25.26% over the average Closing Prices of approximately HK$0.190 per Share for the 5 consecutive trading days up to and including the Last Trading Day; and (v) a discount of approximately 26.04% to the average Closing Prices of approximately HK$0.192 per Share for the 30 consecutive trading days up to and including the Last Trading Day.

### *5.3 Historical trading volume of the Shares*

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

| Month/period | Total trading volume of the Shares in each month/ period | No. of trading days in each month/ period | Average daily trading volume of the Shares | Percentage of the average daily trading volume of the Shares to the total number of Shares in issue *(Note)* |
|---|---|---|---|---|
| **2020** | | | | |
| July (from 28 July 2020) | 0 | 4 | 0 | 0.00% |
| August | 2,029,160 | 21 | 96,627 | 0.17% |
| September | 2,995,560 | 22 | 136,162 | 0.24% |
| October | 808,200 | 18 | 44,900 | 0.08% |
| November | 740,400 | 21 | 35,257 | 0.06% |
| December | 996,640 | 22 | 45,302 | 0.08% |
| **2021** | | | | |
| January (up to the Last Trading Day) | 1,223,540 | 18 | 67,974 | 0.12% |
| **Average** | | | **69,790** | **0.12%** |

*Source:* The website of the Stock Exchange (https://www.hkex.com.hk/Market-Data/Securities-Prices/Equities/Equities-Quote?sym=8112&sc_lang=en)

*Note:* Calculated based on the total number of Shares in issue as at the end of the relevant month/period.

As illustrated in the table above, save for in July 2020 where only 4 trading days with nil trading volume were included in the Review Period, the average daily trading volume of the Shares during the Review Period recorded the lowest of 35,257 Shares in November 2020 and highest of 136,162 Shares in September 2020, representing approximately 0.06% and 0.24% respectively of the total number of issued Shares as at the end of the relevant month/period. The average daily trading volume of the Shares during the Review Period was 69,790 Shares, representing approximately 0.12% of the issued Shares as at the end of the relevant month/period. Based on the above results, we consider that the liquidity of the Shares during the Review Period was relatively thin.

### *5.4 Comparable analysis*

To assess the fairness and reasonableness of the terms of the Rights Issue, we have identified all rights issue announced by companies listed on the Stock Exchange (the "**Comparables**") during the Review Period. Therefore, we consider that the six-month period could reflect the most recent trend of rights issue transactions conducted by companies listed on the Stock Exchange under the recent market condition. To the best of our knowledge and endeavour and as far as we are aware of, we identified an exhaustive list of 22 transactions which met the criteria and had not lapsed as at the Latest Practicable Date. We consider the sample size of the Comparables to be sufficient, fair and representative to reflect the most recent market condition prior to the Last Trading Day.

Shareholders should, however, note that the businesses, operations and prospect of the Company are not the same as the Comparables. Notwithstanding that, we consider that the terms of the Comparables were determined under similar market conditions and sentiment and hence, provide a general reference on the key terms for this type of transaction in Hong Kong. Therefore, we consider that the Comparables are indicative in assessing the fairness and reasonableness of the terms of the Rights Issue (including the Subscription Price). The following table sets forth the relevant details of the Comparables:

| Date of announcement | Name of Company (Stock code) | Basis of entitlement | (Discount)/Premium of subscription price to the share price as at the last trading day ("LTD Discount/Premium") *(Note 1)* (%) | (Discount)/Premium of subscription price to the average share price for the last five (5) consecutive trading days up to and including the last trading day ("5 Days Discount/ Premium") *(Note 1)* (%) | (Discount)/Premium of subscription price to the theoretical ex-rights price based on the share price as at the last trading day ("Ex-rights Discount/Premium") *(Note 1)* (%) | (Discount)/Premium of subscription price to the net asset value per share ("Net Asset Value Discount/ Premium") *(Note 2)* (%) | Maximum dilution (%) | Underwriting Commission (%) | Fully/ partially underwritten Y/N | Excess application Y/N |
|---|---|---|---|---|---|---|---|---|---|---|
| 20-Jan-21 | Roma Group Limited (8072) | 3 for 1 | (31.32) | (28.98) | (10.07) | (94.13) | 75.00 | 2.5 | Y | Y |
| 6-Jan-21 | SinoLink Worldwide Holdings Limited (1168) | 4 for 5 | (42.86) | (45.21) | (31.37) | (87.60) | 44.44 | N/A | N | Y |
| 31-Dec-20 | Pacific Century Premium Developments Limited (432) | 1 for 2 | 0.00 | (1.20) | 0.00 | (64.72) | 33.00 | N/A | N | Y |
| 22-Dec-20 | FDG Kinetic Limited (378) | 9 for 1 | (91.30)<br>*(Note 4)* | (91.30)<br>*(Note 4)* | (51.00)<br>*(Note 4)* | N/A<br>*(Note 3)* | 90.00<br>*(Note 4)* | N/A | N | N |
| 14-Dec-20 | Chinlink International Holdings Limited (997) | 3 for 1 | (13.64) | (15.74) | (4.58) | (93.92) | 75.00 | 2.5 | Y | Y |
| 3-Dec-20 | Capital Finance Holdings Limited (8239) | 2 for 1 | 4.65 | 4.65 | 1.50 | 11.13 | 66.67 | N/A | N | N |
| 20-Nov-20 | Global Strategic Group Limited (8007) | 4 for 1 | (20.79) | (21.95) | (4.76) | (93.89) | 80.0 | 3.0 | Y | Y |
| 10-Nov-20 | China Fortune Holdings Limited (110) | 1 for 1 | (5.36) | (5.36) | (2.75) | N/A<br>*(Note 3)* | 50.0 | N/A | N | Y |
| 5-Nov-20 | Asia-Pac Financial Investment Company Limited (8193) | 3 for 1 | (10.70) | (13.20) | (3.70) | (88.65) | 75.0 | N/A | N | N |
| 4-Nov-20 | Top Form International Limited (333) | 2 for 5 | (21.88) | (21.88) | (16.67) | (76.04) | 28.6 | 0.0 | Y | N |
| 27-Oct-20 | Longhui International Holdings Limited (1007) | 1 for 1 | (29.00) | (29.00) | (16.96) | N/A<br>*(Note 3)* | 50.0 | Higher of HK$100,000 or 1.5% | Y | Y |
| 19-Oct-20 | CHK Oil Limited (632) | 3 for 8 | 26.58 | 26.26 | 17.99 | (50.55) | 27.3 | N/A | N | Y |
| 25-Sep-20 | Green International Holdings Limited (2700) | 1 for 1 | (17.81) | (26.11) | (9.77) | 58.62 | 50.0 | 2.5 | Y | Y |
| 18-Sep-20 | Wan Cheng Metal Packaging Company Limited (8291) | 3 for 1 | (19.40) | (18.00) | (5.70) | (89.60) | 75.0 | N/A | N | N |
| 11-Sep-20 | Amber Hill Financial Holdings Limited (33) | 3 for 1 | (23.66) | (27.55) | (7.79) | N/A<br>*(Note 3)* | 75.0 | N/A | N | N |
| 3-Sep-20 | Aeso Holding Limited (8341) | 3 for 1 | (16.70) | (16.20) | (4.80) | N/A<br>*(Note 3)* | 75.0 | N/A | N | N |
| 28-Aug-20 | Royal Century Resources Holdings Limited (8125) | 2 for 1 | (25.00) | (28.57) | (10.0) | (81.10) | 66.7 | 2.0 | Y | N |
| 28-Aug-20 | Milan Station Holdings Limited (1150) | 5 for 2 | (10.57) | (12.00) | (3.51) | (63.16) | 71.4 | 2.0 | Y | Y |
| 24-Aug-20 | Wealth Glory Holdings Limited (8269) | 5 for 2 | (11.10) | (12.10) | (3.60) | (82.50) | 71.4 | 2.5 | Y | Y |
| 10-Aug-20 | Beaver Group (Holding) Company Limited (8275) | 1 for 2 | (28.95) | (28.95) | (20.59) | (74.13) | 33.3 | 5.0 | Y | Y |
| 5-Aug-20 | Greatwalle Inc. (8315) | 1 for 3 | (27.54) | (7.41) | (21.88) | N/A<br>*(Note 3)* | 25.0 | Lump sum of HK$200,000 | Y | Y |
| 30-Jul-20 | Larry Jewelry International Company Limited (8351) | 5 for 1 | (29.17) | (29.17) | (6.59) | (60.47) | 83.3 | 5.0 | Y | Y |
| Excluding FDG Kinetic Limited which we consider as outlier | | | | | | | | | | |
| | Maximum: | | 26.58 | 26.26 | 17.99 | 58.62 | 83.30 | 5.00 | | |
| | Minimum: | | (42.86) | (45.21) | (31.37) | (94.13) | 25.00 | 0.00 | | |
| | Average: | | (16.87) | (17.03) | (7.89) | (64.42) | 58.63 | 2.70 | | |
| | Median: | | (19.40) | (18.00) | (5.70) | (78.57) | 66.67 | 2.50 | | |
| | The Company | 4 for 1 | (21.11) | (25.26) | (5.08) | (96.44) | 80.00 | 3.00 | Y | Y |

*Source:* the relevant announcements posted on the website of the Stock Exchange

*Notes:*

1. The last trading day of the Comparables means the last trading day immediately before the release of the rights issue announcement of the Comparables.

2. The net asset value per share was extracted from the relevant announcement or circular of the Comparables. Where such information is not available from the above-published sources, the net asset value per share was computed based on the net asset value as shown in the latest available interim results or annual results of the subject companies and the number of issued shares as at the date of the relevant announcement of the Comparables.

3. The subject companies were in net liabilities position as shown in the latest available interim financial information or annual financial information as at the date of the relevant announcement of the Comparables.

4. The figure has been excluded from the computations as it appears to be abnormally low as compared to the rest of the Comparables and it considered as outlier which may skew the overall results.

As shown by the above table, (i) the LTD Discount/Premium of Comparables ranged from a discount of approximately 42.86% to a premium of approximately 26.58%; (ii) the 5 Days Discount/Premium of Comparables ranged from a discount of approximately 45.21% to a premium of approximately 26.26%; (iii) the Ex-rights Discount/Premium ranged from a discount of approximately 31.37% to a premium of approximately 17.99%; and (iv) the Net Asset Value Discount/Premium ranged from a discount of approximately 94.13% to a premium of 58.62%. The Company's LTD Discount/Premium, 5 Days Discount/Premium and Ex-rights Discount/Premium fall within the corresponding ranges of those of the Comparables.

We noted from the above table that the discount of the Subscription Price to the net asset value per Share of approximately 96.44% is larger than that the corresponding ranges of those of the Comparables. In assessing the reasonableness of the Subscription Price, we have considered:

(i) the Shares were traded at a deep discount to the net asset value per Share during the Review Period;

(ii) the market price of the Shares represents the expectation of the investors to the Company (such as its financial results and corporate actions) and the market sentiment, and the market price is more relevant when determining the Subscription Price;

(iii) the favourable discount would attract Qualifying Shareholders to participate in the Rights Issue and invest in the Company so as to enable the Company to satisfy its funding and financial needs; and

(iv) the majority of the Comparables has set the Subscription Price at a discount to the net asset value per Share and for the Comparables that recorded net assets, half of them set the Subscription Price to the net asset value per Share of over 80% and the Directors consider that it is not uncommon to set the Subscription Price at a substantial discount to the net asset value.

Moreover, regarding the discount to the Lowest Closing Price during the Review Period, the Directors are of the view and we concur that it is reasonable for the Company to set the Subscription Price at a discount to the Lowest Closing Price to increase the attractiveness of the Rights Issue to the Shareholders. Otherwise, the Shareholders will have fewer incentives to participate at the Rights Issue.

We further noted that the Subscription Price represents a larger discount as compared to both the average and the median of the LTD Discount/Premium and the 5 Days Discount/Premium of the Comparables.

Nevertheless, taking into account:

(i) it is common for listed issuers in Hong Kong to issue rights shares at a discount to market price in order to enhance the attractiveness of a rights issue as illustrated in our analysis above;

(ii) the Company initially approached several licensed corporation underwriters and as advised by the management of the Company, the terms offered by the Underwriter were the most favourable as compared to terms offered by other potential underwriters and the Subscription Price was the best available price for the Underwriter to accept to underwrite the Rights Issue;

(iii) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter, taking into account, among others, (a) the prevailing market price of the Shares prior to the Last Trading Day and a discount with reference to the recent completed rights issue; (b) the latest business performance and financial position of the Group; and (c) the funding and capital needs of the Company;

(iv) the discounts of the Subscription Price on the Last Trading Day, the 5 consecutive trading days up to and including the Last Trading Day and to the theoretical ex-rights price of the Shares fall within the corresponding ranges of the Comparables;

(v) the potential maximum dilution on the shareholding of the Rights Issue fall within the range of the Comparables;

(vi) (a) the consecutive loss-making financial performance of the Group; (b) the prevailing market price of the Shares and the generally downward trend of the Shares during the Review Period; and (c) low trading liquidity of the Shares, may have an implication on the discounts of the Subscription Price to the Last Trading Day, the 5 consecutive trading days up to and including the Last Trading Day and to the theoretical ex-rights price of the Shares;

(vii) all Qualifying Shareholders are offered an equal opportunity to subscribe for the pro-rata provisional entitlement of the Rights Shares under the Rights Issue where all Shareholders are given with the same discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day, the 5 consecutive trading days up to and including the Last Trading Day and to the theoretical ex-rights price and the same potential maximum dilution; and

(viii) most of the proceeds from the Rights Issue will be applied for the expansion of Company's margin financing business, it enables CSL to expand its business scale and therefore enhance the profitability of the Group as a whole,

based on the totality of the foregoing factors, we are of the opinion that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

*5.4.1 Application for excess Rights Shares*

According to the Letter from the Board, the 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 by the Qualifying Shareholders.

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

(i) any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro-rata basis by reference to the number of the excess Rights Shares applied for under each application; and

(ii) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders.

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.

As shown by the above table, 15 out of 22 of the Comparables have the arrangement for excess application for the qualifying shareholders. With the arrangement of application for excess Rights Shares, the Qualifying Shareholders shall be given a pre-emption right to subscribe for excess Rights Shares if they wish to do so. Moreover, the allocation basis adopted by the Company is in line with the normal market practice of other rights issue with arrangement of application for excess rights shares and the shareholding of each Qualifying Shareholder, except those who do not take up their full entitlements or those who apply for excess Rights Shares, will be largely maintained after the completion of the Rights Issue. Based on the above, we are not aware of any unusual arrangement as compared to the Comparables and hence we concur with the Company that the arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation method for the excess Rights Shares are fair and reasonable so far as the Independent Shareholders are concerned.

*5.4.2 Underwriting commission*

According to the Letter from the Board, Yuzhou Financial Holdings Limited is a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and its 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(s) and/or associates are Independent Third Parties. As such, the Underwriter complies with Rule 10.24A(1) of the GEM Listing Rules. The Underwritten Shares are fully underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement. 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 condition.

We understood from the management of the Company that the Company initially approached three licensed corporation underwriters. Due to prevailing market conditions, the aforesaid two potential underwriters did not show interest to underwrite the Right Shares on a fully underwritten basis while the other potential underwriter required an underwriting commission of 5.00%. As the Company could not secure any other underwriters to fully underwrite the Rights Issue with more favourable terms, the Company resolved to engage the Underwriter to fully underwrite the Underwritten Shares.

As shown by the above table, the underwriting commission of the Comparables ranged from a minimum of nil to a maximum of 5.00%, with an average of approximately 2.70%. The underwriting commission of the Rights Issue of 3.00% falls within the range and is in line with the average of the Comparables.

Based on the above, we are of the view that the underwriting commission of 3.00% under the Underwriting Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *5.5 The Shareholder's Irrevocable Undertakings*

Pursuant to the Shareholder's Irrevocable Undertaking, PCG has provided irrevocable and unconditional undertaking to the Company and the Underwriter that it, among other things, (i) shall not sell, transfer or otherwise dispose of the Shares (or any part thereof) held by it during the period from the date of the undertaking to the Record Date (both dates inclusive); (ii) shall accept and subscribe, procure its nominee(s) (if applicable) to accept and subscribe, in full for all the Rights Shares in which it is beneficially entitled under the Rights Issue subject to the terms and conditions of the Rights Issue; and (iii) shall procure its nominee(s) (if applicable) to, lodge the PAL(s) despatched to it together with remittance for the full amount payable on acceptance in accordance with instructions printed on the Prospectus and the PAL and, in any event, not later than the time specified therefor in the PAL.

Having considered that (i) the Shareholder's Irrevocable Undertaking was given by PCG in favour of the Company which solely represents the intention of PCG in respect of its interests in the securities of the Company under the Rights Issue; and (ii) the Shareholder's Irrevocable Undertakings indicate PCG's support for the Rights Issue as it has undertaken to take up its own pro-rata entitlements under the Rights Issue, we consider that the terms of the Shareholder's Irrevocable Undertakings are fair and reasonable.

## 6. Potential dilution effect on the shareholding of the Company

As stated in the Letter from the Board, the Company has 57,354,612 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the date of the Latest Practicable Date to completion of the Rights Issue other than the allotment and issue of Rights Shares pursuant to the Right Issue, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the date of 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 other than those taken up under the Shareholder's Irrevocable Undertaking.

| | **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 other than those to be taken up under the Shareholder's Irrevocable Undertaking** | |
|---|---|---|---|---|---|---|
| | *Number of Shares* | *Approx. % (Note 1)* | *Number of Shares* | *Approx. % (Note 1)* | *Number of Shares* | *Approx. % (Note 1)* |
| **PCG** *(Note 2)* | 17,000,000 | 29.64 | 85,000,000 | 29.64 | 85,000,000 | 29.64 |
| **iMHA** *(Note 3)* | 3,453,990 | 6.02 | 17,269,950 | 6.02 | 3,453,990 | 1.20 |
| **Public Shareholders** | 36,900,622 | 64.34 | 184,503,110 | 64.34 | 36,900,622 | 12.87 |
| **Underwriter** *(Note 4)* | – | – | – | – | 161,418,448 | 56.29 |
| **Total** | **57,354,612** | **100.00** | **286,773,060** | **100.00** | **286,773,060** | **100.00** |

*Notes:*

1. 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.

2. PCG is owned as to 60% by Mr. Liu Yanhong ("**Mr. Liu**"). Mr. Liu is therefore deemed to be interested in these Shares by virtue of the SFO. The remaining 40% interest in PCG is held by Mr. An Xilei, an executive Director.

3. iMHA is owned as to approximately 67.09% by iMediaHouse.com Limited ("**iMH**") which is in turn wholly owned by Mr. Wong Hong Gay Patrick Jonathan ("**Mr. Wong**"), an executive Director. The remaining interest in iMHA is held by entities ultimately wholly owned by Mr. Wong. Therefore, iMH and Mr. Wong are deemed to be interested in these Shares by virtue of the SFO.

4. This scenario is for illustrative purpose only. Pursuant to the Underwriting Agreement, the Underwriter has undertaken to the Company that if it or any of its sub-underwriter is required to take up the Rights Shares pursuant to its underwriting/sub-underwriting obligations, (i) it and parties acting in concert (within the meaning of the Takeovers Code) with it will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of it in respect of performing its obligation hereunder; (ii) it shall ensure that the public float requirement under Rule 11.23 of the GEM Listing Rules is fulfilled by the Company upon completion of the Rights Issue; (iii) it shall and shall cause its sub-Underwriter to use its best endeavours to ensure that each of the subscribers of the Rights Shares procured by it shall be an Independent Third Party not acting in concert (within the meaning of the Takeovers Code) with the Company, the Directors, the chief executive or the Substantial Shareholders of the Company or its subsidiaries or any of their respective associates; and (iv) none of the persons to be procured by it and its sub-Underwriter to subscribe for the Shares not taken up by the Qualifying Shareholders will be holding 9.9% or more of the total issued share capital of the Company immediately after completion of the Rights Issue.

As disclosed in the Letter from the Board, the 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 80%. The theoretical dilution effect of the Rights Issue is approximately 22.57% which is below 25% as required under Rule 10.44A of the GEM Listing Rules.

As in all other cases of rights issues and open offers, dilution on the shareholdings of those Qualifying Shareholders who do not take up in full their assured entitlements under the Rights Issue is inevitable. We understood that the Directors are aware of the aforesaid potential dilution in the Shareholders' interest in the Company. The Directors consider as in all cases of rights issue, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the rights issue is inevitable. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be. Given that (i) the funding needs of the Group as discussed in section headed "2. Reasons for and benefits of the Rights Issue and use of proceeds"; and (ii) the other fund raising alternatives are not commercial feasible as discussed in section headed "3. Alternative sources of financing", we understood from the management of the Company that the current terms of the Rights Issue which was on a fully-underwritten basis, were arrived at after arm's length negotiations between the Company and the Underwriter after balancing between the shareholding dilution effect and the subscription price discount.

Notwithstanding the aforesaid potential dilution in Shareholders' interest in the Company as a result of the Rights Issue, we consider that the foregoing should be balanced against by following factors:

(i) the maximum dilution effect of the Rights Issue falls within the range from approximately 25% to 83.3% of the Comparables as shown by the table above;

(ii) the reasons for and benefits of the Rights Issue as stated in the section headed "2. Reasons for and benefits of the Rights Issue and use of proceeds";

(iii) the Rights Issue offers the Qualifying Shareholders an opportunity to subscribe for the Rights Shares for maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market prices of the Shares;

(iv) other fund raising alternatives, including debt financing, placement, issue of bonds and/or convertible bonds and open offer are not commercially feasible for the Company;

(v) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the entitlements; and

(vi) the Independent Shareholders are given the chances to express their views on the terms of the Rights Issue, the Underwriting Agreement and transactions contemplated thereunder through their votes at the EGM.

Having considered the above, we consider that the potential dilution to the shareholding interests of the existing public Shareholders in the Company, which may only arise when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, is acceptable.

**7. Financial effects of the Rights Issue**

***7.1 Effect on liquidity***

Based on the Interim Report 2020, the cash and cash equivalents of the Group amounted to approximately HK$55.77 million as at 30 June 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.

***7.2 Working capital***

The Rights Issue is expected to have a positive effect on the Group's working capital upon completion as part of the net proceeds from the Rights Issue will be applied as general working capital.

### *7.3 Effect on net assets*

The unaudited consolidated net tangible assets of the Group attributable to owners of the Company was approximately HK$207.6 million as at 30 June 2020 according to the "Unaudited pro forma financial information of the Group" set out in Appendix II to the Circular. Upon completion of the Rights Issue, based on 229,418,448 Rights Shares to be issued at the Subscription Price of HK$0.142 per Rights Share, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Rights Issue would increase to approximately HK$237.7 million.

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

## RECOMMENDATION

Having taken into account the above principal factors and reasons discussed above, we are of the opinion that the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed to approve the Rights Issue at the EGM.

Yours faithfully,
For and on behalf of
**Giraffe Capital Limited**
**Johnson Chen**
*Managing Director*

*Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 13 years of experience in the field of corporate finance advisory.*

## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019 and the third quarter of the financial year ended 31 December 2020 were disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (www.cs8112.com):

- annual report of the Company for the year ended 31 December 2017 published on 28 March 2018 (pages 62 to 128);

  *(https://www1.hkexnews.hk/listedco/listconews/gem/2018/0328/gln20180328101.pdf);*

- annual report of the Company for the year ended 31 December 2018 published on 29 March 2019 (pages 63 to 150);

  *(https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329245.pdf);*

- annual report of the Company for the year ended 31 December 2019 published on 30 March 2020 (pages 57 to 144);

  *(https://www1.hkexnews.hk/listedco/listconews/gem/2020/0330/2020033000588.pdf);*

- 3rd quarterly report of the Company for nine months ended 30 September 2020 published on 13 November 2020 (pages 10 to 24).

  *(https://www1.hkexnews.hk/listedco/listconews/gem/2020/1113/2020111300436.pdf).*

## 2. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECT

The Company was principally engaged in the businesses of financial services and advertising and media services. Among these two businesses, the advertising and media business was the main contributor to the Group's revenue over the past few years. Since the acquisition of GCL Group in August 2016, the Company has gradually developed into a well-known financial services group in Hong Kong. Initially, CSL was a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO. The Company considered it is crucial for CSL to improve its profitability by focusing on financial products and services which would provide a higher profit margin rather than traditional securities brokerage services. In order to achieve this business objective, CSL commenced the margin financing business in 2017 and later on, the GCL Group established its asset management arm in 2018. Since then, the Group's financial services business has successfully positioned itself as one of the most prestigious financial groups in Hong Kong under the name of "Cornerstone" which provides a full range of services including Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

According to the financial records of the Group, the revenue of the margin financing business for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 were approximately HK$5.10 million, HK$13.72 million and HK$13.81 million, respectively The management believed that the margin financing business contributed stable revenue to the Group and is considered as a relatively less risky and reliable sources.

During the year ended 31 December 2020, the overall performance and financial results of the Group was adversely affected by the outbreak of COVID-19 pandemic. In particular, the revenue for the Group's advertising and media business dropped from HK$62.21 million for the nine months period ended 30 September 2019 to HK$27.50 million for the nine months period ended 30 September 2020. On the other hand, the revenue generated from the Group's financial services business remained stable at approximately HK$10.26 million for the nine months ended 30 September 2020 and HK$10.94 million for the same period in 2019. Although the advertising and media business has been inevitably affected by the outbreak of COVID-19, the management expected that the businesses would recover upon the vaccination proven to be effective in the future. Despite the adverse global economic condition, major stock markets including the Hong Kong stock market have prompted positive expectations as reflected in the high trade volumes and the number of large-scale IPOs. The Company considered that it is an appropriate time to get hold of this opportunity to expand its financial services business, in particular, the margin financing business.

## 3. FOREIGN EXCHANGE

For the nine months ended 30 September 2020, the Group was exposed to foreign currency risk with respect to its operations in Singapore where most of the business transactions, assets and liabilities were denominated in Singapore dollars. The Group will monitor its foreign currency exposure closely. During the nine months ended 30 September 2020, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

## 4. STATEMENT OF INDEBTEDNESS

### Borrowings

As at the close of business on 31 December 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowing:

| | **As at 31 December 2020** |
|---|---|
| | *HK$* |
| Other borrowings, unsecured and unguaranteed | 1,616,000 |

As at 31 December 2020, the Group has other borrowings of approximately HK$1.6 million due to Mr. An Xilei, a director of the Company. The loan is interest-free, unguaranteed, unsecured and the maturity date will be on 14 November 2021.

Saved as disclosed above, the Company has no other outstanding borrowings as at 31 December 2020.

### Lease liabilities

The Group entered into several lease agreements for leasing of carpark and outdoor billboard space and offices located in Hong Kong and Singapore recognised right-of-use assets and lease liabilities for the above-mentioned leases. Such lease liabilities amounted to approximately HK$37 million as at 31 December 2020, which were classified as to approximately HK$12 million as current liabilities and approximately HK$25 million as non-current liabilities.

### Contingent liabilities

As at the close of business on 31 December 2020, the Group did not have any contingent liabilities.

Save as disclosed above, and apart from normal trade payables in the ordinary course of business, as at the close of business on 31 December 2020, there are no other: (i) debt securities of the Group issued and outstanding, and authorized or otherwise created but unissued, and term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured; (ii) borrowings or indebtedness in the nature of borrowing of the Group (including bank overdrafts and liabilities under acceptances) or acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt; (iii) mortgages and charges of the Group; and (iv) any contingent liabilities or guarantees of the Group.

## 5. COMMITMENTS

As at the close of business on 31 December 2020, the Group has no commitment or other commitment contracted but not provided for.

## 6. WORKING CAPITAL

Taking into account the financial resources available to the Group, including estimated net proceeds from the Rights Issue and the available financing facilities, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

## 7. MATERIAL ADVERSE CHANGE

As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Group recorded an unaudited consolidated loss of approximately HK$14.83 million for the six months ended 30 June 2020 as compared with the unaudited consolidated loss of approximately HK$0.15 million for the corresponding period of the previous year. The outbreak of COVID-19 pandemic had brought adverse effect on the overall performance and financial results of the Group starting from the six-month period ended 30 June 2020. Saved as disclosed, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of the independent reporting accountants' assurance report received from Yongtuo Fuson CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.*

YONG TUO 永拓富信會計師事務所有限公司 YONGTUO FUSON CPA LIMITED

**To the directors of Cornerstone Financial Holdings Limited**

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Cornerstone Financial Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in page II-5 to II-6 to the circular dated 1 March 2021 (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 to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue of 229,418,448 rights shares at HK$0.142 per rights shares (the "**Rights Shares**") on the basis of four Rights Shares for every one existing share of the Company held on the rights issued record date (the "**Rights Issue**") on the Group's unaudited consolidated net tangible assets attributable to owners of the Company as at 30 June 2020 as if the Rights Issues had taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020, on which an interim report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 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 (Clarified) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and *Other Assurance and Related Services Engagements*, 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 Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Rights Issue on unadjusted financial information of the Group as if the Rights Issue 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 Rights Issue at 30 June 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 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' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

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

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

**Opinion**

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly complied on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

**Yongtuo Fuson CPA Limited**
*Certified Public Accountants*

**Lee Yan Fai**
Practicing Certificate Number: P06078
Hong Kong

## STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared by the Directors (the "**Unaudited Pro Forma Financial Information**") in accordance with Rule 7.31 of GEM Listing Rules is set out to illustrate the effect of the Rights Issue on the Group's unaudited consolidated net tangible assets attributable to the owner of the Company as if the Rights Issue had been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information has been prepared based on the judgments, estimates and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2020 or any further dates following the Rights Issue.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, as extracted from published interim report of the Company for the six months ended 30 June 2020, with adjustments described below.

| | **Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020** | **Unaudited estimated net proceeds from the Rights Issue** | **Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue** | **Unaudited consolidated net tangible assets of the Group per share attributable to owners of the Company as at 30 June 2020** | **Unaudited pro forma adjusted consolidated net tangible assets of the Group per share attributable to owners of the Company immediately after completion of the Rights Issue** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$* | *HK$* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | *(Note 4)* |
| Rights Issue of 229,418,448 Rights Shares | 207,626 | 30,037 | 237,663 | 3.62 | 0.83 |

*Notes:*

1. The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 is extracted from the unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2020 of approximately HK$210,406,000 as adjusted by exclusion of goodwill of approximately HK$2,780,000 as shown on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 has been extracted from the published interim report of the Company for the six months ended 30 June 2020.

2. The estimated net proceeds from the Rights Issue of approximately HK$30,037,000 is calculated based on 229,418,448 Rights Shares to be issued (in the proportion of four (4) Rights Shares for every one (1) existing share held as at the Rights Issue record date) at the subscription price of HK$0.142 per Rights Shares, after deduction of the estimated related expenses of approximately HK$2,540,000, assuming that the Rights Issue had been completed on 30 June 2020.

3. The unaudited consolidated net tangible assets attributable to owners of the Company per share as at 30 June 2020 is approximately HK$3.62, which is calculated based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 of approximately HK$207,626,000 divided by 57,354,612 shares in issue as at 30 June 2020.

4. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per share immediately after completion of the Rights Issue is approximately HK$0.83, which is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue of approximately HK$237,663,000 divided by 286,773,060 shares, which represents 57,354,612 shares of the Company in issue as at 30 June 2020 and 229,418,448 Rights Shares to be issued, pursuant to the Rights Issue (in the proportion of four (4) Rights Shares for every one (1) existing share held as at the Rights Issue record date), are in issue assuming that the Rights Issue had been completed on 30 June 2020.

5. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

## 1. RESPONSIBILITY STATEMENTS

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 OF THE COMPANY

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) immediately after the completion of the Rights Issue are as follows:

**(a) as at the Latest Practicable Date**

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 50,000,000,000 | Shares | 500,000,000.00 |
| *Issued and fully paid up:* | | |
| 57,354,612 | Shares in issue | 573,546.12 |

**(b) immediately after completion of the Rights Issue**

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 50,000,000,000 | Shares | 500,000,000.00 |
| *Issued and fully paid up:* | | |
| 57,354,612 | Shares in issue | 573,546.12 |
| 229,418,448 | Rights Shares | 2,294,184.48 |
| 286,773,060 | Total | 2,867,730.60 |

Assuming no Shares are allotted and issued or repurchased by the Company on or before the completion of the Rights Issue.

All the existing Shares in issue are fully-paid and rank *pari passu* in all respects including all rights as to dividends, voting and return of capital. The Rights Shares (when allotted, issued and fully-paid) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders 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 Rights Shares.

Neither part of the share capital nor 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 Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Save and except for the 44,536 outstanding Share Options entitling the holders thereof to subscribe for an aggregate of 44,536 Shares, as at the Latest Practicable Date, the Company had no other outstanding convertible securities, options in issue which confer any right to subscribe for, convert or exchange into Shares.

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

As at the Latest Practicable Date, no share or loan capital of the Company or any members of the Group had been put under option or agreed conditionally or unconditionally to be put under option.

## 3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at the Latest Practicable Date, no Directors or chief executive of the Company had or was deemed to have interests or short positions in Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the required standard of dealings by the Directors:

### Long positions in the Shares and underlying Shares in the capital of the Company

| Name of Director | Nature of interests | Number of Shares held | Number of underlying Shares held *(Note 1)* | Total | Approximate % of shareholding in the Company *(Note 4)* |
|---|---|---|---|---|---|
| Mr. An Xilei | Interest of controlled corporation *(Note 2)* | 85,000,000 | – | 85,000,000 | 148.20 |
| Mr. Wong Hong Gay Patrick Jonathan | Interest of controlled corporation *(Note 3)* | 3,453,990 | – | 3,453,990 | 6.02 |
| | Beneficial owner | – | 4,281 | 4,281 | 0.01 |
| Mr. Chan Chi Keung Alan | Beneficial owner | – | 4,281 | 4,281 | 0.01 |

*Notes:*

1. Being personal interests attributable to interests in the share options granted by the Company pursuant to the Share Option Scheme adopted on 26 March 2011.

2. These Shares include the 17,000,000 Shares beneficially owned by PCG and the 68,000,000 Shares that PCG has irrevocably and unconditionally undertaken to subscribe for under the Shareholder's Irrevocable Undertaking. The approximate percentage of shareholding of 148.20% is calculated assuming that (i) the Rights Issue is completed; (ii) there is no further issuance of new Share(s) on or before the Record Date; and (iii) there is no repurchase of Share(s) on or before the Record Date. PCG is owned as to 40% by Mr. An Xilei ("**Mr. An**"). Mr. An is therefore deemed to be interested in these Shares by virtue of the SFO.

3. These Shares are directly held by iMHA, which is owned as to approximately 67.09% by iMediaHouse.com Limited which is in turn wholly owned by Mr. Wong Hong Gay Patrick Jonathan ("**Mr. Wong**"). The remaining interest in iMHA is held by entities ultimately wholly owned by Mr. Wong. Mr. Wong is therefore deemed to be interested in these Shares by virtue of the SFO.

4. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 57,354,612 Shares in issue as at the Latest Practicable Date.

Save that (i) Mr. An is a director of PCG; and (ii) Mr. Wong is a director of iMHA and iMediaHouse.com Limited, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## 4. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS REQUIRED TO DISCLOSE THEIR INTERESTS

Save as disclosed below, as at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, no other person or companies (other than a Director or a chief executive of the Company) had an interest or short positions in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

**Long positions in the Shares and underlying Shares**

| Name of Shareholders | Nature of interests | Number of Shares held | Approximate % of shareholding in the Company *(Note 4)* |
|---|---|---|---|
| PCG *(Note 1)* | Beneficial owner | 85,000,000 | 148.20 |
| Liu Yanhong *(Note 1)* | Interest of controlled corporation | 85,000,000 | 148.20 |
| iMHA *(Note 2)* | Beneficial owner | 3,453,990 | 6.02 |
| iMediaHouse.com Limited *(Note 2)* | Interest of controlled corporation | 3,453,990 | 6.02 |
| Yuzhou Financial *(Note 3)* | Underwriter | 161,418,448 | 281.44 |
| Kwok Ying Lan *(Note 3)* | Interest of controlled corporation | 161,418,448 | 281.44 |

*Notes:*

1. These Shares include the 17,000,000 Shares directly held by PCG and the 68,000,000 Shares that PCG has irrevocably and unconditionally undertaken to accept and subscribe for under the Shareholder's Irrevocable Undertaking. The approximate percentage of shareholding of 148.20% is calculated assuming that (i) the Rights Issue is completed; (ii) there is no further issuance of new Share(s) on or before the Record Date; and (iii) there is no repurchase of Share(s) on or before the Record Date. PCG is owned as to 60% by Mr. Liu Yanhong ("**Mr. Liu**") and 40% by Mr. An. Mr. Liu and Mr. An are therefore deemed to be interested in these Shares by virtue of the SFO.

2. These Shares are beneficially owned by iMHA which is owned as to approximately 67.09% by iMediaHouse.com Limited which is in turn wholly owned by Mr. Wong. iMediaHouse.com Limited and Mr. Wong are therefore deemed to be interested in these Shares by virtue of the SFO.

3. These Shares are the Underwritten Shares which Yuzhou Financial is interested under the Underwriting Agreement. Yuzhou Financial is wholly-owned by Ms. Kwok Ying Lan.

4. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 57,354,612 Shares in issue as at the Latest Practicable Date.

## 5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited consolidated accounts of the Group were made up.

## 6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group which would required to be disclosed under Rule 11.04 of the GEM Listing Rules.

## 7. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given their opinions and advices which are included in this circular:

| Name | Qualification |
|---|---|
| Giraffe Capital Limited | Licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| Yongtuo Fuson CPA Limited | Certified public accountants |

As at the Latest Practicable Date, each of Giraffe Capital Limited and Yongtuo Fuson CPA Limited has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter or reports and the references to its name in the form and context in which they respectively appear.

Each of Giraffe Capital Limited and Yongtuo Fuson CPA Limited did not have any interests in any Shares or shares in any member of the Group, or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, each of Giraffe Capital Limited and Yongtuo Fuson CPA Limited did not have any direct or indirect interests in any assets which have since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to or by any member of the Group, or was proposed to be acquired or disposed of by or leased to or by any member of the Group.

## 8. LITIGATIONS

As at the Latest Practicable Date, the Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

## 9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business (have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

(i) the second supplemental agreement dated 20 March 2019 to a loan agreement dated 28 March 2018 (the "**Loan Agreement**") entered into between the Company as lender and the borrower under the Loan Agreement to extend the final repayment date of the remaining balance of the loan under the Loan Agreement (in the sum of HK$7.6 million) to 27 September 2020, which constituted a discloseable transaction of the Company. Full and final settlement was made by the borrower in accordance with the terms and conditions of the abovementioned supplemental agreement. Details of the transaction were set out in the Company's announcement dated 20 March 2019;

(ii) a sale and purchase agreement dated 19 July 2019 entered into between Glory Creator Limited (an indirect wholly-owned subsidiary of the Company) and Huitian International Group Limited in respect of the disposal of 80% of the issued share capital of Cornerstone Strategic Holding Limited at a consideration of HK$10,000,000. Details of the disposal were set out in the Company's announcement dated 19 July 2019. As the conditions precedent to the sale and purchase agreement could not be fulfilled by 30 June 2020, the transaction has lapsed automatically; and

(iii) the Underwriting Agreement.

## 10. SERVICE CONTRACTS

Each of the following executive Directors has entered into a service contract or letter of appointment with the Company. Mr. Gao Ran entered into a letter of appointment with the Company terminable by not less than three months' notice in writing served by either party on the other. Mr. An Xilei has entered into a service contract with the Company terminable by either party giving not less than three months' notice in writing served by either party on the other. Mr. Wong Hong Gay Patrick Jonathan has entered into a service contract with the Company for an initial fixed term of one year and shall continue thereafter until terminated by not less than six months' notice in writing served by either party on the other. Mr. Wang Jun has entered into a service contract with the Company for an initial term of one year and shall be renewable automatically thereafter until terminated by not less than three months' notice in writing served by either party on the other. Mr. Mock Wai Yin has entered into a letter of appointment with the Company terminable by not less than three months' notice in writing served by either party on the other. Each of the following independent non-executive Directors has entered into a service contract or letter of appointment with the Company. Mr. Chan Chi Keung Alan has entered into a service contract with the Company for a term of one year renewable automatically for successive terms of one year until terminated by not less than one month's notice in writing served by either party on the other. Each of Mr. Lee Chi Hwa Joshua and Ms. Lau Mei Ying has entered into a letter of appointment with the Company terminable by not less than three months' notice in writing served by either party on the other. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings in accordance with the provisions of the Articles.

As at the Latest Practicable Date, no Director had entered into any service contracts with any member of the Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## 11. AUDIT COMMITTEE

The Company established an audit committee ("**Audit Committee**") with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules and the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The Audit Committee members as at the Latest Practicable Date are Mr. Lee Chi Hwa Joshua (as the chairman), Mr. Chan Chi Keung Alan and Ms. Lau Mei Ying. They are the independent non-executive Directors of the Company. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment, re-appointment and removal of external auditor; review and supervise the financial reporting process and internal control procedures of the Company.

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting system and internal control procedures. It reports to the Board and has held regular meetings to review and make recommendations to improve the Group's financial reporting process and internal controls. The Audit Committee was also delegated the authority and responsibility to review the Company's risk management and internal control systems and to make recommendations to the Board.

## 12. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission and professional fees payable to financial advisers, legal advisers, reporting accountants, financial printer and other parties involved in the Rights Issue are estimated to be approximately HK$2.54 million, which are payable by the Company.

## 13. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

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|---|---|
| **Board of Directors** | *Executive Directors:*<br>Mr. Gao Ran *(Chairman)*<br>Mr. An Xilei *(Deputy Chairman)*<br>Mr. Wong Hong Gay Patrick Jonathan *(Chief Executive Officer)*<br>Mr. Mock Wai Yin<br>Mr. Wang Jun<br><br>*Independent non-executive Directors:*<br>Mr. Chan Chi Keung Alan<br>Mr. Lee Chi Hwa Joshua<br>Ms. Lau Mei Ying |
| **Registered office** | Conyers Trust Company (Cayman) Limited<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681, Grand Cayman KY1-1111<br>Cayman Islands |
| **Principal place of business in Hong Kong** | Room 802, 8th Floor<br>Lee Garden Five<br>18 Hysan Avenue<br>Causeway Bay, Hong Kong |
| **Authorised representatives** | Mr. An Xilei<br>Mr. Mock Wai Yin |

| | |
|---|---|
| **Compliance officer** | Mr. Mock Wai Yin<br>a member of the corporate governance committee of the Company and a M.Sc. |
| **Company secretary** | Ms. Chan Sau Chee<br>an associate member of the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) |
| **Business address of Directors and authorised representatives** | Room 802, 8th Floor,<br>Lee Garden Five<br>18 Hysan Avenue<br>Causeway Bay, Hong Kong |
| **Legal advisers to the Company** | *As to Hong Kong law*<br>ONC Lawyers<br>19th Floor, Three Exchange Square<br>8 Connaught Place<br>Central, Hong Kong<br><br>*As to Cayman Islands law*<br>Conyers Dill & Pearman<br>29th Floor, One Exchange Square<br>8 Connaught Place<br>Central, Hong Kong |
| **Auditor and reporting accountant** | Yongtuo Fuson CPA Limited<br>Unit 1020, 10th Floor, Tower B<br>New Mandarin Plaza<br>14 Science Museum Road<br>Tsim Sha Tsui East<br>Kowloon, Hong Kong |

| | |
|---|---|
| **Underwriter** | Yuzhou Financial Holdings Limited<br>Unit 5805, 58th Floor<br>The Center<br>99 Queen's Road Central<br>Central, Hong Kong |
| **Hong Kong Branch share registrar and transfer office** | Tricor Investor Services Limited<br>Level 54,<br>Hopewell Centre<br>183 Queen's Road East, Hong Kong |
| **Principal bankers** | DBS Bank (Hong Kong) Limited<br>G/F, The Center<br>99 Queen's Road Central<br>Central, Hong Kong |
| | DBS Bank Limited<br>12 Marina<br>Boulevard<br>Marina Bay Financial Centre Tower 3<br>Singapore 018982 |
| | HSBC<br>1 Queen's Road Central<br>Hong Kong |
| | HSBC<br>21 Collyer Quay<br>#06-01 HSBC Building<br>Singapore 049320 |
| | Hang Seng Bank Limited<br>83 Des Voeux Road Central<br>Central, Hong Kong |
| | Industrial and Commercial Bank of China (Asia) Limited<br>G/F, 122-126<br>Queen's Road Central<br>Central, Hong Kong |
| **Stock code** | 8112 |

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|---|---|
| **Website** | www.cs8112.com |
| **Financial adviser to the Company** | Luk Fook Capital (HK) Limited<br>Units 2201-2207 & 2213-2214, 22nd Floor<br>Cosco Tower<br>183 Queen's Road Central<br>Hong Kong |
| **Independent financial adviser to the Independent Board Committee and the Independent Shareholders** | Giraffe Capital Limited<br>3rd Floor, 8 Wyndham Street<br>Central, Hong Kong |

## 14. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

### (a) Name and address of Directors and Senior Management

***Executive Directors***

| | |
|---|---|
| Mr. Gao Ran | Room 802, 8th Floor, Lee Garden Five,<br>18 Hysan Avenue, Causeway Bay, Hong Kong |
| Mr. An Xilei | Room 802, 8th Floor, Lee Garden Five,<br>18 Hysan Avenue, Causeway Bay, Hong Kong |
| Mr. Wong Hong Gay Patrick Jonathan | 6th Floor, 603, Citicorp Centre,<br>18 Whitfield Road, North Point, Hong Kong |
| Mr. Mock Wai Yin | Room 802, 8th Floor, Lee Garden Five,<br>18 Hysan Avenue, Causeway Bay, Hong Kong |
| Mr. Wang Jun | Room 802, 8th Floor, Lee Garden Five,<br>18 Hysan Avenue, Causeway Bay, Hong Kong |

***Independent non-executive Directors***

| | |
|---|---|
| Mr. Chan Chi Keung Alan | Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong |
| Mr. Lee Chi Hwa Joshua | Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong |
| Ms. Lau Mei Ying | Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong |

***Senior Management***

| | |
|---|---|
| Mr. Lai Chung Cheong | Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong |
| Mr. Li Chi On Andy | Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong |
| Mr. Wong Sze Ip, Nick | Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong |

**(b) Profiles of Directors and Senior Management**

***Executive Directors***

**Mr. GAO Ran**, aged 29, was appointed as an executive Director, the chairman of the Board and the chairman of the executive committee of the Company on 4 December 2020. He is currently the chairman of Shenzhen Global Fund Management Co., Ltd.*(深圳市全球基金管理有限公司) and an executive director and vice chairman of Xinyang Maojian Group Limited (stock code: 362), a company listed on the Main Board of the Stock Exchange. He was a non-executive director of Lapco Holdings Limited (stock code: 8472), a company listed on GEM of the Stock Exchange, from 22 July 2020 to 20 November 2020. Mr. Gao has extensive experience in fund investment and asset management, corporate strategy, corporate finance and business development and management. From June 2013 to September 2015, he was the chairman of Changchun Houde Real Estate Brokerage Co., Ltd.*(長春市厚德房地產經紀有限公司). He also served as the chairman of Changchun Haizhong Real Estate Brokerage Co., Ltd.*(長春市海眾房地產經紀有限公司) from October 2011 to May 2012. Mr. Gao was recognised as "Top Ten Leaders in China's Financial Industry"*(中國金融行業十佳領軍人物), "Outstanding Leader of Jilin Province"*(吉林省傑出領軍人物) and "Top Ten Outstanding Youth in Jilin Province"*(吉林省十大傑出青年) and "First Person in Venture Capital after 90s"* (90後風險投資第一人) by Beijing General Evaluation and Certification Center*(北京鑒優品質量認證中心) and Beijing Evaluation and Assessment Center for Enterprise Creditability*(北京審信核信企業信用評估中心), in 2017, 2018 and 2019 respectively. Mr. Gao is pursuing an executive master of business administration degree with The PBC School of Finance of Tsinghua University(清華大學五道口金融學院).

**Mr. AN Xilei**, aged 41, was appointed as an executive Director on 1 December 2016. At present, he is also the deputy chairman of the Board, a member of the executive committee, the chairman of the corporate governance committee, and an authorised representative (pursuant to Rule 5.24 of the GEM Listing Rules) of the Company. Mr. An is currently the chairman and chief executive officer of Zhengzhou Jinyicheng Investment Limited*(鄭州金易誠投資有限公司) in the PRC. Mr. An has extensive experience in business investments in various fields including real estate, financial services and internet industries over a span of different markets like Hong Kong and the US. Mr. An is primarily responsible for the overall strategic planning for business development of the Group.

**Mr. WONG Hong Gay Patrick Jonathan**, aged 56, co-founded Focus Media Network Limited (re-named as Cornerstone Financial Holdings Limited in January 2018) (the "**Company**") in April 2004 and led its listing on the Stock Exchange in July 2011. He was appointed a Director on 24 March 2011 and designated as an executive Director on 9 June 2011. At listing he assumed the roles of the chairman of the Board and a member of the remuneration committee of the Company, and subsequently the chairman of each of the nomination committee and the corporate governance committee of the Company until 1 December 2016. Mr. Wong currently serves as the chief executive officer of the Company and has been chief executive officer of the Company since its founding. He is also a director of certain subsidiaries of the Company. Apart from charting the Company's vision and mission and meeting the Company's overall business objectives, Mr. Wong is also responsible for key client/partnership development and new business initiatives and overall management of advertising sales and business development functions. Mr. Wong is an entrepreneur with over three decades of start-up and operational experience with a wide range of global and regional media and entertainment, broadcasting, mobile and satellite telecommunications, internet and digital out-of-home ventures. After completing six years of military service in Singapore, Mr. Wong started his career in publishing and in 1991 joined the founding team that launched Star TV. He went on to establish the regional satellite broadcaster's regional office in Singapore and served as its regional director, advertising sales for the Southeast Asia region. A year after the network was acquired by News Corporation, Mr. Wong was invited to rejoin the founders of Star TV to work on the launch of Pacific Century Group's Corporate Access where he served as the satellite-based corporate communications services provider's vice president for sales and advertising & promotions. When Corporate Access was acquired by Hutchison Whampoa, Mr. Wong was transferred to Hutchison Telecommunications where he served as its vice president, business development for the Asia region. While at Hutchison Telecommunications, Mr. Wong developed the desire to join the race to provide the world's first global mobile personal communications service or GMPCS. That led to his joining of Silicon Valley-based Local Space & Communications' Globalstar where he subsequently established the constellation's regional office in Hong Kong and served as its regional director for the Southeast Asia region. In 1999, Mr. Wong embraced the Asian Internet boom and became the founding managing director for 24/7 Media Asia, one of the three founding business units of Chinadotcom. At 24/7 Media Asia, Mr. Wong built a pan-Asian interactive advertising sales network that stretches across nine Asian countries within its first year of operations. Shortly afterwards, Mr. Wong founded the AdSociety Group, a venture that eventually became a part of the PCCW Group. As founder and group CEO, Mr. Wong established offices across nine major cities and formed joint ventures with Tokyu Agency Inc. (a member of Tokyu Corporation), LG Advertising Inc. (a member of LG Group) and the People's Daily Group, in Japan, South Korea and China, respectively, and worked with numerous sales and technology partners in the United States and Europe to establish a global advertising sales network and provided integrated online, broadband and mobile advertising, marketing and sales services to a diverse spectrum of premium online media properties. Following the burst of the technology bubble and the events of September 11, the Internet and mobile advertising venture was divested by PCCW on 3 October 2001. Soon afterwards, Mr. Wong was invited to rejoin the founders of PCCW to serve as the CEO of NOW Satellite TV.

**Mr. MOCK Wai Yin**, aged 48, was appointed as an executive Director on 27 November 2015. Currently, he is also an authorised representative (pursuant to Rule 5.24 of the GEM Listing Rules), the compliance officer (pursuant to Rule 5.19 of the GEM Listing Rules) and a member of the corporate governance committee of the Company. He is also a director of certain subsidiaries of the Company. Mr. Mock holds a Master of Philosophy degree in Biochemistry from The Chinese University of Hong Kong and a Master of Science degree in Hazard Analysis and Critical Control Point from University of Salford. He also holds a Postgraduate Diploma in Professional Accounting. Mr. Mock has over 15 years of experience in research analysis and over three years of world-wide experience in natural resources, project investment and property development as well as project valuation and budget management. He was an executive director of Boill Healthcare Holdings Limited (stock code: 1246), a company listed on the Main Board of the Stock Exchange, from July 2015 to December 2018, and of South East Group Limited (now known as DIT Group Limited, stock code: 726), a company listed on the Main Board of the Stock Exchange, from December 2013 to February 2015.

**Mr. WANG Jun**, aged 53, was appointed as an executive Director on 19 July 2016. He is presently a member of the executive committee of the Company. Mr. Wang has about 30 years of experience in business management in a wide range of industrial and commercial fields including textile, real estate and property, mining, business and financial investments. He is also dedicated to social and community welfare services and was appointed as an executive vice president of the Guangdong Province Anhui Chamber of Commerce in 2015.

***Independent non-executive Directors***

**Mr. CHAN Chi Keung Alan**, aged 56, was appointed an independent non-executive Director on 9 June 2011. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Chan is a qualified solicitor admitted in England & Wales in October 1991 and in Hong Kong in February 1992 and has practiced corporate and commercial law for more than two decades. He is presently the senior general counsel of Imperial Pacific International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1076), which owns an exclusive casino gaming license in Saipan, Commonwealth of Northern Mariana Islands. Mr. Chan is an independent non-executive director, and a member of each of the audit committee and nomination committee of Changyou Alliance Group Limited (formerly known as Fortunet e-Commerce Group Limited, a company listed on the Main Board of the Stock Exchange) (stock code: 1039). He was an independent non-executive director of L & A International Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8195), from September 2014 to October 2015; and was also an independent non-executive director, the chairman of the remuneration committee and a member of the audit committee of BOSA Technology Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8140) from 19 June 2018 to 29 February 2020. Previously, Mr. Chan was the Vice President, Legal of NagaCorp Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3918) which owns, manages and operates the largest integrated gaming, leisure and entertainment hotel complex in the Kingdom of Cambodia, as well as the Head of Legal Services for the Hong Kong Jockey Club. Mr. Chan started his career in 1992 in Hong Kong as a corporate finance lawyer with Stephenson Harwood & Lo. He later acted as the senior assistant director, legal department, of the Land Development Corporation (now known as Urban Renewal Authority). Mr. Chan was the legal counsel for one of the leading US information technology companies, Sun Microsystems for Greater China, the Asia Pacific legal director for St. Jude Medical, and the vice president of Legal Affairs at Celestial Pictures Limited, a subsidiary of Astro All Asia Networks Plc., a Malaysian company that carries out business relating to cross media, in particular, direct-to-home television services, commercial radio and television programming. Celestial Pictures Limited is a commercial media company that owns and distributes the largest film library in Asia, including the Shaw Brothers film library, with worldwide entertainment assets in the motion picture, television, and new media industries. Mr. Chan obtained a Bachelor of Science degree in Civil Engineering from the Aston University of Birmingham, England in July 1986 and a LLB in China Law from the China University of Political Science and Law, Beijing, PRC in June 1999. He is a registered civil celebrant in Hong Kong and served as a board director (and former chairman) of Theatre Space Foundation Limited, a theatrical drama performance charitable institution; an Honorary Legal Advisor of each of Community Careage Foundation Limited, a charitable organisation with objectives to relief sickness, physical and mental disability of poor elderlies in the community; and Tong Sam Charity Association with objectives to build schools and provide other educational support to children in need. Mr. Chan is a Council Member of the China Overseas Friendship Association, Beijing, China; legal advisor of the Hong Kong Chiu Chow Community Organizations Limited and the Overseas Teo Chew Entrepreneurs Association Limited.

**Mr. LEE Chi Hwa Joshua**, aged 48, was appointed as an independent non-executive Director on 27 November 2015. He is presently the chairman of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and financing. Mr. Lee currently serves as an independent non-executive director of Aceso Life Science Group Limited (formerly known as Hao Tian Development Group Limited, stock code: 474), Hao Tian International Construction Investment Group Limited (stock code: 1341), Fujian Nuoqi Co., Ltd.) (stock code: 1353, listing status cancelled on 8 February 2021); and China Fortune Investments (Holding) Limited (stock code: 8116) and Farnova Group Holdings Limited (formerly known as Code Agriculture (Holdings) Limited, stock code: 8153). He was an executive director of Link-Asia International Co. Ltd. (now known as Link-Asia International MedTech Group Limited, stock code: 1143) from November 2015 to December 2019, an independent non-executive director of South East Group Limited (now known as DIT Group Limited, stock code: 726) from December 2013 to February 2015; an independent non-executive director of King Stone Energy Group Limited (stock code: 663) from January 2012 to April 2013; and an independent non-executive director of Jin Bao Bao Holdings Limited (now known as Teamway International Group Holdings Limited, stock code: 1239) from March 2015 to August 2017.

**Ms. LAU Mei Ying**, aged 38, was appointed as an independent non-executive Director on 27 November 2015. Currently, she is also a member of each of the audit committee, the nomination committee, the remuneration committee and the corporate governance committee of the Company. Ms. Lau graduated from The Chinese University of Hong Kong with a bachelor degree of Social Science in Economics. Ms. Lau has extensive experiences in the financial market and insurance underwriting. She has been a fellow member of Life Management Institute issued by Life Office Management Association since November 2008. Ms. Lau is presently an executive director of PacRay International Holdings Limited (stock code: 1010). She was an independent non-executive director of Boill Healthcare Holdings Limited (stock code: 1246) from 15 July 2015 to 17 July 2017.

***Senior Management***

**Mr. Lai Chung Cheong**, a Responsible Officer, joined the Group in November 2020 as an executive director of each of CSL and Cornerstone Asset Management Limited, an indirect subsidiary owned as to 91.19% by the Company, and assumed the role as the head of financial services business division of the Group. Mr. Lai has extensive experience in the financial industry. Immediately prior to joining the Group, he was the Senior Vice President of Asia Consultants International Limited, and was responsible for initiating and supervising fund-raising projects. Before that, Mr. Lai was the Head of Sales and Responsible Officer of Type 3 regulated activity at Rakuten Securities HK Limited. Earlier on, he held senior positions and as Responsible Officer at various financial institutions namely ADS Securities HK Limited and Saxo Capital Markets HK Limited.

**Mr. Li Chi On Andy**, a Responsible Officer, joined the Group in November 2016 as Director of Equities Business of CSL and is in charge of the business department of the company. Mr. Li has 15 years of experience in securities brokerage business of which over 10 years in supervising and managerial functions as well as about 10 years margin financing experience. In November 2003, he was formally accredited as a responsible officer when he was with Berich Brokerage Limited ("**Berich**"), where his main responsibilities included handling and monitoring client and sales orders and ensuring all dealing transactions were being completed in proper order. In addition, he had to implement the credit control procedures to make sure all cash and margin clients were following the company policies. Prior to joining Berich, he had been a dealing manager and back office management of Mayfair Securities Limited that involving dealing control, and margin financing.

**Mr. Wong Sze Ip Nick**, joined CSL as Responsible Officer in May 2017, and is mainly responsible for business development of CSL. Prior to joining CSL, Mr. Wong had extensive experience in margin financing, in particular, during his more than seven years employment with Huarong International Securities Limited ("**Huarong**") as its responsible officer, where his main duties were responsible for managing daily securities dealing operation and exploring securities related business opportunities, ensuring the operation procedures adhering to internal policies and regulatory guidelines, as well as involving in margin financing business. Before joining Huarong, he worked for two years at CASH Financial Services Group as dealer. Mr. Wong has been a holder of the SFC's RA1 (dealing in securities), RA2 (dealing in futures contracts) and RA9 (asset management) licenses.

* *The English name of the PRC entity is for information purpose only. In case of any inconsistency, the Chinese name shall prevail*

## 15. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

## 16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company at Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the EGM:

(a) the memorandum of association of the Company;

(b) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the annual reports of the Company for the financial years ended 31 December 2017, 2018 and 2019;

(d) the first quarterly report of the Company for the three months ended 31 March 2020;

(e) the interim report of the Company for the six months ended 30 June 2020;

(f) the third quarterly report of the Company for the nine months ended 30 September 2020;

(g) the letter from the Board, the text of which is set out on pages 14 to 39 of this circular;

(h) the letter from the Independent Board Committee, the text of which is set out on pages 40 to 41 of this circular;

(i) the letter from Giraffe Capital, the text of which is set out on pages 42 to 85 of this circular;

(j) the report from Yongtuo Fuson CPA Limited in respect of the unaudited pro forma financial information of the Group, the text of which as set out in appendix II of this circular;

(k) the written consents referred to in the paragraph headed "Qualifications and Consents of Experts" in this appendix;

(l) the service contracts and letters of appointment referred to in the paragraph headed "Service Contracts" in this appendix; and

(m) this circular.

基 石 金 融 控 股 有 限 公 司
CORNERSTONE FINANCIAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8112)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of Cornerstone Financial Holdings Limited (the "**Company**") will be held at Room 802, 8th Floor, Lee Garden Five, 18 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 22 March 2021 at 11:00 a.m. for the following purposes:

### ORDINARY RESOLUTION

"**THAT** conditional upon: (i) 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 "**Shareholder(s)**") 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 229,418,448 ordinary shares (the "**Rights Share(s)**") at the subscription price of HK$0.142 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 four (4) Rights Shares for every one (1) share of the Company then held on the Record Date at the subscription price of HK$0.142 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 27 January 2021 and entered into among the Company and Yuzhou Financial Holdings 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;

(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
**Cornerstone Financial Holdings Limited**
**Gao Ran**
*Chairman*

Hong Kong, 1 March 2021

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

*Principal place of business in Hong Kong:*
Room 802, 8th Floor,
Lee Garden Five,
18 Hysan Avenue,
Causeway Bay,
Hong Kong

*Notes:*

i. A member entitled to attend and vote at the meeting convened is entitled to appoint another person(s) as his proxy to attend and vote in his stead. A proxy need not be a member of the Company.

ii. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the meeting or any adjournment thereof should he so wish.

iii. The register of members of the Company will be closed from 16 March 2021 to 22 March 2021 (both days inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 15 March 2021.

iv. 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 is in effect any time after 8:00 a.m. on the date of the extraordinary general meeting, the meeting will be postponed. The Company will post an announcement to notify Shareholders of the date, time and place of the rescheduled meeting on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.cs8112.com.

v. Taking into account of the recent development of the epidemic caused by Coronavirus Disease ("**COVID-19**"), the Company will implement the following prevention and control measures at the meeting against the epidemic to protect the Shareholders from the risk of infection:

    (a) Temperature measurement will be conducted for every Shareholder or proxy before allowing them to enter the building. Any person with fever will be prohibited from entering into the venue;

    (b) Every Shareholder or proxy is required to wear surgical facial mask throughout the meeting;

    (c) No refreshment will be served; and

    (d) There will be alternative seating so that social distancing seating plans will be implemented.

Furthermore, the Company wishes to advise the Shareholders, particularly the Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the meeting as a proxy to vote on the resolutions, instead of attending the meeting in person.

*As at the date of this notice, the Board comprises Mr. Gao Ran (Chairman), Mr. An Xilei (Deputy Chairman), Mr. Wong Hong Gay Patrick Jonathan, Mr. Mock Wai Yin and Mr. Wang Jun as executive Directors; and Mr. Chan Chi Keung Alan, Mr. Lee Chi Hwa Joshua and Ms. Lau Mei Ying as independent non-executive Directors.*

*This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited 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 "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting. This notice will also be posted on the Company's website at www.cs8112.com.*