

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in Capital Finance Holdings Limited (the "Company"), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**Capital Finance Holdings Limited**  
**首都金融控股有限公司**

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*  
**(Stock Code: 8239)**

**PROPOSED RIGHTS ISSUE ON THE BASIS OF  
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE  
HELD ON RECORD DATE ON A NON-UNDERWRITTEN BASIS  
AND  
NOTICE OF SGM**

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



**Giraffe Capital Limited**

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

It should be noted that the Shares will be dealt in on an ex-rights basis from Thursday, 28 January 2021. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 11 February 2021 to Monday, 22 February 2021 (both days inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Thursday, 11 February 2021 to Monday, 22 February 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 SGM to be held at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, at 11:00 a.m. on Tuesday, 26 January 2021 is set out on pages SGM-1 to SGM-3 of this circular. A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM (i.e. Sunday, 24 January 2021 at 11:00 a.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire and in such case, the proxy form shall be deemed to be revoked.

**PRECAUTIONARY MEASURES FOR THE SGM**

In view of an ongoing pandemic of coronavirus disease 2019 (COVID-19) and recent requirements for prevention and control of its spread by the HKSAR Government, the Company will implement the following prevention and control measures at the SGM against the COVID-19 pandemic to protect the Shareholders from the risk of infection:

- (i) every participant (including Shareholders or their proxies) in the SGM shall be subject to compulsory body temperature check at the entrance of the meeting venue and anyone with a body temperature higher than 37.3 degree Celsius will not be given access to the meeting venue;
- (ii) all participants (including Shareholders or their proxies) in the SGM are required to wear surgical face masks at all time during their attendance of the SGM; and
- (iii) no refreshment will be served, and there will be no corporate gifts.

Any person who does not comply with the precautionary measures or is subject to any HKSAR Government prescribed quarantine may be denied entry into the SGM venue. Furthermore, the Company wishes to advise the Shareholders that they may appoint any person or the chairman of the SGM as a proxy to vote on the relevant resolutions, instead of attending the SGM in person.

In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of the COVID-19 pandemic, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

7 January 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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## EXPECTED TIMETABLE

*The expected timetable for the Rights Issue set out below is for indicative purposes only and it has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled. The expected timetable is subject to change, and any changes will be announced in separate announcement(s) by the Company as and when appropriate.*

**2021**

Latest time for lodging transfers of the Shares to qualify for attendance and voting at the SGM .....	4:30 p.m., on Wednesday, 20 January
Register of members of the Company closes (both days inclusive) .....	Thursday, 21 January to Tuesday, 26 January
Latest time for lodging proxy forms for the SGM .....	11:00 a.m., Sunday, 24 January
Record date for attendance and voting at the SGM .....	11:00 a.m., Tuesday, 26 January
Expected date of the SGM to approve the Rights Issue .....	Tuesday, 26 January
<b>Announcement of the poll result of the SGM .....</b>	<b>Tuesday, 26 January</b>
Register of members of the Company re-opens .....	Wednesday, 27 January
Last day of dealings in Shares on a cum-rights basis .....	Wednesday, 27 January
First day of dealings in the Shares on an ex-rights basis .....	Thursday, 28 January
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue .....	4:30 p.m., on Friday, 29 January
Register of members of the Company closes (both days inclusive) .....	Monday, 1 February to Monday, 8 February
Record Date for determining entitlements to the Rights Issue .....	Monday, 8 February
Register of members of the Company re-opens .....	Tuesday, 9 February
Despatch of Prospectus Documents (in the case of Non-Qualifying Shareholders, the Prospectus only) .....	Tuesday, 9 February
First day of dealing in nil-paid Rights Shares .....	9:00 a.m., on Thursday, 11 February

## EXPECTED TIMETABLE

2021

Latest time for splitting of the PAL ..... 4:30 p.m., on  
Wednesday, 17 February

Last day of dealing in nil-paid Rights Shares ..... 4:00 p.m., on  
Monday, 22 February

**Latest Time for Acceptance of and payment  
for the Rights Shares** ..... Thursday, 25 February

Announcement of the number of the Unsubscribed Rights Shares  
and the NQS Unsold Rights Shares subject to  
the Compensatory Arrangements ..... Thursday, 4 March

Commencement of placing of the Unsubscribed Rights Shares  
and the NQS Unsold Rights Shares by the Placing Agent ..... Friday, 5 March

Latest time for placing of the Unsubscribed Rights Shares  
and the NQS Unsold Rights Shares by the Placing Agent ..... Friday, 12 March

Latest Time for Termination for the Rights Issue to  
become unconditional ..... Friday, 12 March

**Announcement of results of the Rights Issue (including  
results of the placing of the Unsubscribed Rights Shares  
and the NQS Unsold Rights Shares by the Placing Agent  
and the Net Gain per Unsubscribed Rights Share and  
the NQS Unsold Rights Share under the  
Compensatory Arrangements)** ..... Monday, 15 March

Despatch of certificates for fully-paid Rights Shares ..... Tuesday, 16 March

Expected first day of dealings in fully-paid Rights Shares ..... Wednesday, 17 March

Payment of Net Gain to relevant No Action Shareholders  
(if any) or NQS (if any) ..... Thursday, 15 April

Dates or deadlines specified in expected timetable above or in other parts of this circular are indicative only and may be varied by the Company. Any changes to the expected timetable will be published or notified to the Shareholders and the Stock Exchange as and when appropriate.

*All times and dates stated in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied by the Company. Any changes to the expected timetable will be published or notified to Shareholders as and when appropriate.*

<b>EXPECTED TIMETABLE</b>
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**EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES**

The latest time for acceptance of and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning or “extreme conditions” caused by super typhoons:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Thursday, 25 February 2021. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Thursday, 25 February 2021. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m. If the latest time for acceptance of and payment for the Rights Shares does not take place on or before 4:00 p.m. on Thursday, 25 February 2021, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event.

## DEFINITIONS

*In this circular, the following expressions have the meanings set out below unless the context requires otherwise:*

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 3 December 2020 in relation to, among others, the Rights Issue
“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or Sunday or public holiday or a day on which a tropical cyclone warning signal no. 8 or above or “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended from time to time or Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended from time to time, as the case maybe
“Company”	Capital Finance Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on GEM
“Compensatory Arrangements”	the compensatory arrangements pursuant to Rule 10.31(1)(b) of the GEM Listing Rules as described in the paragraph headed “Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the Compensatory Arrangements”
“connected person”	has the meaning ascribed to it under the GEM Listing Rules

## DEFINITIONS

“controlling shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Convertible Bonds”	Convertible Bonds A and Convertible Bonds B
“Convertible Bonds A”	the unsecured convertible bonds due 2022, issued by the Company and having outstanding principal amount of HK\$288,349,000
“Convertible Bonds B”	the unsecured convertible bonds due 2023, issued by the Company and having outstanding principal amount of HK\$194,000,000
“Director(s)”	the director(s) of the Company
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all independent non-executive Directors established by the Board for the purpose of advising the Independent Shareholders as to the fairness and reasonableness of the Rights Issue
“Independent Financial Adviser” or “Giraffe Capital”	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, an independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee in respect of the terms of the Rights Issue and the transactions contemplated thereunder respectively



## DEFINITIONS

“Independent Shareholders”	Shareholders other than the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates
“Independent Third Party(ies)”	third party(ies) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, are independent of and not acting in concert or connected with the Company and its connected persons or any of their respective associates
“Irrevocable Undertaking (Li)”	the irrevocable and unconditional undertaking given by Ms. Li in favour of the Company, details of which is set out in the paragraph headed “Irrevocable undertakings” in the letter from the Board of this circular
“Irrevocable Undertaking (Zhang)”	the irrevocable and unconditional undertaking given by Mr. Zhang in favour of the Company, details of which is set out in the paragraph headed “Irrevocable undertakings” in the letter from the Board of this circular
“Irrevocable Undertakings”	together the Irrevocable Undertaking (Zhang) and the Irrevocable Undertaking (Li)
“Last Trading Day”	3 December 2020, being the last full trading day of the Shares on the Stock Exchange prior to the release of the Announcement
“Latest Lodging Time”	4:30 p.m. on 29 January 2021 or such other date as the Company may agree, being the latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue
“Latest Practicable Date”	5 January 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on 25 February 2021 or such later time or date as may be agreed by the Company, being the latest time for acceptance of, and payment for, the Rights Shares as described in the Prospectus Documents

## DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on the first Business Day after the Latest Time for Acceptance or such later time or date as may be agreed by the Company, being the latest time to terminate the Rights Issue
“Mr. Zhang”	Mr. Zhang Wei, the Chairman, an executive Director and the Chief Executive Officer of the Company
“Ms. Li”	Ms. Li Wei, the Vice Chairlady, an executive Director and the Deputy Chief Executive Officer of the Company
“Net Gain”	any premiums paid by the Placee(s) over the Subscription Price for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares placed by the Placing Agent under the Compensatory Arrangements after deduction of all reasonable expenses incurred by the Company and the Placing Agent
“No Action Shareholder(s)”	Qualifying Shareholders (excluding Mr. Zhang and Ms. Li) who do not subscribe for the Rights Shares (whether partially or fully) under the PAL(s) or their renounees, or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed (including the Non-Qualifying Shareholder in respect of NQS Unsold Rights Shares)
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, based on legal opinions provided by the Company’s legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Shareholders on account either of restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in that place
“NQS Unsold Rights Shares”	the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form that have not been sold by the Company
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong

## DEFINITIONS

“PAL(s)”	the renounceable provisional allotment letter(s) in respect of the Rights Issue proposed to be issued to the Qualifying Shareholders
“Placee(s)”	the placee(s) to be procured by the Placing Agent under the Placing Arrangement, who and whose ultimate beneficial owner(s) shall be the Independent Third Party(ies)
“Placing Agent”	KGI Asia Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, being the placing agent appointed by the Company for the Placing Arrangement
“Placing Agreement”	the conditional placing agreement dated 3 December 2020 entered into between the Company and the Placing Agent in relation to the placing of Unsubscribed Rights Shares and the NQS Unsold Rights Shares
“Placing Arrangement”	the placing arrangement as contemplated under the Placing Agreement
“Posting Date”	9 February 2021, or such other day as may be agreed by the Company for the despatch of the Prospectus Documents
“PRC”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus to be despatched to the Shareholders by the Company containing details of the proposed Rights Issue
“Prospectus Documents”	the Prospectus and the PAL
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholders
“Record Date”	8 February 2021 or such other date as may be agreed by the Company in writing for the determination of the entitlements under the Rights Issue

## DEFINITIONS

“Registrar”	the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rights Issue”	the proposed issue by way of rights on the basis of two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Prospectus Documents
“Rights Share(s)”	up to 562,552,822 Shares to be issued and allotted under the proposed Rights Issue (assuming no change in the number of Shares in issue on or before the Record Date)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Rights Issue
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.135 per Rights Share
“Substantial Shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“Unsubscribed Rights Shares”	the Rights Shares that are not subscribed by the Qualifying Shareholders or holders of nil-paid rights
“%”	Percentage

*For the purpose of this circular, unless otherwise specified or the context requires others, “\*” denotes an English translation of a Chinese name and is for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*



**Capital Finance Holdings Limited**  
**首都金融控股有限公司**

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8239)**

*Executive Directors:*

Mr. Zhang Wei

*(Chairman and Chief Executive Officer)*

Ms. Li Wei

*(Vice Chairlady and Deputy Chief Executive Officer)*

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Non-executive Director:*

Mr. Zang Wei

*Head office and principal place of  
business in Hong Kong:*

Unit 2613A, 26/F.

Mira Place Tower A

132 Nathan Road

Tsimshatsui

Kowloon, Hong Kong

*Independent non-executive Directors:*

Mr. Chen Yihua

Mr. Du Hui

Dr. Wong Wing Kuen Albert

7 January 2021

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF  
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE  
HELD ON RECORD DATE ON A NON-UNDERWRITTEN BASIS  
AND  
NOTICE OF SGM**

**INTRODUCTION**

Reference is made to the Announcement of the Company dated 3 December 2020 whereby the Board announced that the Company proposed to conduct the Rights Issue.

The purpose of this circular is to provide you with further details of the Rights Issue and the notice of SGM.

## LETTER FROM THE BOARD

### PROPOSED RIGHTS ISSUE

The Company proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.135 per Rights Share, to raise up to approximately HK\$75.9 million by issuing up to 562,552,822 Rights Shares to the Qualifying Shareholders (assuming no change in the number of Shares in issue on or before the Record Date).

#### Issue statistics

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) existing Share held on the Record Date
Subscription Price	:	HK\$0.135 per Rights Share
Number of Shares in issue at the Latest Practicable Date	:	281,276,411 Shares
Number of Rights Shares	:	up to 562,552,822 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	up to HK\$28,127,641.10 (assuming no change in the number of Shares in issue on or before the Record Date)
Number of Shares as enlarged by the allotment and issue of the Rights Shares	:	up to 843,829,233 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
Number of Rights Shares undertaken to be taken up	:	Mr. Zhang has undertaken to take up an aggregate of 45,505,280 Rights Shares (representing approximately 8.09% of the total Rights Shares provisionally allotted by the Company) pursuant to the Irrevocable Undertaking (Zhang)

Ms. Li has undertaken to take up an aggregate of 29,175,200 Rights Shares (representing approximately 5.19% of the total Rights Shares provisionally allotted by the Company) pursuant to the Irrevocable Undertaking (Li)

## LETTER FROM THE BOARD

Maximum funds raised : up to approximately HK\$75.9 million  
before expenses (assuming all the Rights Shares will be taken up  
and no change in the number of Shares in issue  
until the Record Date)

As at the Latest Practicable Date, save for the convertible bonds, the Company had no outstanding derivatives, options, warrants, convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares.

Assuming no Shares are issued or repurchased on or before the Record Date, the aggregate 562,552,822 Rights Shares to be issued pursuant to the terms of the proposed Rights Issue represents (i) 200% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 66.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares (assuming all the Rights Shares will be taken up).

### **Non-underwritten basis**

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders (excluding those Rights Shares to be provisionally allotted to Mr. Zhang and Ms. Li respectively for which subscription of Rights Shares will be subject to the Irrevocable Undertakings as set out in the paragraph headed “Irrevocable Undertakings” in this circular) or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent places under the Compensatory Arrangements. Any Unsubscribed Rights Shares or NQS Unsold Rights Shares remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

As the Rights Issue will proceed on a non-underwritten basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms such that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance with the note to Rule 10.26(2) of the GEM Listing Rules.

## LETTER FROM THE BOARD

### **Irrevocable Undertakings**

As at the Latest Practicable Date, Mr. Zhang, the Chairman and Chief Executive Officer of the Company, is beneficially interested in an aggregate of 22,752,640 Shares, representing approximately 8.09% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Irrevocable Undertaking (Zhang), Mr. Zhang has given an irrevocable undertaking in favour of the Company, that (i) he will not dispose of any of the 22,752,640 Shares comprising the current shareholding in the Company owned by himself, and such Shares will remain beneficially owned by him up to and including the Record Date; and (ii) he will lodge his acceptance of the 45,505,280 Rights Shares, which will be the number of Rights Shares provisionally allotted to him nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

As at the Latest Practicable Date, Ms. Li, the Vice Chairlady and Deputy Chief Executive Officer of the Company, is beneficially interested in an aggregate of 14,587,600 Shares, representing approximately 5.19% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Irrevocable Undertaking (Li), Ms. Li has given an irrevocable undertaking in favour of the Company, that (i) she will not dispose of any of the 14,587,600 Shares comprising the current shareholding in the Company owned by herself, and such Shares will remain beneficially owned by her up to and including the Record Date; and (ii) she will lodge her acceptance of the 29,175,200 Rights Shares, which will be the number of Rights Shares provisionally allotted to her nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

Based on the shareholdings of each of Mr. Zhang and Ms. Li respectively, no general offer obligation will be triggered by the Irrevocable Undertakings in accordance with the note to Rule 10.26(2) of the GEM Listing Rules and no whitewash waiver will be applied.

As at the Latest Practicable Date, save as disclosed above, the Board has not received any information from any Substantial Shareholders of their intention to take up the securities provisionally allotted or offered to them or to be provisionally allotted or offered to them.

### **Subscription Price**

The Subscription Price is HK\$0.135 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a premium of approximately 4.65% over the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 4.65% over the average of the closing prices of HK\$0.129 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;



## LETTER FROM THE BOARD

- (iii) a premium of approximately 1.50% over the theoretical ex-rights price of HK\$0.133 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 0.74% to the closing price of HK\$0.136 per Share as at the Latest Practicable Date; and
- (v) a premium of approximately 11.11% over the net asset value per Share of approximately HK\$0.1215 per Share (based on the unaudited consolidated net asset value of the Group as at 30 June 2020 and 281,276,411 Shares in issue).

The Subscription Price was determined with reference to, among others, the market price of the Shares under the prevailing market conditions and the amount of funds which the Company intends to raise under the Rights Issue.

The Directors (including the independent non-executive Directors) consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the proposed Rights Issue, including the Subscription Price, to be fair and reasonable and in the best 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 proposed Rights Issue are able to sell the nil-paid rights in the market; (ii) the proposed 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; and (iii) the proceeds from the Rights Issue can fulfill the funding needs of the Group.

### **Basis of provisional allotment**

The basis of the provisional allotment shall be two (2) Rights Shares for every one (1) existing Share held by a Qualifying Shareholder 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 completing a PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar by the Latest Time for Acceptance.

### **Qualifying Shareholders**

The Company will send the Prospectus Documents to the Qualifying Shareholders only. For the Non-Qualifying Shareholders, the Company will send copies of the Prospectus to them for their information only, but no PAL will be sent to the Non-Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company and not be a Non-Qualifying Shareholder on the Record Date.

## LETTER FROM THE BOARD

Shareholders whose Shares are held by nominee companies (or which are deposited in CCASS) should note that the Board will regard a nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies (or which are deposited in CCASS) are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

In order to be registered as members of the Company on the Record Date, a Shareholder must lodge the relevant transfer(s) of Share(s) (with the relevant share certificates) with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 29 January 2021.

The last day of dealing in the Shares on cum-rights basis is Wednesday, 27 January 2021. The Shares will be dealt with on an ex-rights basis from Thursday, 28 January 2021.

**Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted.**

### **Rights of Overseas Shareholder(s) and Non-Qualifying Shareholder(s) (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.

In compliance with the necessary requirements of the GEM Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders (if any). If, based on legal opinions, 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 relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s), the Rights Issue will not be extended to such Overseas Shareholders.

As at the Latest Practicable Date, there are six (6) Overseas Shareholders with registered addresses in the PRC and the British Virgin Islands, who hold an aggregate of 77,800,800 Shares, representing approximately 27.66% of the issued share capital of the Company. In compliance with the necessary requirements of the GEM Listing Rules, the Company has made enquiries regarding the feasibility of extending the Rights Issue to such Overseas Shareholders. Based on the relevant legal advices, there is no legal or regulatory restriction under the applicable legislation of the PRC and/or the British Virgin Islands or requirement of any relevant regulatory body or stock exchange with respect to the Rights Issue. Accordingly, the Rights Issue will be extended to the Overseas Shareholder whose registered address is located in the PRC and the British Virgin Islands.

The basis for excluding the Non-Qualifying Shareholders(s), if any, from the Rights Issue will be set out in the Prospectus. The Company will send the Prospectus (without the PAL) to the Non-Qualifying Shareholders for their information only.

## LETTER FROM THE BOARD

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying 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, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold entitlement of Non-Qualifying Shareholders to the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders will be subject to the Compensatory Arrangements.

**The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Overseas Shareholders should note that they may or may not be entitled to the Rights Issue. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.**

### **Closure of register of members**

The register of members of the Company will be closed from Monday, 1 February 2021 to Monday, 8 February 2021 (both days inclusive) for determining the Shareholders' entitlements to the Rights Issue.

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

### **Fractional entitlements to the Rights Shares**

On the basis of the entitlement to subscribe two (2) Rights Shares for every one (1) existing Share, no fractional entitlements to the Rights Shares will arise from the Rights Issue.

### **Status of the Rights Shares**

The Rights Shares, when allotted and issued, shall 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 after the date of allotment of the Rights Shares in their fully-paid form.

### **Share certificates for the Rights Issue**

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Tuesday, 16 March 2021.

## LETTER FROM THE BOARD

### **Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the Compensatory Arrangements**

The Company will make arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent places for the benefit of the Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue.

The Company therefore appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the latest time for acceptance of the Rights Shares to be allotted and issued under the Rights Issue to independent places on a best effort basis. Any premium over the Subscription Price for those Rights Shares that is realised will be paid to the No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis.

The Placing Agent will on a best effort basis, procure, by not later than 6:00 p.m., on Friday, 12 March 2021, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares if a premium over the Subscription Price can be obtained. Any Unsubscribed Rights Shares and the NQS Unsold Rights Shares remain not placed after completion of the Placing Arrangement will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Net Gain (if any) will be paid (without interest) on a pro-rata basis (on the basis of all Unsubscribed Rights Shares and NQS Unsold Rights Shares) to the No Action Shareholders and Non-Qualifying Shareholders (but rounded down to the nearest cent) as set out below:

- A. where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL (unless that person is covered by (C) below); or
- B. where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS (unless that person is covered by (C) below); or
- C. if the Rights Issue is extended to the Overseas Shareholders and where an entitlement to the Rights Shares was not taken up by such Overseas Shareholders, to that Overseas Shareholders.

It is proposed that Net Gain to any of the No Action Shareholder(s) mentioned in "A" to "C" of HK\$100 or more will be paid to them in Hong Kong dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit. Shareholders are reminded that Net Gain may or may not be realised, and accordingly the No Action Shareholders and the Non-Qualifying Shareholders may or may not receive any Net Gain.

## LETTER FROM THE BOARD

### Placing Agreement for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares

Details of the Placing Agreement are summarised as follows:

Date: 3 December 2020 (after trading hours)

Issuer: The Company

Placing Agent: KGI Asia Limited was appointed as the Placing Agent to procure, on a best efforts basis, places to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares during the placing period.

The Placing Agent is a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Placing Agent and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

Placing Period: The period commencing from the next Business Day after the Latest Time for Acceptance and ending on 4:00 p.m. on the fifth Business Day after the Latest Time for Acceptance.

Commission and expenses: Subject to completion of the placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 3% of the amount which is equal to the Subscription Price multiplied by the number of Unsubscribed Rights Shares and the NQS Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.

Placing price of the Unsubscribed Rights Shares: The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price and the final price determination will be depended on the demand for and the market conditions of the Unsubscribed Rights Shares during the process of placement.

## LETTER FROM THE BOARD

- Placees: The Unsubscribed Rights Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be the Independent Third Party(ies).
- For the avoidance of doubt, no placee shall become a substantial shareholder of the Company.
- Ranking of Unsubscribed Rights Shares: Unsubscribed Rights Shares (when allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the existing Shares in issue as at the date of completion of the Rights Issue.
- Conditions precedent of the Placing Agreement: The obligations of the Placing Agent under the Placing Agreement are conditional upon the following conditions precedent being fulfilled:
- (i) the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Rights Shares and such listing and permission not subsequently being revoked;
  - (ii) none of the representations, warranties or undertakings contained in the Placing Agreement given by the Company being or having become untrue, inaccurate or misleading in any material respect at any time before the completion of the placing, and no factor or circumstance having arisen and nothing having been done or omitted to be done which would render any of such representations, warranties or undertakings untrue or inaccurate in any material respect if it was repeated as at the time of completion of the Placing;
  - (iii) the Placing Agreement not having been terminated in accordance with the provisions thereof; and
  - (iv) all necessary consents and approvals to be obtained on the part of the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained.

## LETTER FROM THE BOARD

In the event that the above condition precedent has not been fulfilled on or before the latest time for termination of the Placing Agreement, all rights, obligations and liabilities of the parties thereunder in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing (save for any antecedent breaches thereof).

The Placing Agent confirmed that it is independent of and not connected with the Company and its connected person and not a connected person of the Company. The engagement between the Company and the Placing Agent of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (including the commission payable) was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors consider that the terms of Placing Agreement for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (including the commission payable) are on normal commercial terms.

As explained above, the Rights Shares that are not accepted by the Qualifying Shareholders, together with the Rights Shares that the Non-Qualifying Shareholders are entitled to under the Rights Issue, will be placed by the Placing Agent to Independent Third Parties on a best effort basis for the benefits of the No Action Shareholders. If all or any of the Unsubscribed Rights Shares are successfully placed, any Net Gain over the Subscription Price will be distributed to the relevant No Action Shareholders. Any NQS Unsold Rights Shares and/or Unsubscribed Rights Shares that are not placed by the Placing Agent will not be issued by the Company.

As at the Latest Practicable Date, none of the sub-underwriters and/or Placees has been identified.

### **Application for listing of the Rights Shares**

The Company will apply to the Stock Exchange for the listing of, and the permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms. The nil-paid Rights Shares shall have the same board lot size as the Shares.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, 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 the commencement dates of the dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.



## LETTER FROM THE BOARD

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.

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

Shareholders are advised to consult their professional advisers if they are in 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 Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

The Company's debt securities is not listed or dealt in any stock exchange.

### **Stamp duty and other applicable fees**

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

### **Taxation**

Qualifying Shareholders are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for the Rights Shares, or about purchasing, holding or disposals of, or dealings in or exercising any rights in relation to the Shares or the Rights Shares, and similarly, the Non-Qualifying Shareholders (if any) as regards their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue under the laws of jurisdictions in which they are liable to taxation. It is emphasized that none of the Company, the Directors nor any other parties involved in the Rights Issue accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposal of, dealings in or exercising any rights in relation to the Shares or the Rights Shares.

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon the fulfillment of the following conditions:

- (i) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents each duly certified by the Directors (or by their agents duly authorised in writing) on or before Posting Date in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the GEM Listing Rules;



## LETTER FROM THE BOARD

- (ii) the posting of copies of the Prospectus Documents to the Qualifying Shareholders;
- (iii) the Stock Exchange agreeing to grant 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;
- (iv) any subscription or purchase of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Placing Agent and each of the subscribers or purchasers procured by the Placing Agent shall not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code upon completion of the Rights Issue;
- (v) compliance with and performance of all undertakings and obligations of Mr. Zhang and Ms. Li respectively under the Irrevocable Undertakings in all material respects; and
- (vi) obtaining the Independent Shareholders' approval by way of resolution at the SGM in accordance with the GEM Listing Rules.

The Company shall use its reasonable endeavours to procure the fulfillment of the conditions above (to the extent it is within its power to do so), and shall do all the things required to be done by it pursuant to the Prospectus Documents or otherwise reasonably necessary to give effect to the Rights Issue. If any of the conditions referred to above are not fulfilled at or before the Latest Time for Termination, the Rights Issue will not proceed.

As at the Latest Practicable Date, none of the conditions of the Rights Issue have been fulfilled.

**As the proposed Rights Issue is subject to the above conditions, it may or may not proceed. Shareholders and public investors are advised to exercise caution in dealing in the securities of the Company.**

## LETTER FROM THE BOARD

### WARNING OF THE RISKS OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Rights Issue is subject to the fulfillment of conditions including, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms. Please refer to the paragraph headed “Conditions of the Rights Issue” above.

Shareholders and potential investors of the Company should note that if the conditions to the Rights Issue are not fulfilled, the Rights Issue will not proceed. The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. Any dealings in the Shares from the date of the Announcement up to the date on which all the conditions of the Rights Issue are fulfilled, and any Shareholders dealing in the Rights Shares in nil-paid form will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholders or other persons contemplating any dealings in the Shares or Rights Shares in nil-paid form are recommended to consult their professional advisers.

### EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning or “extreme conditions” caused by super typhoons:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Thursday, 25 February 2021. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Thursday, 25 February 2021. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m. If the latest time for acceptance of and payment for the Rights Shares does not take place on or before 4:00 p.m. on Thursday, 25 February 2021, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event.

## LETTER FROM THE BOARD

### REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND INTENDED USE OF PROCEEDS

The Group is principally engaged in short-term financing services in the PRC and Hong Kong.

The net proceeds from the Rights Issue (after deducting the estimated expenses and assuming no change in the number of Shares in issue on or before the Record Date) are estimated to be not less than approximately HK\$8 million and not more than approximately HK\$72 million. The estimated net subscription price per Rights Share after deducting the related expenses of the Rights Issue is expected to be approximately HK\$0.13 per Rights Share.

In the scenario that all the Shareholders would subscribe for the Rights Shares and/or all the Unsubscribed Rights Shares would be taken up by the Placees, the Company intends to apply the net proceeds of approximately HK\$72 million from the proposed Rights Issue (i) as to up to approximately HK\$40.4 million, being approximately 56.11% of the net proceeds, towards the repayment of indebtedness of the Group, including the outstanding promissory note and the Convertible Bonds; (ii) up to approximately HK\$20 million, being approximately 27.78% of the net proceeds, towards establishment of new business on biotechnology side and business development of the Group in the PRC; and (iii) as to the remaining balance to support the ongoing working capital requirements of the Group.

In the scenario that no other shareholders would subscribe for the Rights Shares, approximately HK\$8 million will be raised from the proposed Rights Issue and the Company will apply the net proceeds from the proposed Rights Issue (i) as to approximately HK\$5.4 million towards the repayment of the Group's promissory note with interest rate of 8% per annum, since the promissory note and interest accrued thereon would be matured and due in early February 2021 and the Company is in discussion with the holder of the promissory note for an extension thereof; and (ii) as to the remaining balance (approximately HK\$2.6 million) to support the ongoing working capital requirements of the Group.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the net proceeds of the Rights Issue cannot be ascertained at this point. In the event that the Rights Issue is not fully subscribed, the actual amount of the net proceeds will in any event be first applied as if in the scenario that no other shareholders would subscribe for the Rights Share, that is approximately HK\$8 million out of the actual amount of net proceeds will be applied as to approximately HK\$5.4 million towards the repayment of the Group's promissory note and approximately HK\$2.6 million to support the ongoing working capital requirement of the Group and any remaining sum available will be applied towards repayment of convertible bonds payable to its holder and investment in the new business on a pro-rata basis proportional to the proposed allocation, and any balance of the remaining proceeds will be applied towards general working capital purposes, i.e. approximately 56.11% of the net proceeds for debts repayment, approximately 27.78% of the net proceeds for investment and balance of the remaining proceeds for working capital purposes, if any, respectively.

Based on the financial budget, the net proceeds are expected to be utilized by September 2021. The intended uses of proceeds set out above will be adjusted on a pro rata basis according to the actual amount of the net proceeds to be received from the Rights Issue.

## LETTER FROM THE BOARD

In respect of the net proceeds to be applied towards working capital requirements of the Group, it is expected that as to approximately HK\$9.5 million will be applied towards the rental, salaries and allowances and as to the remaining balances towards legal and professional expenses.

If the maximum number of Rights Shares to be allotted and issued under the Rights Issue are subscribed for and taken up in full, the net proceeds from the Rights Issue would satisfy the expected funding needs of the Company for the next 12 months, including the imminent funding needs of the Company for repayment of promissory note and settlement of interest expenses.

The Company intends to apply the new proceeds of up to approximately HK\$20 million on establishment of new business on biotechnology side. In view of (i) the rapid growth of the nicotine manufacturing industry in the PRC; and (ii) the wide application of nicotine worldwide, the Company is currently approaching for potential business opportunities in investment of nicotine manufacturing industry.

If the Company resolves to set up its own manufacturing plant, the Company would seek for suitable candidates with relevant experience and qualification in nicotine manufacturing industry to assist in the management, production and daily operation. In this case, the Company would apply the proceeds of approximately HK\$20 million on (i) setting up their own manufacturing plant; (ii) acquisition of machinery and equipment; (iii) purchase of raw materials; (iv) hiring personnel including technicians and manufacturing workers in relevant industry; and (v) research and development.

If the Company proceeds with acquiring or investing in potential targets, in selecting these targets, the Company mainly assesses (i) the business strategies of the target companies, such as target customers, target market and business development plan; (ii) the background and track record of the target companies and/or their management and expertise; and (iii) the anticipated profitability of the target.

The Company is in the process of identifying potential targets and business opportunities in respect of the new business on biotechnology side as at the Latest Practicable Date. No binding agreements, arrangements or documents have been entered into by the Group in respect of the new business on biotechnology side as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company has outstanding promissory note and Convertible Bonds with principal amount of approximately HK\$5 million and HK\$482 million, respectively.

The Group had cash and cash equivalent of approximately HK\$220 million, HK\$157 million, and HK\$131 million, as at 30 June 2020, 30 September 2020 and 19 November 2020 respectively, which shows that the Group's cash balance is decreasing at an average of approximately HK\$20 million and HK\$17 million per month since 30 June 2020 and 30 September 2020, respectively. Out of the Group's cash balance as at 19 November 2020 of approximately HK\$131 million, the Company anticipates that cash withdrawal of actual and potential loans to customers within the next 90 days from the Latest Practicable Date to be approximately HK\$42 million, which would further decrease the Group's cash level to approximately HK\$89 million. In view of the Group's average cash outflow of approximately HK\$17 million to HK\$20 million per month, the Company considers that there are funding needs and it is prudent for the Group to maintain sufficient cash resources to meet its operational needs and to grasp the market opportunities as explained below.

## LETTER FROM THE BOARD

In addition, as at the Latest Practicable Date, the Company has outstanding promissory note and Convertible Bonds with principal amount totaling to approximately HK\$487 million. The Group's existing cash level as at 19 November 2020 of approximately HK\$131 million is unable to cover the promissory note and Convertible Bonds and a cash shortfall of approximately HK\$356 million exists. After the proposed Rights Issue, assuming net proceeds of HK\$72 million will be raised, the cash shortfall would decrease to approximately HK\$284 million.

Given that the Group is principally engaged in the provision of short-term financing services, it is essential for the Group to maintain a sufficient and reasonable cash buffer for operational needs. The recent cash outflows of the Group in the recent months demonstrate the strong market demand for short-term financing services and it is necessary for the Group to have sufficient funds to grasp such market opportunities in order to maximize the returns for its Shareholders. Therefore, the Directors believe that the Rights Issue is fair and reasonable, after taking into consideration of the existing cash level, operation needs and potential cash shortfall from debts.

In view of the recent economic environment including (i) the weakened global economy; and (ii) uncertainties over the outlook for the year 2021, pursuant to the tensions between the United States of America and the PRC and the COVID-19 pandemic and the Group's indebtedness position, the Board is of the view that the Rights Issue will strengthen the capital base, enhance the liquidity and lower the gearing ratio of the Company and give the Qualifying Shareholders equal opportunity to maintain their respective pro-rata shareholding interests in the Company. Hence, the Directors consider that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

As such, the funding from the proposed Rights Issue would meet the minimum requirements from intended funding needs of the Group.

The Company does consider the other alternative means of fund raising, such as debt financing/bank borrowings and placing of new Shares, before resolving to the Rights Issue. In respect of debt financing, in view that the Company has outstanding promissory note and Convertible Bonds with principal amount totaling to approximately HK\$487 million as at the Latest Practicable Date, the Company believes that it will be unlikely for the Company to obtain any debt financing at terms acceptable to the Company. In addition, it is likely that debt financiers will ask for collaterals and the Company will also have to pay interest. As such, debt financing will not meet the intention of the Company to lower the gearing ratio and to strengthen the capital base. Placing of new Shares was considered but would not be an alternative. Given that the current market capitalisation of the Company of not more than HK\$40 million as at the date of the Announcement, it is contemplated that there will be substantial dilution to the existing shareholdings in the event that the Company would raise the same amount of net proceeds by way of placing of new Shares. Moreover, placing of new Shares does not allow the Qualifying Shareholders to have the rights to participate in the fund raising exercise. The Qualifying Shareholders will also not being offered an opportunity to maintain their proportionate interests in the Company.

## LETTER FROM THE BOARD

In comparison, 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 by acquiring additional rights entitlement in the open market (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). As an open offer does not allow the trading of rights entitlements, Shareholders who do not wish to take up their entitlements will not be afforded the opportunity to sell their entitled nil-paid Rights Shares on the market as an anti-dilution protection. Hence, the Rights Issue is preferred. Accordingly, the Directors consider that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

The Rights Issue is on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. The Company did approach its Substantial Shareholders and also security firms for fund raising opportunities. The Company did also explore the possibility to carry out the Rights Issue on a fully underwritten basis. However, in light of market uncertainty, the Substantial Shareholders and the Placing Agent have hesitation to act as underwriter for the Rights Issue. In order to allow the Qualifying Shareholders to participate in the fund raising exercise, the Rights Issue will be conducted on a non-underwritten basis. It is further noted that Irrevocable Undertakings have been given by Mr. Zhang and Ms. Li in favour of the Company respectively, which on one hand indicate their supports to the Company and also ensure the minimum net proceeds to be received by the Company from the Rights Issue.

The Board considers 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, the Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole. **However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders should note that their shareholdings will be diluted.**

### THE CONVERTIBLE BONDS

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds which are convertible into an aggregate of 275,627,998 Shares. The Rights Issue may lead to adjustments to the conversion price and/or number of conversion Shares to be issued under the terms of the Convertible Bonds.

The Company will notify the holders of the Convertible Bonds and the Shareholders by way of announcement (as and when appropriate) regarding adjustments to be made (if any) pursuant to the terms of the Convertible Bonds and such adjustments will be certified by the auditor of the Company (if required).

Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date.

## LETTER FROM THE BOARD

### CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

On the assumption that there is no other change in the shareholding structure before completion of the Rights Issue, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Rights Issue assuming all Shareholders have taken up all the entitled Rights Shares; (iii) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent); and (iv) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares nor any of Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent):

	(i) As at the Latest Practicable Date		(ii) immediately after completion of the Rights Issue assuming all Shareholders have taken up all the entitled Rights Shares		(iii) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent)		(iv) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares nor any of Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Zhang	22,752,640	8.09	68,257,920	8.09	68,257,920	8.09	68,257,920	19.18
Ms. Li	14,587,600	5.19	43,762,800	5.19	43,762,800	5.19	43,762,800	12.29
Exuberant Global Limited (Note 2)	58,840,000	20.92	176,520,000	20.92	58,840,000	6.97	58,840,000	16.53
Time Prestige Holdings Limited (Note 3)	5,360,000	1.91	16,080,000	1.91	5,360,000	0.64	5,360,000	1.51
Bustling Capital Limited (Note 4)	13,400,000	4.76	40,200,000	4.76	13,400,000	1.59	13,400,000	3.76
<b>Public Shareholders</b>								
Places	-	-	-	-	487,872,342	57.81	-	-
Other Public Shareholders	166,336,171	59.13	499,008,513	59.13	166,336,171	19.71	166,336,171	46.73
<b>Total</b>	<b>281,276,411</b>	<b>100.00</b>	<b>843,829,233</b>	<b>100.00</b>	<b>843,829,233</b>	<b>100.00</b>	<b>355,956,891</b>	<b>100.00</b>



## LETTER FROM THE BOARD

- Note 1:* These scenarios are for illustrative purpose only.
- Note 2:* Exuberant Global Limited (“**Exuberant Global**”) holds 58,840,000 Shares. Exuberant Global also holds convertible bonds convertible into 161,587,999 Shares. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the Shares held by Exuberant Global.
- Note 3:* Time Prestige Holdings Limited (“**Time Prestige**”) holds 5,360,000 Shares. Time Prestige also holds convertible bonds convertible into 26,868,571 Shares. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the Shares held by Time Prestige. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in the Shares held by Bustling Capital Limited (“**Bustling Capital**”).
- Note 4:* Bustling Capital holds 13,400,000 Shares. Bustling Capital also holds convertible bonds convertible into 67,171,428 Shares. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the Shares held by Bustling Capital. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the Shares held by Time Prestige.
- Note 5:* As at the Latest Practicable Date, each of Exuberant Global, Time Prestige and Bustling Capital does not give any undertaking as to whether to take up its entitlement under the Rights Issue.
- Note 6:* Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

### FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

Save as disclosed below, the Company had not conducted any fund raising activities involving issue of its securities in the past twelve months immediately preceding the date of the Announcement.

Date of announcement	Event	Net proceeds and intended use of proceeds	Actual use of net proceeds
30 January 2020	Placing of 105,264,000 placing shares (equivalent to 21,052,800 Shares upon the share consolidation announced on 7 February 2020 having become effective) at the placing price of HK\$0.095 per placing share	Approximately HK\$9.4 million for settlement of outstanding short term liabilities of the Company	Used as intended



## LETTER FROM THE BOARD

### GEM LISTING RULES IMPLICATIONS

As the Rights Issue, if proceeded with, will increase the number of the issued Shares by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the SGM by a resolution on which the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates shall abstain from voting in favour under Rule 10.29(1) and Rule 10.29A(2) of the GEM Listing Rules since there is no controlling Shareholder. As such, Mr. Zhang, Ms. Li and Mr. Zang Wei and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the transactions contemplated thereunder at the SGM.

As at the Latest Practicable Date, (i) Mr. Zhang holds 22,752,640 Shares, representing approximately 8.09% of the issued share capital of the Company, and (ii) Ms. Li holds 14,587,600 Shares, representing approximately 5.19% of the issued share capital of the Company. Mr. Zang Wei and his associates and the respective associates of Mr. Zhang and Ms. Li do not hold any Shares in the Company as at the Latest Practicable Date.

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors (namely Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen Albert), to advise the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder. Giraffe Capital Limited has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee in respect of the Rights Issue and the transactions contemplated thereunder respectively.

### SGM

A notice of the SGM to be held at 11:00 a.m. on Tuesday, 26 January 2021 at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, is set out on pages SGM-1 to SGM-3 of this circular for the purpose of considering and, if thought fit, approving the Rights Issue and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby any one of them has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

## LETTER FROM THE BOARD

As the Rights Issue, if proceeded with, will increase the number of the issued Shares by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the SGM by a resolution on which the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates shall abstain from voting in favour under Rule 10.29(1) and Rule 10.29A(2) of the GEM Listing Rules since there is no controlling Shareholder. As such, Mr. Zhang, Ms. Li and Mr. Zang Wei and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the transactions contemplated thereunder at the SGM.

A proxy form for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited 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 the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment of it, if you so wish.

Subject to the Rights Issue being approved at the SGM, the Prospectus or the Rights Issue Documents, where appropriate, containing information on the Rights Issue will be despatched to the Shareholders as soon as practicable.

### RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen Albert, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM. 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 page 33 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 34 to 73 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

## LETTER FROM THE BOARD

The Directors consider that the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable so far as the Shareholders or Independent Shareholders (as the case may be) are concerned and in the interests of the Company and the Shareholders as a whole and recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolution(s) approving, among other things the Rights Issue to be proposed at the SGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**Capital Finance Holdings Limited**  
**Zhang Wei**  
*Chairman and Executive Director*

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



### Capital Finance Holdings Limited 首都金融控股有限公司

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*  
(Stock Code: 8239)

7 January 2021

*To the Independent Shareholders*

Dear Sir or Madam,

#### **PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD ON RECORD DATE ON A NON-UNDERWRITTEN BASIS**

We refer to the circular of the Company dated 7 January 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 and the transactions contemplated thereunder are fair and reasonable insofar as the Independent Shareholders are concerned.

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

Having taken into account the terms of the Rights Issue and the advices from Giraffe Capital, we are of the opinion that the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
Independent Board Committee of  
**Capital Finance Holdings Limited**

**Mr. Chen Yihua**

**Mr. Du Hui**

**Dr. Wong Wing Kuen Albert**

*Independent non-executive Directors*

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

*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.*



7 January 2021

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD ON RECORD DATE ON A NON-UNDERWRITTEN BASIS**

#### **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 7 January 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 3 December 2020, the Company proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.135 per Rights Share, to raise up to approximately HK\$75.9 million by issuing up to 562,552,822 Rights Shares to the Qualifying Shareholders (assuming no change in the number of Shares in issue on or before the Record Date). The Rights Issue is not underwritten and will not be extended to the Non-Qualifying Shareholder(s) (if any).

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

As at the Latest Practicable Date, Mr. Zhang, the Chairman and Chief Executive Officer of the Company, is beneficially interested in an aggregate of 22,752,640 Shares, representing approximately 8.09% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Irrevocable Undertaking (Zhang), Mr. Zhang has given an irrevocable undertaking in favour of the Company, that (i) he will not dispose of any of the 22,752,640 Shares comprising the current shareholding in the Company owned by himself, and such Shares will remain beneficially owned by him up to and including the Record Date; and (ii) he will lodge his acceptance of the 45,505,280 Rights Shares, which will be the number of Rights Shares provisionally allotted to him nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

As at the Latest Practicable Date, Ms. Li, the Vice Chairlady and Deputy Chief Executive Officer of the Company, is beneficially interested in an aggregate of 14,587,600 Shares, representing approximately 5.19% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Irrevocable Undertaking (Li), Ms. Li has given an irrevocable undertaking in favour of the Company, that (i) she will not dispose of any of the 14,587,600 Shares comprising the current shareholding in the Company owned by herself, and such Shares will remain beneficially owned by her up to and including the Record Date; and (ii) she will lodge her acceptance of the 29,175,200 Rights Shares, which will be the number of Rights Shares provisionally allotted to her nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

As the Rights Issue, if proceeded with, will increase the number of the issued Shares by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the SGM by a resolution on which 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 under Rule 10.29(1) and Rule 10.29A(2) of the GEM Listing Rules since there is no controlling Shareholder. As such, Mr. Zhang, Ms. Li and Mr. Zang Wei and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the transactions contemplated thereunder at the SGM.

### THE INDEPENDENT BOARD COMMITTEE

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors (namely Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen Albert), to advise the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee in respect of the Rights Issue and the transactions contemplated thereunder respectively.

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 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 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, the Announcement, the Circular, the Placing Agreement, the Irrevocable Undertakings, the annual report of the Company for the year ended 31 December 2019 (the “**Annual Report 2019**”), the interim report for the six months ended 30 June 2020 (the “**Interim Report 2020**”), the quarterly report of the Company for the nine months ended 30 September 2020 (the “**Third Quarterly Report 2020**”), the profit warning announcements of the Company dated 6 May 2020, 5 August 2020, 2 November 2020 and 4 November 2020 (the “**Profit Warning Announcements**”), the unaudited management accounts of the Company for the ten months ended 31 October 2020, the circular of the Company on connected transaction in relation to the proposed extension of maturity date of convertible bonds under the specific mandate dated 30 March 2019, the announcements of the Company on provision of financial assistance dated 13 August 2020, 10 December 2020, 14 December 2020, 21 December 2020 and 31 December 2020, the announcement of the Company on subscription of trust fund and provision of management service to trust fund dated 28 September 2020, the announcements of the Company on loan agreement under trust fund published on 30 November 2020 and 4 December 2020, the research report on global and the PRC’s nicotine industry published by QYResearch, a global market research and consulting company in Beijing (the “**Nicotine Industry Report**”), 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 business 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 SGM. 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



## LETTER OF ADVICE FROM GIRAFFE CAPITAL

provided by the Company as well as the business and affairs of the Group, the Purchaser 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 SGM. 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 SGM 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 Interim Report 2020, the Group is principally engaged in short-term financing services in the PRC and Hong Kong. The Group's provision of short-term financing services mainly comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business.

According to the Annual Report 2019 and the Third Quarterly Report 2020, the Group had completed the acquisition of 50% equity interests in Beijing Huayuan Sifang Asset Management Company Limited, which principally engaged in distressed debt assets management and provision of consultancy services, on 30 December 2019. The Directors believe that the acquisition will help diversifying the business risks and to create synergies with the existing business.



## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 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 HK\$'000 (audited)	2019 HK\$'000 (audited)	2019 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
<b>Revenue</b>				
– Interest income from loans to customers	73,276	60,878	42,033	27,319
– Settlement gain from distressed debt assets classified in loans to customers	–	1,553	–	1,098
– Financial consultancy income	12,445	119	96	1,049
	85,721	62,550	42,129	29,466
Finance costs	(48,005)	(49,379)	(36,895)	(37,922)
Loss before income tax	(23,170)	(20,208)	(54,600)	(54,364)
Loss attributable to owners of the Company	(29,625)	(36,849)	(56,424)	(55,757)

For the years ended 31 December 2018 and 2019 and the nine months ended 30 September 2019 and 2020, the Group generated revenue principally from engaging in short-term financing services comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business. Interest income from loans to customers mainly represents the interest income from entrusted loans, pawn loans and micro credit loans. Settlement gain from distressed debt assets classified in loans to customers represents gain from settlement of receivable from obligors of non-performing loans. Financial consultancy income is generated from the provision of customised financial consultancy services including the design of financing structures and solutions based on the credit portfolios of customers.

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

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

Based on the Third Quarterly Report 2020 and the Profit Warning Announcements, the Group's revenue decreased from approximately HK\$42.1 million for the nine months ended 30 September 2019 ("3Q2019") to approximately HK\$29.5 million for the nine months ended 30 September 2020 ("3Q2020"), primarily due to the unfavourable economic environment and the extreme market and operating conditions caused by COVID-19 pandemic.

The Group's finance costs mainly comprised of the interest expenses on (i) Convertible Bonds; and (ii) promissory note, which contributed a significant portion of the operating expenses of the Group in 3Q2019 and 3Q2020. The Group's finance costs remained relatively stable at approximately HK\$36.9 million and HK\$37.9 million, respectively, in 3Q2019 and 3Q2020.

The Group's loss attributable to the owners of the Company decreased from approximately HK\$56.4 million in 3Q2019 to approximately HK\$55.8 million in 3Q2020. The decrease in loss was mainly attributable to the net-off effects of (i) decrease in revenue as a result of the unfavorable economic environment and the extreme market and operating conditions caused by COVID-19 pandemic; (ii) decrease in administrative and other expenses; and (iii) decrease in charge of loss allowance for expected credit losses ("ECLs") on loans to customers.

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

Based on the Annual Report 2019, the Group's revenue decreased from approximately HK\$85.7 million for the year ended 31 December 2018 ("FY2018") to approximately HK\$62.6 million for the year ended 31 December 2019 ("FY2019"), primarily due to the significant decrease in income from the financial consultancy services business and a moderate decrease in interest income from short-term financing services in FY2019 as a result of the unfavorable market environment and the slowdown in the PRC's economic growth.

The Group's finance costs remained relatively stable at approximately HK\$48.0 million and HK\$49.4 million, respectively, in FY2018 and FY2019.

The Group's loss attributable to the owners of the Company increased from approximately HK\$29.6 million in FY2018 to approximately HK\$36.8 million in FY2019, which was mainly attributable to the net effect of (i) decrease in total revenue; (ii) decrease in other income and other gains and losses resulting from the absence of waive of interest expenses on promissory note and one-off recovery of bad debts in FY2019; (iii) decrease in charge of loss allowance for ECLs resulting from the enhancement of credit control in FY2019; and (iv) increase in income tax expenses mainly due to the corresponding deferred tax impact arising from the improvement in ECLs.

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 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 account as at 31 October 2020:

	As at 31 December 2019 HK\$'000 (audited)	As at 30 June 2020 HK\$'000 (unaudited)	As at 31 October 2020 HK\$'000 (unaudited)
<b>Assets</b>			
– Loans to customers, net	289,399	242,742	261,353
– Cash and cash equivalents	238,076	220,017	144,421
<b>Liabilities</b>			
– Convertible Bonds – liability component	461,025	456,740	415,601
– Promissory notes	20,279	5,020	5,228
<b>Net current assets</b>	489,307	446,062	392,778
<b>Total equity</b>	70,987	34,169	35,957
Gearing ratio ( <i>Note</i> )	22.5	–36.9	–31.0

*Note:* The gearing ratio is calculated by dividing the total debts by the shareholder's equity as at the end of respective year/period and multiplied by 100%.

#### Loans to customers, net

The loans to customers were arising from the Group's pawn loans, micro-credit loans and entrusted loans services and distressed debt assets management. The Group's balance of loans to customers decreased from approximately HK\$289.4 million as at 31 December 2019 to approximately HK\$242.7 million as at 30 June 2020, which was mainly due to the decrease in revenue in the period resulting from the unfavourable economic environment and the extreme market and operating conditions caused by COVID-19 pandemic. The loans to customers increased from approximately HK\$242.7 million as at 30 June 2020 to approximately HK\$261.4 million as at 31 October 2020. Among the total gross loans to customers, approximately 34.5%, 46.4% and 55.3% of the balances were overdue more than 90 days as at 31 December 2019, 30 June 2020 and 31 October 2020, respectively. As at 31 December 2019 and 30 June 2020, approximately 88.0% and 85.5% of the Group's total gross loans to customers were in terms of pawn loans and micro credit loans. For the pawn loans to customers, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, and the Group has a

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

sole discretion to approve the renewal of loan for a period of up to 180 days. All the pawn loans to customers are collaterals-backed. For micro-credit loans to customers, the loan periods generally range from 180 to 365 days, and the Group has a sole discretion to approve the renewal of loan for another certain period, usually within one year. Micro-credit loans to customers are either backed by real estate collaterals or by personal/corporate guarantees.

### Cash and cash equivalents

The Group recorded a decreasing balance of cash and cash equivalents of approximately HK\$238.1 million, HK\$220.0 million and HK\$144.4 million, as at 31 December 2019, 30 June 2020 and 31 October 2020, respectively. Based on the Letter from the Board, the Directors considers that there are funding needs and it is prudent for the Group to maintain sufficient cash resources to meet its operational needs and to grasp the market opportunities.

### Liabilities – Promissory notes and convertible bonds

The Group's liabilities mainly derived from the promissory notes and Convertible Bonds. The Group recorded outstanding promissory notes and Convertible Bonds totaling to approximately HK\$481.3 million, HK\$461.8 million and HK\$420.8 million, respectively, as at 31 December 2019, 30 June 2020 and 31 October 2020. According to the Interim Report 2020, the decrease in promissory notes from approximately HK\$20.3 million as at 31 December 2019 to approximately HK\$5.0 million as at 30 June 2020 was mainly due to the Group redeemed the promissory notes with principal amount of HK\$15.0 million and settled accrued interests of HK\$1.2 million by cash settlement on 5 February 2020 and 21 February 2020, respectively. Based on the Letter from the Board, as at the Latest Practicable Date, the Company has outstanding promissory notes and Convertible Bonds with principal amount totaling to approximately HK\$487 million, which the promissory note and interest accrued thereon would be matured and due in early February 2021. The Company is in discussion with holder of the promissory note for an extension thereof.

### Net current assets

The Group had net current assets of approximately HK\$489.3 million as at 31 December 2019 and approximately HK\$446.1 million as at 30 June 2020. The decrease in the net current assets was mainly due to (i) the decrease in loans to customers; and (ii) the decrease in cash and cash equivalents for the period.

The Group's net current assets decreased from approximately HK\$446.1 million as at 30 June 2020 to approximately HK\$392.8 million as at 31 October 2020, which was mainly due to the decrease in cash and cash equivalents resulting from net cash generated from financing activities.

#### Gearing ratio

The Group's gearing ratio decreased from approximate positive 22.5 as at 31 December 2019 to approximate negative 36.9 as at 30 June 2020 and approximate negative 31.0 as at 31 October 2020, which was mainly due to the Group's negative equity position as at 30 June 2020 and 31 October 2020.

Having considered the historical financial information of the Group, in particular, (i) the Group has recorded losses for each of the years ended 31 December 2018 and 2019, which ranged from approximately HK\$29.6 million to HK\$36.8 million, as well as each of the nine months ended 30 September 2019 and 2020, which ranged from approximately HK\$55.8 million to HK\$56.4 million; and (ii) if the Group continues to record losses, such will exert pressure on the working capital position of the Group.

#### 1.4 Business outlook

According to the National Bureau of Statistics of China, the total amount of RMB-denominated loans, which consisted of loans of the People's Bank of China, the national commercial banks, city commercial banks, policy banks, rural commercial banks, foreign-invested commercial banks, urban credit cooperatives, rural credit cooperatives, finance companies, trust and investment companies, financial leasing companies and the postal savings bureau, increased at a CAGR of approximately 13.0% from 2015 to 2019. Nonetheless, according to the China Pawn Loan Industry Report\* (《中國典當行業報告》) published by Frost & Sullivan, an independent market research and consulting company headquartered in the United States, the market size of pawn loans in terms of total loan balance in the PRC decreased at a CAGR of approximately -5.2% from 2015 to 2019, which was mainly due to the fierce competition among non-bank financial institutions such as trust companies and micro-credit companies since late 2014.

According to the Notice on Strengthening the Supervision of Pawn Shops\* (《關於加強典當行監督管理的通知》) and the Notice on Strengthening the Supervision of Micro-credit Companies\* (《關於加強小額貸款公司監督管理的通知》) published by the China Banking and Insurance Regulatory Commission in May and September 2020, respectively, tighter rules have been introduced for short-term financing service companies in the PRC to provide better financial services for individuals, micro, small and medium-sized enterprises by mitigating the financial and economic risk. As discussed with the management of the Company, the tightened rules may lead to an increase of compliance costs of moneylending companies by limiting the flexibility on, among others, (i) interest rates to be charged on loans; and (ii) the size of individual loans, which may in turns affect the profitability of these companies.

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

*2.1 Insufficient cash and cash equivalent to meet its operational needs*

According to the Letter from the Board and the consolidated management accounts of the Company for the ten months ended 31 October 2020, we noted the cash and cash equivalent of the Group decreased from approximately HK\$220 million on 30 June 2020 to approximately HK\$157 million on 30 September 2020, to approximately HK\$144 million on 31 October 2020 and further to approximately HK\$131 million on 19 November 2020.

According to the Letter from the Board, the Group's cash balance was decreasing at an average of approximately HK\$20 million and HK\$17 million per month since 30 June 2020 and 30 September 2020, respectively. Out of the Group's cash balance as at 19 November 2020 of approximately HK\$131 million, the Company anticipates that cash withdrawal of actual and potential loans to customers within the next 90 days to be approximately HK\$42 million, which would further decrease the Group's cash level to approximately HK\$89 million. In view of the Group's average cash outflow of approximately HK\$17 million to HK\$20 million per month, the Company considers that there are funding needs and it is prudent for the Group to maintain sufficient cash resources to meet its operational needs.

We have reviewed the announcements of the Company in relation to the discloseable transactions involving provision of financial assistance published on 10 December 2020, 14 December 2020, 21 December 2020 and 31 December 2020 and noted the Group has lent out a total of approximately HK\$18.3 million, which resulted in cash outflow from the Group, during the period from 1 October 2020 to the Latest Practicable Date. Thus, additional fund is needed for the Company to replenish its working capital.

We further noted the Group had been loss making in the recent years. As discussed in sub-section headed "1.2 Financial performance of the Group" above, the Group's loss attributable to the owners of the Company increased from approximately HK\$29.6 million in FY2018 to approximately HK\$36.8 million in FY2019. In 3Q2020, the Group was still loss making and recorded a net loss attributable to the owners of the Company of approximately HK\$55.8 million.

In light of the Group's funding needs and the unsatisfactory financial performance of the Group with continuing loss in the recent years, we concurred with the management of the Company that the Company's financial position is weak and there is a need for cash to replenish its working capital.

**3. The intended use of proceeds of the Rights Issue**

According to the Letter from the Board, the net proceeds from the Rights Issue (after deducting the estimated expenses and assuming no change in the number of Shares in issue on or before the Record Date) are estimated to be not less than approximately HK\$8 million and not more than approximately HK\$72 million. The estimated net subscription price per Rights Share after deducting the related expenses of the Rights Issue is expected to be approximately HK\$0.13 per Rights Share.

In the scenario that all the Shareholders would subscribe for the Rights Shares and/or all the Unsubscribed Rights Shares would be taken up by the Placees, the Company intends to apply the net proceeds of approximately HK\$72 million from the proposed Rights Issue (i) as to up to approximately HK\$40.4 million, being approximately 56.11% of the net proceeds, towards the repayment of indebtedness of the Group, including the outstanding promissory note and the Convertible Bonds; (ii) up to approximately HK\$20 million, being approximately 27.78% of the net proceeds, towards establishment of new business on biotechnology side and business development of the Group in the PRC; and (iii) as to the remaining balance to support the ongoing working capital requirements of the Group.

In the scenario that no other shareholders would subscribe for the Rights Shares, approximately HK\$8 million will be raised from the proposed Rights Issue and the Company will apply the net proceeds from the proposed Rights Issue (i) as to approximately HK\$5.4 million towards the repayment of the Group's promissory note with interest rate of 8% per annum (the "**Promissory Note**"), since the Promissory Note and interest accrued thereon would be matured and due in early February 2021 and the Company is in discussion with the holder of the Promissory Note for an extension thereof; and (ii) as to the remaining balance (approximately HK\$2.6 million) to support the ongoing working capital requirements of the Group.

*3.1 Repayment of indebtedness to lower the gearing ratio and reduce the interest expenses*

As set out under sub-section headed "2. Indebtedness" in Appendix I to the Circular, as at the close of business on 30 November 2020, the Group had (i) outstanding Convertible Bonds in the aggregate principal amount of approximately HK\$482.3 million with carrying amount of the liability portion of approximately HK\$419.2 million. The Convertible Bonds, if not converted, are payable in one lump sum on their respective maturity dates at 105% of the principal amount; (ii) outstanding Promissory Note in the principal amount of HK\$5.0 million due on 6 February 2021 with carrying amount of approximately HK\$5.3 million, carrying an interest rate of 8% per annum; and (iii) outstanding secured and unguaranteed lease liabilities in respect of leasehold land and buildings of approximately HK\$5.9 million which were secured by rental deposits paid by the Group.



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As stated in the Annual Report 2019, the finance costs for the year ended 31 December 2019 amounted to approximately HK\$49.4 million, of which approximately HK\$49.1 million was attributable to the effective interest expenses on the Convertible Bonds and the Promissory Note. In respect of the gearing ratio, we have calculated the gearing ratio of the Group based on its latest unaudited management accounts for the ten months ended 31 October 2020 and we noted that the Group had a gearing ratio of approximately negative 31.0 as at 31 October 2020. We further noted the gearing ratio of the Group has reduced from approximately positive 22.5 as at 31 December 2019 to approximately negative 36.9 and negative 31.0 as at 30 June 2020 and 31 October 2020, respectively.

The repayment of the aforesaid Convertible Bonds and Promissory Note shall reduce the overall gearing and ongoing interest expenses of the Group.

We have discussed with the management of the Company regarding the status of its discussion with the holder of the Promissory Note (the “**Holder**”) for an extension of maturity date. We are given to understand that the Company has not reached the agreement with the Holder as at the Latest Practicable Date and the management of the Company has indicated that no binding agreement had been reached at this stage. Should the Company fail to extend the maturity date of the Promissory Note, a total amount (including accrued interests) of approximately HK\$5.4 million has to be repaid by the Company in February 2021.

We understood from the management of the Company that it intends to apply approximately HK\$35.0 million of the net proceeds from the Rights Issue towards the partial repayment of the Convertible Bonds A, which the maturity date had been extended to 2022. In managing its debt obligations, the Company has to balance the terms and repayment schedule of all the Group’s debts, the willingness of extension by the creditors and the feasible funding size for the Rights Issue. Given the financial position of the Group as discussed above, we consider it is essential for the Group to improve its balance sheet by settling its debts and strengthen its working capital to avoid the Group from getting into possible financial distress. It is also worth mentioning that the Convertible Bonds had already been extended once since the first maturity date back in 2019 and early 2020. As such, we concur with the Board’s view that the Rights Issue is imminent for the Group to reduce its gearing ratio by settling part of its debts and we consider the use of the proceeds from the Rights Issue to repay the Group’s outstanding debts to be justifiable.



## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 3.2 Establishment of new business on biotechnology side and business development of the Group in the PRC

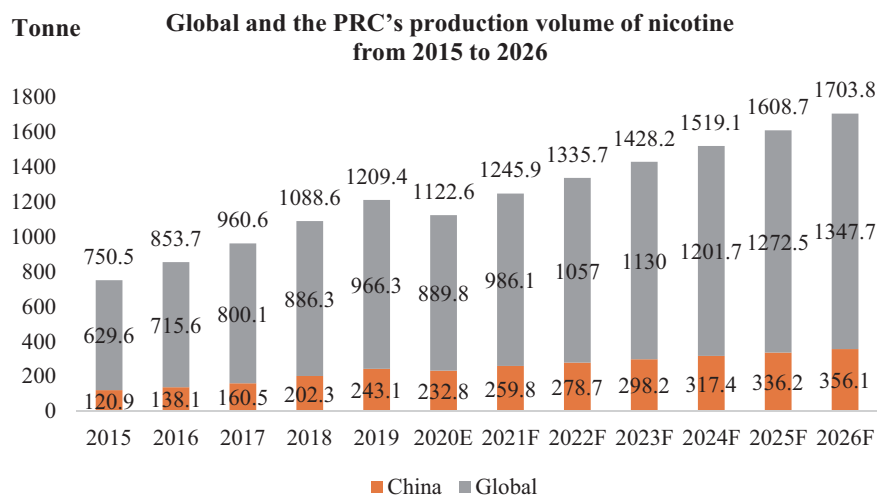
According to the Letter from the Board, the Company intends to apply the new proceeds of up to approximately HK\$20 million on establishment of new business on biotechnology side. As discussed with the management of the Company, in light of the unsatisfactory performance of its business in short-term financing services in recent years, the Company has been exploring other business opportunities in order to diversify the existing business of the Group and to explore new business with significant growth potential. In view of (i) the rapid growth of the nicotine manufacturing industry in the PRC; and (ii) the wide application of nicotine worldwide, the management of the Company is currently approaching for potential business opportunities in investment of nicotine manufacturing industry.

#### 3.2.1 Industry outlook

Nicotine, in its pure state is a colourless liquid with a faint characteristic odor. Nicotine is widely used in the tobacco products, medical and agricultural insecticide manufacturing industries.

Tobacco leaf is the major raw materials for the production of nicotine. According to the Nicotine Industry Report, the PRC is one of the major countries in tobacco leaf farming, which serves as a key driver of the nicotine manufacturing industry in the PRC due to the readily available supply of raw materials.

Set out below is the global and the PRC's production volume of nicotine from 2015 to 2026.



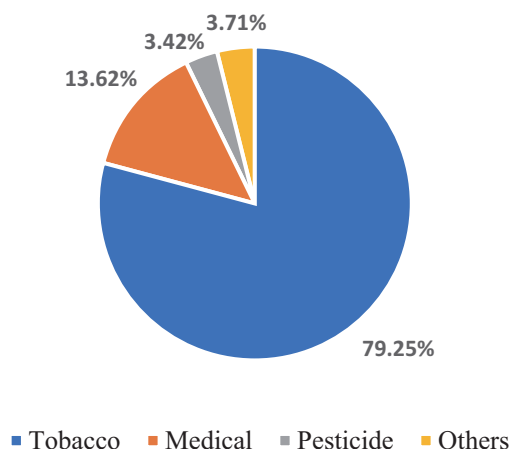
Source: The Nicotine Industry Report

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

According to the Nicotine Industry Report, the global production volume of nicotine increased from approximately 750.5 tonnes in 2015 to approximately 1,209.4 tonnes in 2019, representing a CAGR of approximately 12.7%. It is estimated that the volume would reach approximately 1703.8 tonnes in 2026, representing a CAGR of approximately 7.2% from 2020 to 2026. At the same time, the PRC's contribution to the global production volume has increased steadily from approximately 16.1% in 2015 to approximately 20.1% in 2019. The production volume of nicotine in the PRC recorded a rapid growth from approximately 120.9 tonne in 2015 to approximately 243.1 tonne in 2019, representing a CAGR of approximately 19.1%. It is estimated that production volume would reach approximately 356.1 tonnes in 2026, representing a CAGR of approximately 7.3% from 2020 to 2026.

Set out below is the breakdown of downstream applications of nicotine in terms of global consumption volume in 2019.

**Breakdown of downstream applications of nicotine in terms of global consumption volume in 2019**



Source: *The Nicotine Industry Report*

As shown in the chart above, the tobacco industry contributed the majority of the consumption of nicotine in 2019 in terms of global consumption volume. According to the Nicotine Industry Report, nicotine is used by tobacco manufacturing companies in the production of electronic cigarette oil. In response to consumers' needs for alternatives to conventional tobacco products, new tobacco products such as electronic cigarettes have been introduced to global smokers by various large international tobacco companies. The increasing demand for electronic cigarettes serves as an important driver for the demand for nicotine, being the one of the key raw materials for electronic cigarette oil.

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As stated in the sub-section headed “1.4 Business outlook”, the pawn loans market in the PRC is facing fierce competition and experienced a decrease in the market size in term of total loan balance at a CAGR of approximately -5.2% from 2015 to 2019. Further, tighter rules such as the Notice on Strengthening the Supervision of Pawn Shops\* (《關於加強典當行監督管理的通知》) and the Notice on Strengthening the Supervision of Micro-credit Companies\* (《關於加強小額貸款公司監督管理的通知》) published by the China Banking and Insurance Regulatory Commission in May and September 2020, have been introduced for short-term financing service companies in China to mitigate financial and economic risks. As discussed with the management of the Company, tighter control on short-term financing service in the PRC would have potential constraints on the Group’s financing business.

We understood from the management of the Company in respect of tapping into the new business in nicotine manufacturing industry, the Company is exploring the possibility of establishing its own manufacturing plant and/or acquiring or investing in targets in this field. No binding agreements or documents have been entered into by the Group in respect of the new business on biotechnology side as at the Latest Practicable Date.

Should the Company resolve to set up its own manufacturing plant, the Company would seek for suitable candidates with relevant experience and qualification in nicotine manufacturing industry to assist in the management, production and daily operation. In this case, we understood from the management of the Company that they would apply the proceeds of approximately HK\$20 million on (i) setting up their own manufacturing plant; (ii) acquisition of machinery and equipment; (iii) purchase of raw materials; (iv) hiring personnel including technicians and manufacturing workers in relevant industry; and (v) research and development.

Should the Company proceed with acquiring or investing in potential targets, in selecting these targets, the Company mainly assesses (i) the business strategies of the target companies, such as target customers, target market and business development plan; (ii) the background and track record of the target companies and/or their management and expertise; and (iii) the anticipated profitability of the target.

Considering that (i) the tapping into the new business in nicotine manufacturing industry would diversify the existing business risk of the Group; (ii) the nicotine manufacturing industry experienced rapid growth in recent years which may bring potential profits to the Company; (iii) the short-term financing service, which the Group is currently engaged in, is facing increasing challenges brought by tighter rules and regulations; and (iv) the Company would, on a best efforts basis, seek for suitable candidates with relevant experience and qualification in relevant industry to assist in supervising and optimizing the operation of the new business, we are of the view that the use of new proceeds on establishment of new business on biotechnology side is justifiable.

#### **4. Alternative sources of financing**

As stated in the Letter from the Board, the Company has considered the other alternative means of fund raising, such as debt financing/bank borrowings and placing of new Shares, before resolving to the Rights Issue.

##### *4.1 Debt financing*

According to the Letter from the Board and as advised by the management of the Company, in respect of debt financing, in view that (i) the Company has outstanding Promissory Note and Convertible Bonds with principal amount totaling to approximately HK\$487 million as at the Latest Practicable Date; (ii) the consecutive loss-making financial performance of the Group; and (iii) the lack of collateral acceptable to the banks, the Company believes that it will be unlikely for the Company to obtain any debt financing at terms acceptable to the Company.

We have reviewed the Interim Report 2020 and the Annual Report 2019 and noted (i) the Group had been loss making in the recent years as discussed in sub-section headed "1.2 Financial performance of the Group" above; and (ii) the current assets made up of over 90% of its total assets as at 30 June 2020 where they are unlikely to be collateral acceptable to the banks and debt financiers.

In light of the above, we concur with the Company that it will be unlikely for the Company to obtain any debt financing at terms acceptable to the Company

##### *4.2 Placing of new Shares*

Placing of new Shares was considered but would not be an alternative. Given that the current market capitalisation of the Company of not more than HK\$40 million as at the date of the Announcement, it is contemplated that there will be substantial dilution to the existing shareholdings in the event that the Company would raise the same amount of net proceeds by way of placing of new Shares. Moreover, placing of new Shares does not allow the Qualifying Shareholders to have the rights to participate in the fund-raising exercise. The Qualifying Shareholders will also not be offered an opportunity to maintain their proportionate interests in the Company.

After considering the historical trading volume of the Group as discussed in sub-section headed "6.3 Historical trading volume of the Shares", the Shares were generally illiquid in the open market, we are of the view that the daily trading volume was relatively thin during the Review Period and if the Company raise funds by way of placing of new Shares, a deep discount to the market price has to be set to attract the investors to participate in the placement which will cost substantial dilution to the existing shareholders in the Company.

*4.3 Open offer*

As an open offer does not allow the trading of rights entitlements, Shareholders who do not wish to take up their entitlements will not be afforded the opportunity to sell their entitled nil-paid Rights Shares on the market as an anti-dilution protection.

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.

*4.4 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 by acquiring additional rights entitlement in the open market (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.

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 5. Principal terms of the Rights Issue, the Irrevocable Undertaking and the Placing Agreement

#### 5.1 *The Rights Issue*

As set out in the Letter from the Board, the Company proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.135 per Rights Share, to raise up to approximately HK\$75.9 million by issuing up to 562,552,822 Rights Shares to the Qualifying Shareholders (assuming no change in the number of Shares in issue on or before the Record Date).

Basis of the Rights Issue:	Two (2) Rights Shares for every one (1) existing Share held on the Record Date
Subscription Price:	HK\$0.135 per Rights Share
Number of Shares in issue at the Latest Practicable Date:	281,276,411 Shares
Number of Rights Shares:	up to 562,552,822 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares:	up to HK\$28,127,641.10 (assuming no change in the number of Shares in issue on or before the Record Date)
Number of Shares as enlarged by the allotment and issue of the Rights Shares:	up to 843,829,233 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
Number of Rights Shares undertaken to be taken up:	<p>Mr. Zhang has undertaken to take up an aggregate of 45,505,280 Rights Shares (representing approximately 8.09% of the total Rights Shares provisionally allotted by the Company) pursuant to the Irrevocable Undertaking (Zhang)</p> <p>Ms. Li has undertaken to take up an aggregate of 29,175,200 Rights Shares (representing approximately 5.19% of the total Rights Shares provisionally allotted by the Company) pursuant to the Irrevocable Undertaking (Li)</p>

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

Maximum funds raised before expenses:	up to approximately HK\$75.9 million (assuming all the Rights Shares will be taken up and no change in the number of Shares in issue until the Record Date)
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As at the Latest Practicable Date, save for the Convertible Bonds, the Company had no outstanding derivatives, options, warrants, convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares.

Assuming no Shares are issued or repurchased on or before the Record Date, the aggregate 562,552,822 Rights Shares to be issued pursuant to the terms of the proposed Rights Issue represents (i) 200% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 66.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares (assuming all the Rights Shares will be taken up).

### Non-underwritten basis

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders (excluding those Rights Shares to be provisionally allotted to Mr. Zhang and Ms. Li respectively for which subscription of Rights Shares will be subject to the Irrevocable Undertakings as set out in the sub-section headed “Irrevocable Undertakings” in this Circular) or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent places under the Compensatory Arrangements. Any Unsubscribed Rights Shares or NQS Unsold Rights Shares remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

As the Rights Issue will proceed on a non-underwritten basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms such that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance with the note to Rule 10.26(2) of the GEM Listing Rules.

We understood from the management of the Company that there are no applicable requirements under the GEM Listing Rules regarding the minimum subscription levels in respect of the Rights Issue.

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 5.2 *The Irrevocable Undertaking*

As at the Latest Practicable Date, Mr. Zhang, the Chairman and Chief Executive Officer of the Company, is beneficially interested in an aggregate of 22,752,640 Shares, representing approximately 8.09% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Irrevocable Undertaking (Zhang), Mr. Zhang has given an irrevocable undertaking in favour of the Company, that (i) he will not dispose of any of the 22,752,640 Shares comprising the current shareholding in the Company owned by himself, and such Shares will remain beneficially owned by him up to and including the Record Date; and (ii) he will lodge his acceptance of the 45,505,280 Rights Shares, which will be the number of Rights Shares provisionally allotted to him nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

As at the Latest Practicable Date, Ms. Li, the Vice Chairlady and Deputy Chief Executive Officer of the Company, is beneficially interested in an aggregate of 14,587,600 Shares, representing approximately 5.19% of the issued share capital of the Company as at the Latest Practicable Date. Pursuant to the Irrevocable Undertaking (Li), Ms. Li has given an irrevocable undertaking in favour of the Company, that (i) she will not dispose of any of the 14,587,600 Shares comprising the current shareholding in the Company owned by herself, and such Shares will remain beneficially owned by her up to and including the Record Date; and (ii) she will lodge her acceptance of the 29,175,200 Rights Shares, which will be the number of Rights Shares provisionally allotted to her nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

Based on the shareholdings of each of Mr. Zhang and Ms. Li respectively, no general offer obligation will be triggered by the Irrevocable Undertakings in accordance with the note to Rule 10.26(2) of the GEM Listing Rules and no whitewash waiver will be applied.

As at the Latest Practicable Date, save as disclosed above, the Board has not received any information from any Substantial Shareholders of their intention to take up the securities provisionally allotted or offered to them or to be provisionally allotted or offered to them.



## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### 5.3 *The Placing Agreement*

For details of the terms of the Placing Agreement, please refer to the section headed “Placing Agreement for the Unsubscribed Rights Shares and NQS Unsold Rights Shares” in the Letter from the Board. Set out below are the principal terms of the Placing Agreement:

Date:	3 December 2020 (after trading hours)
Issuer:	The Company
Placing Agent:	<p>KGI Asia Limited was appointed as the Placing Agent to procure, on a best efforts basis, places to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares during the placing period.</p> <p>The Placing Agent is a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Placing Agent and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.</p>
Placing Period:	The period commencing from the next Business Day after the Latest Time for Acceptance and ending on 4:00 p.m. on the fifth Business Day after the Latest Time for Acceptance.
Commission and expenses:	Subject to completion of the placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 3% of the amount which is equal to the Subscription Price multiplied by the number of Unsubscribed Rights Shares and the NQS Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.
Placing price of the Unsubscribed Rights Shares:	The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price and the final price determination will be depended on the demand for and the market conditions of the Unsubscribed Rights Shares during the process of placement.

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Placees: The Unsubscribed Rights Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be the Independent Third Party(ies).

For the avoidance of doubt, no placee shall become a substantial shareholder of the Company.

As disclosed in the Letter from the Board, the Placing Agent confirmed that it is independent of and not connected with the Company and its connected person and not a connected person of the Company. The engagement between the Company and the Placing Agent of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (including the commission payable) was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors consider that the terms of Placing Agreement for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (including the commission payable) are on normal commercial terms.

As explained above, the Rights Shares that are not accepted by the Qualifying Shareholders, together with the Rights Shares that the Non-Qualifying Shareholders are entitled to under the Rights Issue, will be placed by the Placing Agent to Independent Third Parties on a best effort basis for the benefits of the No Action Shareholders. If all or any of the Unsubscribed Rights Shares are successfully placed, any Net Gain over the Subscription Price will be distributed to the relevant No Action Shareholders. Any NQS Unsold Rights Shares and/or Unsubscribed Rights Shares that are not placed by the Placing Agent will not be issued by the Company.

As at the Latest Practicable Date, none of the sub-underwriters and/or Placees has been identified.

### **6. Assessment of the principal terms of the Rights Issue, the Irrevocable Undertaking and the Placing Agreement**

#### *6.1 The Subscription Price*

As disclosed in the Letter from the Board, the Subscription Price is HK\$0.135 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a premium of approximately 4.65% over the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day;

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

- (ii) a premium of approximately 4.65% over the average of the closing prices of HK\$0.129 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 1.50% over the theoretical ex-rights price of HK\$0.133 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 0.74% to the closing price of HK\$0.136 per Share as at the Latest Practicable Date; and
- (v) a premium of approximately 11.11% over the net asset value per Share of approximately HK\$0.1215 per Share (based on the unaudited consolidated net asset value of the Group as at 30 June 2020 and 281,276,411 Shares in issue).

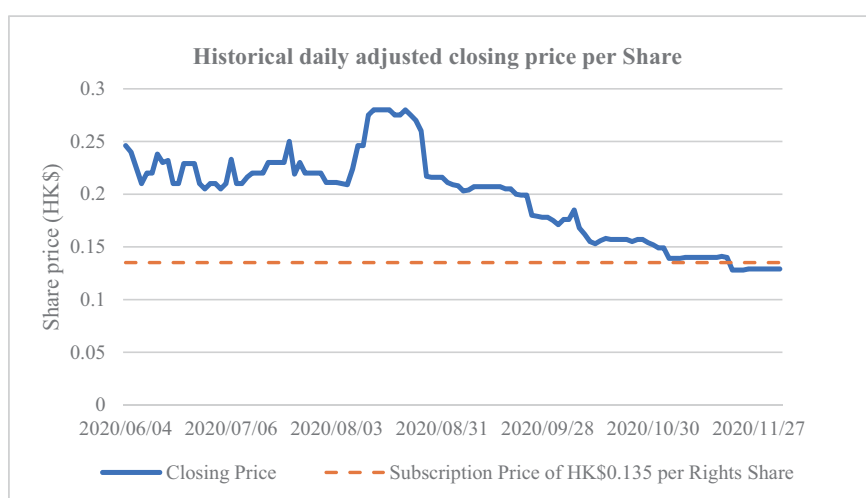
As stated in the Letter from the Board, the Subscription Price was determined with reference to, among others, the market price of the Shares under the prevailing market conditions and the amount of funds which the Company intends to raise under the Rights Issue.

The Directors (including the independent non-executive Directors) consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the proposed Rights Issue, including the Subscription Price, to be fair and reasonable and in the best 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 proposed Rights Issue are able to sell the nil-paid rights in the market; (ii) the proposed 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; (iii) the proceeds from the Rights Issue can fulfill the funding needs of the Group; and (iv) since the Subscription Price is set as a premium to the net asset value per Share, the net asset value per Share will be enhanced immediately after the completion of the Rights Issue. We further understood from the management of the Company that (i) although the Rights Issue is conducted on non-underwritten basis which indicated that the Company might only be able to raise approximately HK\$8 million in the scenario that no other Shareholders (other than Mr. Zhang and Ms. Li) subscribe for the Rights Shares, the Group could still benefit from the issue of Rights Shares by lowering their indebtedness and gearing through repayment of the Promissory Note and increasing their ongoing working capital to support their operation needs; and (ii) the adoption of the Placing Arrangement simultaneously could enhance the possibility to raise additional funds to the Company. Therefore, we concur with the management of the Company that the Rights Issue is in the interest of the Company and the Shareholders as a whole.

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### 6.2 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 4 June 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

During the Review Period, the average Closing Price was approximately HK\$0.197 per Share. The Closing Price ranged from HK\$0.128 per Share (the “**Lowest Closing Price**”) recorded from 20 November 2020 to 24 November 2020 to HK\$0.280 per Share (the “**Highest Closing Price**”) recorded from 12 August 2020 to 17 August 2020, and on 20 August 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 12 August 2020. We have enquired the management regarding the rise of Closing Price and were advised that save for the release of interim results of the Group for the six months ended 30 June 2020, 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 20 August 2020, the Closing Price then exhibited a downward trend and hit the low point of HK\$0.128 per Share on 20 November 2020. 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

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deteriorating market sentiment caused by the impacts of the COVID-19 pandemic. Save for the above and (i) the discloseable transaction involving provision of financial assistance published on 13 August 2020; (ii) the discloseable transaction on subscription of trust fund and provision of management service to trust fund published on 28 September 2020; (iii) the third quarterly results announcement for the nine months ended 30 September 2020 published on 9 November 2020; and (iv) the discloseable transaction in relation to loan agreement under trust fund published on 30 November 2020, 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\$0.129 on the Last Trading Day (i.e. 3 December 2020).

The Subscription Price of HK\$0.135 per Rights Share represents (i) a premium of approximately 5.5% over the Lowest Closing Price; (ii) a premium of approximately 4.65% over the Closing Price of HK\$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day; (iii) a premium of approximately 4.65% over the average Closing Prices of HK\$0.129 per Share for the 5 consecutive trading days up to and including the Last Trading Day; and (iv) a discount of approximately 3.57% to the average Closing Prices of HK\$0.140 per Share for the 30 consecutive trading days up to and including the Last Trading Day.

### 6.3 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 <i>(No. of Shares)</i>	No. of trading days	Average daily trading volume <i>(No. of Shares)</i>	Percentage of the average daily trading volume to the total number of Shares in issue <i>(Note 1)</i>	Percentage of the average daily trading volume to the total number of Shares held by public Shareholders <i>(Note 2)</i>
<b>2020</b>					
June (from 4 June 2020)	3,654,240	18	203,013	0.072%	0.122%
July	6,204,112	22	282,005	0.100%	0.170%
August	2,609,720	21	124,272	0.044%	0.075%
September	1,506,996	22	68,500	0.024%	0.041%
October	878,856	18	48,825	0.017%	0.029%
November	508,880	21	24,232	0.009%	0.015%
December (up to the Last Trading Day)	-	3	-	N/A	N/A

Source: *the website of the Stock Exchange*

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*Notes:*

1. Calculated based on the total number of Shares in issue at the end of the month.
2. Calculated based on the total number of the Shares held in public hands at the end of the month.

As illustrated in the table above, during the Review Period, the average daily trading volume of the Shares by month were in the range of approximately 0.009% to 0.100% as to the total number of issued Shares and approximately 0.015% to approximately 0.170% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low. We further noted that during the Review Period which involve 125 trading days, the Share recorded zero trade volume for 42 days, representing approximately 33.6% of the Review Period. This further demonstrated that the Shares were generally illiquid in the open market.

Despite the Shares were generally illiquid in the open market and the price of the Shares showed a sliding trend during the Review Period, considering that (i) the Subscription Price represents a discount of approximately 3.57% and 16.15% to the average Closing Prices of HK\$0.140 and HK\$0.161 per Share for the 30 and 60 consecutive trading days up to and including the Last Trading Day, respectively; (ii) the Subscription Price is close to the lowest closing price of HK\$0.128 since the commencement of trading of the Company's Shares in November 2002 (taking into account Share consolidations taken place) and is lower than the historical Closing Price of 115 trading days out of a total of 125 trading days (representing 92%) in the Review Period; (iii) the Company would benefit from the proposed Rights Issue by replenishing its working capital, reducing its indebtedness and diversifying the existing business risk though tapping into the new business in nicotine manufacturing industry; and (iv) the Qualifying Shareholders who take up their provisional entitlements could invest in the Shares at a relatively lower price, we concur with the Directors that the Subscription price is fair and in the interest of the Company and the Shareholders as a whole as to encourage Shareholders to participate in the Rights issue and accordingly maintain their shareholdings in the Company and participate in the future development of the Group.

#### *6.4 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. Due to the outbreak of COVID-19, the global economy has undergone drastic and rapid changes during 2020. 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 21 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 Date.

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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 transactions 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 average share price for the last five (5) consecutive trading days up to and including the last trading day ("LTD Discount/ Premium") (%)	(Discount)/ Premium of subscription price to the average share price for the last ten (10) consecutive trading days up to and including the last trading day ("10 Days Discount/ Premium") (%)	(Discount)/ Premium of subscription price to the average share price for the last ten (10) consecutive trading days up to and including the last trading day ("Ex-rights Discount/ Premium") (%)	Maximum dilution (%)	Underwriting Commission (%)	Fully/partly underwritten Y/N	Excess application Y/N
20-Nov-20	Global Strategic Group Limited (8007)	4 for 1	(20.79)	(21.95)	(4.76)	80.0	3.0	Y	Y
10-Nov-20	China Fortune Holdings Limited (110)	1 for 1	(5.36)	(5.36)	(2.75)	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)	75.0	N/A	N	N
4-Nov-20	Top Form International Limited (333)	2 for 5	(21.88)	(21.88)	(16.67)	28.6	0.0	Y	N

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Date of announcement	Name of Company (Stock Code)	Basis of Entitlement	(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 ("LTD Discount/ Premium") (%)	(Discount)/ Premium of subscription price to the average share price for the last ten (10) consecutive trading days up to and including the last trading day ("10 Days Discount/ Premium") (%)	(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") (%)	Maximum dilution (%)	Underwriting Commission (%)	Fully/partly underwritten Y/N	Excess application Y/N
27-Oct-20	Longhui International Holdings Limited (1007)	1 for 1	(29.00)	(29.00)	(16.96)	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	27.3	N/A	N	Y
25-Sep-20	Green International Holdings Limited (2700)	1 for 1	(17.81)	(26.11)	(9.77)	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)	75.0	N/A	N	N
11-Sep-20	Amber Hill Financial Holdings Limited (63)	3 for 1	(23.66)	(27.55)	(7.79)	75.0	N/A	N	N



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Date of announcement	Name of Company (Stock Code)	Basis of Entitlement	(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 ("LTD Discount/Premium") (%)	(Discount)/Premium of subscription price to the average share price for the last ten (10) consecutive trading days up to and including the last trading day ("Ex-rights Discount/Premium") (%)	Maximum dilution (%)	Underwriting Commission (%)	Fully/partly underwritten Y/N	Excess application Y/N
3-Sep-20	Aeso Holding Limited (8341)	3 for 1	(16.70)	(16.20)	75.0	N/A	N	N
28-Aug-20	Royal Century Resources Holdings Limited (8125)	2 for 1	(25.00)	(28.57)	66.7	2.0	Y	N
28-Aug-20	Milan Station Holdings Limited (1150)	5 for 2	(10.57)	(12.00)	71.4	2.0	Y	Y
24-Aug-20	Wealth Glory Holdings Limited (8269)	5 for 2	(11.10)	(12.10)	71.4	2.5	Y	Y
10-Aug-20	Beaver Group (Holding) Company Limited (8275)	1 for 2	(28.95)	(28.95)	33.3	5.0	Y	Y
5-Aug-20	Greatwall Inc. (8315)	1 for 3	(27.54)	(7.41)	25.0	Lump sum of HK\$200,000	Y	Y

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Date of announcement	Name of Company (Stock Code)	Basis of Entitlement	(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 ("LTD Discount/Premium") (%)	(Discount)/Premium of subscription price to the average share price for the last ten (10) consecutive trading days up to and including the last trading day ("10 Days Discount/Premium") (%)	(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") (%)	Maximum dilution (%)	Underwriting Commission (%)	Fully/partly underwritten Y/N	Excess application Y/N
30-Jul-20	Larry Jewelry International Company Limited (8351)	5 for 1	(29.17)	(29.17)	(6.59)	83.3	5.0	Y	Y
16-Jul-20	Langham Hospitality Investments Limited (1270)	1 for 2	(13.60)	(15.20)	(9.50)	33.3	N/A	N	Y
7-Jul-20	National Investments Fund Limited (1227)	5 for 1	(28.57)	(27.69)	(6.25)	83.3	3.5	Y	Y
6-Jul-20	China Merchants Securities Co., Ltd. (6099)	3 for 10	(41.79)	(11.09)	(20.33)	23.1	N/A	Y	Y
2-Jul-20	Luxey International (Holdings) Limited (8041)	1 for 2	(58.30)	(59.30)	(48.20)	33.3	N/A	N	Y

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Date of announcement	Name of Company (Stock Code)	Basis of Entitlement	(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 ("LTD Discount/Premium") (%)	(Discount)/Premium of subscription price to the average share price for the last ten (10) consecutive trading days up to and including the last trading day ("10 Days Discount/Premium") (%)	(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") (%)	Maximum dilution (%)	Underwriting Commission (%)	Fully/partly underwritten Y/N	Excess application Y/N
9-Jun-20	Cathay Pacific Airways Limited (293)	7 for 11	(46.90)	(43.40)	(35.00)	38.9	2.0	Y	Y
	Maximum:		26.58	23.30	17.99	83.33	5.00		
	Minimum:		(58.30)	(59.80)	(48.20)	23.08	0.00		
	Average:		(21.91)	(21.01)	(11.45)	54.72	2.75		
	Median:		(21.88)	(21.80)	(7.79)	50.00	2.50		
3-Dec-20	The Company	2 for 1	4.65	4.90	1.50	66.67	N/A	Y	N

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

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

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As shown by the above table, (i) the LTD Discount/Premium of Comparables ranged from a discount of approximately 58.30% to a premium of approximately 26.58%; (ii) the 5 Days Discount/Premium of Comparables ranged from a discount of approximately 59.30% to a premium of approximately 26.26%; (iii) the 10 Days Discount/Premium ranged from a discount of approximately 59.80% to a premium of approximately 23.30%; and (iv) the Ex-rights Discount/Premium ranged from a discount of approximately 48.20% to a premium of approximately 17.99%. The Company's LTD Premium, 5 Days Premium, 10 Days Premium, and Ex-rights Premium fall within the range of those of the Comparables.

We have taken into account:

- (i) the Subscription price falls within the range of the Closing Prices of the Shares during the Review Period;
- (ii) the Subscription Price represented the premium of the Closing Price on the Last Trading Day and for the 5 consecutive trading days up to and including the Last Trading Day which allows the Group to raise more capital as compared to subscription price being set a discount;
- (iii) the Subscription Price was approximate to the closing price of the Shares on the Last Trading Day, the average 5 consecutive trading days and the average 10 consecutive trading days up to and including the Last Trading Day which reflected the prevailing market prices of the Shares;
- (iv) the Subscription Price is a commercial decision arrived at considering, among other things, the recent market price of the Shares, the prevailing market conditions, the amount of funds and capital needs; and
- (v) the Rights Issue offers all the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata provisional entitlement of the Rights Shares and hence avoids dilution,

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.

### 6.4.1 No application for excess Rights Shares

As stated in the Letter from the Board, there will be no excess application arrangements in relation to the Rights Issue. We have reviewed the Comparables, and noted that six out of 21 Comparables did not offer excess application to their respective shareholders while four out of eight Comparables which were conducted on non-underwritten basis did not offer excess application to their respective shareholders. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice.

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Although the absence of excess application arrangement might not be desirable for those Qualifying Shareholders who wish to take up additional Rights Shares in excess of their assured entitlements, after having considered that (i) the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company; (ii) the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full can maintain their respective existing shareholdings in the Company after completion of the Rights Issue; and (iii) the absence of excess application arrangement is not an uncommon market practice, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

### 6.5 *The Irrevocable Undertakings*

Pursuant to the Irrevocable Undertakings, each of Mr. Zhang and Ms. Li has respectively given an irrevocable undertaking in favour of the Company that (i) they will not dispose of any of their current Shares owned by themselves, and such Shares will remain beneficially owned by them up to and including the Record Date; and (ii) they will lodge his acceptance of the Rights Shares, which will be the number of Rights Shares provisionally allotted to them nil-paid under the Rights Issue, with the Registrar, with payment in full therefor, by no later than 4:00 p.m. at the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents.

Having considered that (i) the Irrevocable Undertakings were given by Mr. Zhang and Ms. Li respectively in favour of the Company which solely represents the intention of Mr. Zhang and Ms. Li respectively in respect of his and her interests in the securities of the Company under the Rights Issue; and (ii) the Irrevocable Undertakings indicate Mr. Zhang and Ms. Li's support for the Rights Issue as they have undertaken to take up their own pro-rata entitlements under the Rights Issue, we consider that the terms of the Irrevocable Undertakings are fair and reasonable.

### 6.6 *The Placing Agreement*

As stated in the Letter from the Board, the Company will make arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent places for the benefit of the Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue.

The Company therefore appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the latest time for acceptance of the Rights Shares to be allotted and issued under the Rights Issue to independent places on a best effort basis. Any premium over the Subscription Price for those Rights Shares that is realised will be paid to the No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis. Please refer to the section headed "Placing Agreement for the Unsubscribed Rights Shares and NQS Unsold Rights Shares" in the Letter from the Board for the details of the Placing Agreement.

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In evaluating the fairness and reasonableness of the principal terms of the Placing Agreement, including the placing price and the placing commission payable to the Placing Agent, we have further considered recent placing exercises conducted on best effort basis as a result of the compensatory arrangement in connection with rights issue or open offer exercises initially announced by the companies listed on the Stock Exchange for the period from 1 January 2020 and up to the Last Trading Day which are subject to shareholders' approval. Based on the aforesaid criteria, we have identified an exhaustive list of 10 compensatory arrangements (the "**Placing Comparables**") by way of share placement. We consider that the aforesaid review period is adequate and appropriate to (i) reflect the latest market sentiment on share placements; and (ii) provide a sufficient sample for comparison with the Placing. The following table sets forth the relevant details of the Placing Comparables:

Date of announcement	Name of Company (Stock Code)	Proposed gross proceeds up to (HK\$ million)	Placing price	Commission fee/rate
10-Jan-20	Neway Group Holdings Limited (55)	101.5	Not less than subscription price	A fixed fee of HK\$100,000
27-Mar-20	Celestial Asia Securities Holdings Limited (1049)	99.7	Equivalent to subscription price	1% of the gross proceeds from the subscription of the unsubscribed shares successfully placed by the placing agent
22-May-20	China Solar Energy Holdings Limited (155)	69.2	Equivalent to subscription price	3% of the amount equal to the placing price multiplied by the number of shares successfully placed by the placing agent
27-May-20	Teamway International Group Holdings Limited (1239)	110.8	Equivalent to subscription price	The higher of HK\$250,000 or 1.5% of the placing price multiplied by the number of placing shares successfully placed by the placing agent
1-Jun-20	Summit Ascent Holdings Limited (102)	1,623.4	Not less than subscription price	The higher of HK\$150,000 or 1.5% of gross proceeds from the subscription of the unsubscribed rights shares and the NQS unsold rights shares

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Date of announcement	Name of Company (Stock Code)	Proposed gross proceeds up to (HK\$ million)	Placing price	Commission fee/rate
24-Aug-20	Tongda Hong Tai Holdings Limited (2363)	61.5	Equivalent to subscription price	A fixed fee of HK\$800,000
28-Aug-20	Royal Century Resources Holdings Limited (8125)	31.4	Not less than subscription price	2% of the amount equal to the placing price multiplied by the number of shares actually placed by the placing agent
3-Sep-20	Aeso Holding Limited (8341)	48.0	Not less than subscription price	2.5% of the amount which is equal to the placing price multiplied by the number of shares actually placed by the placing agent
11-Sep-20	Amber Hill Financial Holdings Limited (33)	287.0	Not less than subscription price	2% of the amount which is equal to the placing price multiplied by the number of unsubscribed rights shares and NQS unsold rights shares that have been successfully placed by the placing agent
18-Sep-20	Wan Cheng Metal Packaging Company Limited (8291)	24.0	Not less than subscription price	2.5% of the amount which is equal to the placing price multiplied by the number of shares actually placed by the placing agent
3-Dec-20	The Company	75.9	Not less than subscription price	3% of the amount which is equal to the Subscription Price multiplied by the number of Unsubscribed Rights Shares and the NQS Unsold Rights Shares that have been successfully placed by the Placing Agent

Source: *the website of the Stock Exchange*

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### 6.6.1 Placing Price

As stated in the Letter from the Board, the placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price and the final price determination will be depended on the demand for and the market conditions of the Unsubscribed Rights Shares during the process of placement. As illustrated in the table above, it is common for the placing price under compensatory arrangements adopted by the Placing Comparables to be not less than their respective subscription price.

Given that (i) the placing price shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; (ii) the placing would be conducted on a best effort basis and the number of Shares to be issued under the Right Issue would be reduced in the event that certain Unsubscribed Rights Shares and NQS Unsold Rights Shares are not placed. Accordingly, the resulting dilution effect on the Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders would be lowered; and (iii) the Subscription Price is fair and reasonable as discussed in the sub-section headed "The Subscription Price" above, we considered that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

### 6.6.2 Placing Commission

As illustrated in the table above, we noted that the commission fees payable to the respective placing agents under Placing Comparables are either (i) a fixed fee ranging from HK\$100,000 to HK\$800,000; or (ii) based on certain percentage of the gross proceeds from the subscription of the unsubscribed or unsold shares ranging from 1.0% to 3.0%.

Given that (i) the Compensatory Arrangement under the Placing Agreement are in compliance with Rule 10.31(1)(b) of the GEM Listing Rules; (ii) the Compensatory Arrangements will provide a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company; (iii) the Compensatory Arrangements will provide a compensatory mechanism for the No Action Shareholders if they neither subscribe for the Rights Shares nor sell their nil-paid rights since under such arrangements, the unsubscribed or unsold Rights Shares will be first offered to independent places and any premium over the Subscription Price will be paid to the No Action Shareholders; (iv) the Compensatory Arrangements will be managed by the Placing Agent which is an Independent Third Party, indicating that the terms of the Placing Agreement were arrived at after arm's length negotiation between the Company and the Placing Agent; (v) the final Placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be determined with reference to the prevailing market conditions and will be not less than the Subscription Price which is fair and reasonable, meaning that the places under the Placing will not be preferentially treated over the Qualifying Shareholders who are entitled to participate in the Rights Issue at the Subscription Price; and (vi) the Placing Commission payable to the Placing Agent is within the ranges of those charged in the Placing Comparables, we consider that the terms of the Placing Agreement, including the Placing Commission, are fair and reasonable.



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

As stated in the Letter from the Board, on the assumption that there is no other change in the shareholding structure before completion of the Rights Issue, set out below is the shareholding structure of the Company (i) as at the date of the Latest Practicable Date; (ii) immediately after completion of the Rights Issue assuming all Shareholders have taken up all the entitled Rights Shares; (iii) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent); and (iv) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares nor any of Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent):

	(i) As at the Latest Practicable Date		(ii) immediately after completion of the Rights Issue assuming all Shareholders have taken up all the entitled Rights Shares		(iii) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent)		(iv) immediately after completion of the Rights Issue (assuming none of the Shareholders (other than Mr. Zhang and Ms. Li) has taken up any entitled Rights Shares nor all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Zhang	22,752,640	8.09	68,257,920	8.09	68,257,920	8.09	68,257,920	19.18
Ms. Li	14,587,600	5.19	43,762,800	5.19	43,762,800	5.19	43,762,800	12.29
Exuberant Global Limited (Note 2)	58,840,000	20.92	176,520,000	20.92	58,840,000	6.97	58,840,000	16.53
Time Prestige Holdings Limited (Note 3)	5,360,000	1.91	16,080,000	1.91	5,360,000	0.64	5,360,000	1.51
Bustling Capital Limited (Note 4)	13,400,000	4.76	40,200,000	4.76	13,400,000	1.59	13,400,000	3.76
<b>Public Shareholders</b>								
Placees	-	-	-	-	487,872,342	57.81	-	-
Other Public Shareholders	166,336,171	59.13	499,008,513	59.13	166,336,171	19.71	166,336,171	46.73
<b>Total</b>	<b>281,276,411</b>	<b>100.00</b>	<b>843,829,233</b>	<b>100.00</b>	<b>843,829,233</b>	<b>100.00</b>	<b>355,956,891</b>	<b>100.00</b>

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

*Notes:*

1. These scenarios are for illustrative purpose only.
2. Exuberant Global Limited (“**Exuberant Global**”) holds 58,840,000 Shares. Exuberant Global also holds convertible bonds convertible into 161,587,999 Shares. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the Shares held by Exuberant Global.
3. Time Prestige Holdings Limited (“**Time Prestige**”) holds 5,360,000 Shares. Time Prestige also holds convertible bonds convertible into 26,868,571 Shares. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the Shares held by Time Prestige. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in the Shares held by Bustling Capital Limited (“**Bustling Capital**”).
4. Bustling Capital holds 13,400,000 Shares. Bustling Capital also holds convertible bonds convertible into 67,171,428 Shares. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the Shares held by Bustling Capital. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the Shares held by Time Prestige.
5. As at the Latest Practicable Date, each of Exuberant Global, Time Prestige and Bustling Capital does not give any undertaking as to whether to take up its entitlement under the Rights Issue.
6. Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

We concur with the Directors’ view that the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables them to maintain their proportionate interests in the Company and to participate in the future business development of the Company should they wish to do so. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights issue and their aggregate shareholding interests in the Company might be diluted by a maximum of approximately 39.42%, assuming only Mr. Zhang and Ms. Li have taken up their Rights Shares and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent.

In justifying the fairness and reasonableness of the potential dilution effect of the Rights Issue, we have compared the maximum dilution effect of the Rights Issue with that of the Comparables. Despite the maximum dilution effect of the Rights Issue of 66.67% being higher than the average maximum dilution effect of the Comparables of approximately 54.72%, we are of the view that such dilution effect is fair and reasonable considering that (i) it falls within the range from approximately 23.08% to 83.33% of the Comparables; (ii) 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; (iii) 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 (iv) the reasons for and benefits of the Rights Issue as stated in the section headed “2. Reasons for and benefits of the Rights Issue”.

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

*8.1 Effect on liquidity*

As stated in the Letter from the Board, the cash and cash equivalents of the Group was approximately HK\$131 million as at 19 November 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.

*8.2 Effect on gearing ratio*

According to the Interim Report 2020, the Group's gearing ratio was approximately negative 36.9 as at 30 June 2020, calculated based on the total debts over shareholder's equity.

The shareholders equity of the Group would be enlarged upon completion of the Rights Issue. As part of the net proceeds from the Rights Issue will be applied as for repayment of the Promissory Note of HK\$5.0 million and convertible bonds of approximately HK\$35.0 million, the net interest-bearing debts of the Group is expected to decrease due to the Rights Issue. Consequently, the gearing ratio will be reduced.

*8.3 Effect on net assets*

The unaudited consolidated net liabilities of the Group attributable to owners of the Company was approximately HK\$12.5 million as at 30 June 2020 according to the "Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group" set out in Appendix II to the Circular. Upon completion of the Rights Issue, based on 562,552,822 Rights Shares to be issued at the Subscription Price of HK\$0.135 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\$59.4 million. The unaudited consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2020 was approximately HK\$0.045, which would increase to unaudited consolidated net tangible assets attributable to owners of the Company of approximately HK\$0.070 per Share immediately after completion of the proposed Rights Issue.

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

## LETTER OF ADVICE FROM GIRAFFE CAPITAL

### RECOMMENDATION

In arriving at our opinion and recommendation in respect of the Rights Issue, we have considered that (i) the Company would benefit from the proposed Rights Issue by replenishing its working capital, reducing its indebtedness and diversifying the existing business risk though tapping into the new business in nicotine manufacturing industry; (ii) the Rights Issue is a suitable source of financing as compared to other fund-raising alternatives; (iii) the Rights Issue offers all the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata provisional entitlement of the Rights Shares and hence avoids dilution and the Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market; (iv) although the Rights Issue is conducted on non-underwritten basis, the Group could still benefit from the issue of Rights Shares by lowering their indebtedness and gearing through repayment of the Promissory Note and increasing their ongoing working capital to support their operation needs, and the adoption of the Placing Arrangement simultaneously could enhance the possibility to raise additional funds to the Company; (v) the principal terms of the Rights Issue, in particular the Subscription Price, is fair and reasonable so far as the Independent Shareholders are concerned; (vi) the principal terms of the Placing Agreement, in particular the placing price and the placing commission, are fair and reasonable so far as the Independent Shareholders are concerned; and (vii) the Rights Issue is expected to bring a positive financial impact on the Group, in particular, improving the gearing ratio of the Group, therefore, we are of the opinion that the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions at the SGM for approving the Rights Issue and the transactions contemplated thereunder.

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 12 years of experience in the field of corporate finance advisory.*

## 1. FINANCIAL INFORMATION

Details of the financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are disclosed in the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019 and the interim report of the Company for the period ended 30 June 2020 respectively. These annual reports and the interim report are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.capitalfinance.hk>).

Financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.capitalfinance.hk>):

- annual report of the Company for the year ended 31 December 2017 published on 28 March 2018 (pages 58 to 135):  
<https://www1.hkexnews.hk/listedco/listconews/gem/2018/0328/gln20180328437.pdf>
- annual report of the Company for the year ended 31 December 2018 published on 29 March 2019 (pages 61 to 153):  
<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329491.pdf>
- annual report of the Company for the year ended 31 December 2019 published on 30 March 2020 (pages 70 to 166):  
<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0330/2020033000514.pdf>

Financial information of the Group for the six months ended 30 June 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.capitalfinance.hk>):

- interim report of the Company for the six months ended 30 June 2020 published on 14 August 2020 (pages 2 to 26):  
<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0814/2020081400531.pdf>

## 2. INDEBTEDNESS

### Convertible bonds

As at the close of business on 30 November 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding zero-coupon convertible bonds in the aggregate principal amount of HK\$482,349,000 with carrying amount of the liability portion of approximately HK\$419,185,000 which comprised (i) aggregate principal amount of HK\$288,349,000 due on 24 June 2022 with carrying amount of the liability portion of approximately HK\$257,291,000; and (ii) aggregate principal amount of HK\$194,000,000 due on 5 February 2023 with carrying amount of the liability portion of approximately HK\$161,894,000. The convertible bonds, if not converted, are unsecured, unguaranteed and payable in one lump sum on their respective maturity dates at 105% of the principal amount.

**Promissory note**

As at 30 November 2020, the Group had outstanding promissory note in the principal amount of HK\$5,000,000 due on 6 February 2021 with carrying amount of approximately HK\$5,280,000. The promissory note is unsecured, unguaranteed and carry an interest rate of 8% per annum.

**Lease liabilities**

As at 30 November 2020, the Group had outstanding secured and unguaranteed lease liabilities in respect of leasehold land and buildings of approximately HK\$5,891,000 which were secured by rental deposits paid by the Group.

**Contingent liabilities**

As at 30 November 2020, the Group had no contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not have any other loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding on 30 November 2020.

The Directors confirm that, save as disclosed therein, there has not been any material change in the indebtedness, contingent liabilities and commitments of the Group since 30 November 2020.

**3. WORKING CAPITAL**

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

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, save as disclosed in the profit warning announcements of the Company dated 6 May 2020, 5 August 2020, 2 November 2020 and 4 November 2020, in particular the increase in loss as a result of the unfavorable economic environment and the extreme market and operating conditions caused by COVID-19 pandemic, the Directors were not aware of any material adverse changes 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).

## 5. TRADING AND FINANCIAL PROSPECTS OF THE GROUP

As set out in the third quarterly report of the Company for the nine months ended 30 September 2020, the Group generated revenue principally from engaging in short-term financing services comprises pawn loan business, micro-financing business, entrusted loan business and financial consultancy business. Interest income from loans to customers mainly represents the interest income from entrusted loans, pawn loans and micro credit loans. Settlement gain from distressed debt assets classified in loans to customers represents gain from settlement of receivable from obligors of non-performing loans. Financial consultancy income is generated from the provision of customised financial consultancy services including the design of financing structures and solutions based on the credit portfolios of customers.

The Group's revenue decreased from approximately HK\$42.1 million for the nine months ended 30 September 2019 to approximately HK\$29.5 million for the nine months ended 30 September 2020, the financial performance of the Group's ordinary business in short-term financing services has been adversely affected by the keen competition in this industry, the US-China tensions and the COVID-19 pandemic since early 2020 whereas the growth of the short-term financing business, which are capital intensive in nature, has been restrained by government policies.

Market competition is another key factor affecting our business. Apart from the large multi-national corporate consultancy institutions with global network and local presence in the PRC, the Group faces local competition from branded medium-sized and well-established corporate consultancy firms, which offer similar range of services as our Group. The Group may not be able to compete effectively and successfully with the competitors and its results of operations may be adversely affected should such competition is being intensified.

The recent acquisition of 50% equity interests in Beijing Huayuan Sifang Asset Management Company Limited (the "BJHS"), a company principally engaged in distressed debt assets management and provision of consultancy services, has diversified the business risks of the Group.

Looking to the future, the development of US-China tensions and the COVID-19 pandemic are expected to create difficult operating conditions for businesses. In this regard, the People's Bank of China is carrying out prudent and moderately flexible monetary policy by strengthening counter-cyclical adjustments and keeping reasonably abundant liquidity in the banking system to ensure sound monetary and financial conditions of the small, medium and micro-sized enterprises (the "SMMEs"). This may lead to a more fierce competition among the money lending industry in the PRC. The Group's short-term financing service business will continue to offer a faster and more flexible service to the SMMEs and the individual borrowers in order to maintain competitiveness in the financial market. Going forward, the Group believes that the recent acquisition of 50% equity interests in the BJHS will continue to diversify the business risks and to create synergies with the existing business, thereby taking the Group to the next stage. At the same time, the Group will continue to seek new investment opportunities to broaden and diversify our income stream so as to improve the overall financial performance of the Group and maximise the value for the Shareholders.



As part of the Group's business strategic plan to diversify its business into high expected growth industries such as biotechnology related industries, the Group intends to apply part of the net proceeds to the establishment of new business on the biotechnology side, where the actual net proceeds from the Rights Issue permits. Please refer to the paragraph headed "REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND INTENDED USE OF PROCEEDS" in the Letter from the Board of this circular for more details.

As such, the Company considers that the net proceeds from the Rights Issue will provide the Group with additional capital to support the short-term financing services business in face of the current difficult market condition and to develop the existing short-term financing service business as well as the advancing business with a view to generating additional revenue to the Group.

The Company believes new investments made in debt assets management and provision of consultancy services and to be made in the biotechnology related industries will further diversify the business risks and will potentially bring greater return in long terms. The Company will continue to look for further investment opportunities to benefit its investors and Shareholders.





**MAZARS CPA LIMITED**  
中審眾環(香港)會計師事務所有限公司  
42<sup>nd</sup> Floor, Central Plaza  
18 Harbour Road, Wanchai, Hong Kong  
香港灣仔港灣道 18 號中環廣場 42 樓  
Tel 電話: (852) 2909 5555  
Fax 傳真: (852) 2810 0032  
Email 電郵: info@mazars.hk  
Website 網址: www.mazars.hk

7 January 2021

The Directors  
Capital Finance Holdings Limited  
Unit 2613A, 26/F  
Mira Place Tower A  
132 Nathan Road  
Tsim Sha Tsui, Kowloon  
Hong Kong

Dear Sirs,

**CAPITAL FINANCE HOLDINGS LIMITED  
INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Capital Finance Holdings Limited (the "**Company**") and its subsidiaries (collectively 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 attributable to owners of the Company as at 30 June 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Appendix II to the circular dated 7 January 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 562,552,822 rights shares at HK\$0.135 per rights shares (the "**Rights Shares**") on the basis of two Rights Shares for every one existing share of the Company held on the rights issue 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 Issue had taken place on 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 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

## **Reporting Accountants' 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.

We apply 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*” issued by the HKICPA and accordingly maintain 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 Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the 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 event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited 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 compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

**Mazars CPA Limited**  
*Certified Public Accountants*  
Hong Kong

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

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared by the Directors in accordance with Rule 7.31 of the GEM Listing Rules is set out to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had been completed on 30 June 2020.

The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at the date to which it is made up or at any future date.

The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, as extracted from the published interim report of the Company for the six months ended 30 June 2020, with adjustments described below.

Unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2020 <i>HK\$'000</i> <i>(Note i)</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note ii)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue <i>HK\$'000</i>	Unaudited consolidated net tangible liabilities of the Group per share attributable to owners of the Company as at 30 June 2020 <i>HK\$</i> <i>(Note iii)</i>	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 <i>HK\$</i> <i>(Note iv)</i>
Rights Issue of 562,552,822				
Rights Shares	(12,530)	71,969	(0.045)	0.070

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

*Notes:*

- (i) The unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2020 of approximately HK\$12,530,000 is extracted from the published interim report of the Company for the six months ended 30 June 2020.
- (ii) The estimated net proceeds from the Rights Issue of approximately HK\$71,969,000 is calculated based on 562,552,822 Rights Shares to be issued (in the proportion of two (2) Rights Shares for every one (1) existing share held as at the Rights Issue record date) at the subscription price of HK\$0.135 per Rights Shares, after deduction of the estimated related expenses of approximately HK\$3,976,000, assuming that the Rights Issue had been completed on 30 June 2020.
- (iii) The unaudited consolidated net tangible liabilities per share attributable to owners of the Company as at 30 June 2020 is approximately HK\$0.045, which is calculated based on the unaudited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2020 of approximately HK\$12,530,000 divided by 281,276,411 shares in issue as at 30 June 2020.
- (iv) The unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after completion of the Rights Issue is approximately HK\$0.070, 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\$59,439,000 divided by 843,829,233 shares, which represents 281,276,411 shares of the Company in issue as at 30 June 2020 and 562,552,822 Rights Shares to be issued, pursuant to the Rights Issue (in the proportion of two (2) 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.
- (v) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

## 1. RESPONSIBILITY STATEMENT

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

## 2. SHARE CAPITAL

### The authorised and issued share capital of the Company

#### (i) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares of HK\$0.05 each	<u>100,000,000.00</u>
<i>Issued and fully-paid:</i>		
<u>281,276,411</u>	Shares of HK\$0.05 each	<u>14,063,820.55</u>

#### (ii) Immediately following the allotment and issue of the Rights Shares (assuming no change in the number of issued Shares and all Rights Shares are fully accepted by all Qualifying Shareholders)

<i>Authorised:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares of HK\$0.05 each	<u>100,000,000.00</u>
<i>Issued and fully-paid:</i>		
281,276,411	Shares of HK\$0.05 each	14,063,820.55
562,552,822	Rights Shares to be allotted and issued under the Rights Issue	28,127,641.10
<u>843,829,233</u>	Shares of HK\$0.05 each	<u>42,191,461.65</u>

- (iii) *Immediately following the allotment and issue of the Rights Shares (assuming no change in the number of issued Shares and none of the Rights Shares are accepted by the Qualifying Shareholders (other than Mr. Zhang and Ms. Li))*

<i>Authorised:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares of HK\$0.05 each	<u>100,000,000.00</u>
 <i>Issued and fully-paid:</i>		
281,276,411	Shares of HK\$0.05 each	14,063,820.55
74,680,480	Rights Shares to be allotted and issued under the Rights Issue	3,734,024.00
<u>355,956,891</u>	Shares of HK\$0.05 each	<u>17,797,844.55</u>

All the 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* with the Shares then in issue in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares.

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

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

As at the Latest Practicable Date, save for the Convertible Bonds, the Company had no other outstanding warrants, options or convertible or exchangeable securities in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares.

### 3. DISCLOSURE OF INTERESTS

#### (a) Directors' and chief executive's interests and short positions in shares and underlying shares

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company and their associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) would have 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 (ii) were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the GEM Listing Rules, were as follows:

*Long and short positions in Shares and underlying Shares*

Name of Director	Nature of interest	Number of Shares/ underlying Shares held	Approximately percentage or attributable percentage of shareholding
Mr. Zhang	Beneficial owner	22,752,640 (L)	8.09%
Ms. Li	Beneficial owner	14,587,600 (L)	5.19%

*(L) denotes long position*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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 and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.



**(b) Substantial shareholders' interests and short positions in shares and underlying shares**

As at the Latest Practicable Date, so far as any Directors are aware, the interest or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares, underlying Shares or debentures of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group were as follows:

*Long and short positions in Shares and underlying Shares*

Name of substantial shareholder	Number of shares interested			Percentage of the issued share capital of the Company (Note 5)
	Direct interests	Deemed interests	Total interests	
Exuberant Global Limited (Note 1)	220,427,999	–	220,427,999	78.36
Mr. Dai Di (Note 1)	–	220,427,999	220,427,999	78.36
Time Prestige Holdings Limited (Note 2)	32,228,571	–	32,228,571	11.45
Mr. Dai Hao (Notes 2 and 3)	–	112,799,999	112,799,999	40.10
Bustling Capital Limited (Note 3)	80,571,428	–	80,571,428	28.64
Ms. Jin Yu (Notes 2 and 3)	–	112,799,999	112,799,999	40.10
Silver Palm Limited (Note 4)	14,285,714	–	14,285,714	5.08
Mr. Zhang Xiaoman (Note 4)	–	14,285,714	14,285,714	5.08

*Notes:*

- The 220,427,999 Shares held by Exuberant Global Limited (“**Exuberant Global**”) represent (i) 58,840,000 Shares; and (ii) 161,587,999 Shares to be issued upon full conversion of the convertible bonds. Exuberant Global is wholly and beneficially owned by Mr. Dai Di. Accordingly, Mr. Dai Di is deemed to be interested in the 220,427,999 Shares held by Exuberant Global.

2. The 32,228,571 Shares held by Time Prestige Holdings Limited (“**Time Prestige**”) represent (i) 5,360,000 Shares; and (ii) 26,868,571 Shares to be issued upon full conversion of the convertible bonds. Time Prestige is wholly and beneficially owned by Mr. Dai Hao. Accordingly, Mr. Dai Hao is deemed to be interested in the 32,228,571 Shares. In addition, by virtue of being the spouse of Ms. Jin Yu, Mr. Dai Hao is also deemed to be interested in 80,571,428 Shares held by Bustling Capital Limited (“**Bustling Capital**”).
3. The 80,571,428 Shares held by Bustling Capital represent (i) 13,400,000 Shares; and (ii) 67,171,428 Shares to be issued upon full conversion of the convertible bonds. Bustling Capital is wholly and beneficially owned by Ms. Jin Yu. Accordingly, Ms. Jin Yu is deemed to be interested in the 80,571,428 Shares. In addition, by virtue of being the spouse of Mr. Dai Hao, Ms. Jin Yu is also deemed to be interested in the 32,228,571 Shares held by Time Prestige.
4. Silver Palm Limited (“**Silver Palm**”) is wholly and beneficially owned by Mr. Zhang Xiaoman. Accordingly, Mr. Zhang Xiaoman is deemed to be interested in the 14,285,714 Shares held by Silver Palm.
5. The percentage represents the number of Shares interested divided by the number of the issued Shares as at the Latest Practicable Date.

Saved as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the issued voting shares of any member of the Group.

#### 4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company (if any) has any existing or proposed service contracts with any member of the Enlarged Group which is not determinable by the Company within one (1) year without payment of any compensation (other than statutory compensation).

#### 5. DIRECTORS’ INTERESTS IN CONTRACT, ASSETS AND ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

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

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company (if any) or their respective associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## 7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

## 8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Mazars CPA Limited	Certified Public Accountants
Giraffe Capital	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

As at the Latest Practicable Date, each of above experts did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 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 date of this circular and are or may be material:

- (a) the deeds executed by the Company on 20 February 2019 to extend the maturity date of the convertible bonds issued in 2014 by 3 years from 24 June 2019 to 24 June 2022 and the convertible bonds issued in 2015 by 3 years from 5 February 2020 to 5 February 2023 respectively;
- (b) the sale and purchase agreement dated 6 December 2019 and entered into between 北京佳昭創智科技有限公司 (Beijing Fortune Front Innovative Technology Company Limited\*), a wholly foreign owned enterprise established in the PRC with limited liability and a wholly-owned subsidiary of the Company as purchaser and two individuals as vendors in relation to the acquisition of 50% equity interests in 北京華園四方資產管理有限公司 (Beijing Huayuan Sifang Asset Management Company Limited\*) for a cash consideration of RMB30,500,000;
- (c) the placing agreement dated 30 January 2020 and entered into between the Placing Agent and the Company in relation to the placing of 105,264,000 placing shares (equivalent to 21,052,800 Shares upon the share consolidation announced on 7 February 2020 having become effective) at the placing price of HK\$0.095 per place share;
- (d) the trust agreement, subscription application form dated 28 September 2020 entered into between 拉薩嘉德財務顧問有限公司 (Lhasa Jiade Financial Consultant Company Limited\*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company, as subscriber and Bohai International Trust Co., Ltd. as trustee (the “Trustee”) in relation to the subscription of 10 million Secondary Units of the trust fund (the “Trust Fund”) to be set up by the trustee amounting to RMB10 million;
- (e) the management service agreement dated 28 September 2020 and entered into between 北京萬馳科技有限公司 (Beijing Wanchi Technology Company Limited\*) (“Beijing Wanchi”), a wholly-foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as manager and the Trustee in relation to the appointment of Beijing Wanchi as a manager of the Trust Fund; and
- (f) the Placing Agreement.

**10. EXPENSES**

The expenses in connection with the Rights Issue, including placing commission, financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$3.9 million, which are payable by the Company.

**11. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**

<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business in Hong Kong</b>	Unit 2613A, 26/F., Mira Place Tower A 132 Nathan Road, Tsimshatsui Kowloon, Hong Kong
<b>Authorised representatives</b>	Zhang Wei Unit 2613A, 26/F., Mira Place Tower A 132 Nathan Road, Tsimshatsui Kowloon, Hong Kong
	Kwok Ka Huen 7th Floor, Centre Point, 181-185 Gloucester Road Wanchi, Hong Kong
<b>Company secretary</b>	Ms. Kwok Ka Huen
<b>Placing Agent</b>	KGI Asia Limited 41/F, Central Plaza 18 Harbour Road Wanchai, Hong Kong
<b>Financial Adviser to the Company</b>	AccFin Corporate Finance Limited Suite 501, 5/F., Tower B New Mandarin Plaza 14 Science Museum Road Tsim Sha Tsui, Kowloon Hong Kong

<b>Legal adviser to the Company as to Hong Kong laws</b>	Michael Li & Co. 19/F Prosperity Tower No. 39 Queen's Road Central Central Hong Kong
<b>Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders</b>	Giraffe Capital Limited 3/F, 8 Wyndham Street Central, Hong Kong
<b>Auditors</b>	Mazars CPA Limited Certified Public Accountants 42nd Floor, Central Plaza 18 Harbour Road, Wanchai Hong Kong
<b>Principal bankers</b>	Bank of Communications (Hong Kong) Limited The Bank of East Asia, Limited.
<b>Principal share registrar</b>	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Tengis Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

## Directors and Senior Management

### *Executive Directors*

**Mr. Zhang**, aged 52, is the Chairman, chief executive officer (the “**CEO**”), executive director and a member of the nomination committee of the Company since 1 December 2015. Mr. Zhang currently is a director of Prima Finance Holdings Limited (“**Prima Finance**”) and general manager of Beijing Wanchi, both of which are subsidiaries of the Company which were acquired by the Group in June 2014. Mr. Zhang joined Beijing Wanchi in November 2012 and was appointed as a director of Prima Finance in November 2012. Mr. Zhang has taken up the management role as the chairman/director and general manager of a number of subsidiaries of the Company. Mr. Zhang holds a diploma in banking management from Harbin University of Finance and studied the subject of law and graduated from the People’s Republic of China Communist Party Beijing City Committee Party School. Mr. Zhang has over 26 years of experience in the financial management field. Prior to joining Prima Finance and Beijing Wanchi in 2012, he held various managerial positions in banking and investment management corporations.

**Ms. Li**, aged 43, is the executive director, vice chairlady (“**Vice Chairlady**”) and deputy chief executive officer (“**Deputy CEO**”) of the Company. She has also been appointed as the compliance officer of the Company. She is a director of Fortune Front Investments Limited and Beijing Wanchi, both are subsidiaries of the Company. Ms. Li was the chief operating officer and executive director of the Company from August 2015 and July 2016 respectively, and all such roles ceased in September 2017. Ms. Li obtained a master’s degree in management from Tianjin University in the People’s Republic of China. Ms. Li is currently the executive director of China Vered Financial Holding Corporation Limited (formerly known as China Minsheng Financial Holding Corporation Limited) (stock code: 245) (“**China Vered**”), a company listed on the Main Board of the Stock Exchange. Ms. Li was also the executive vice president of China Vered from August 2018 to May 2019. Ms. Li was the executive director and the chief risk and operating officer of Ascent International Holdings Limited (stock code: 264) from September 2017 to September 2018; and the chief risk and operating officer of KEE Holdings Company Limited (stock code: 2011) from September 2017 to July 2018, which are both listed on the Main Board of the Stock Exchange.

*Non-executive Director*

**Mr. Zang Wei** (“**Mr. Zang**”), aged 44, is the non-executive director of the Company. He graduated from Nanjing University and obtained the Legal Professional Qualification Certificate issued by Ministry of Justice of the People’s Republic of China. Mr. Zang is currently the deputy general manager of the legal department of Zhong Fa Group, a company controlled by Mr. Dai Hao, Ms. Jin Yu and Mr. Dai Di who are the substantial shareholders of the Company; and the corporate governance officer of the board office of Zhong Fa Group. Mr. Zang had worked at Ecotime Real Estate (Group) Company Limited\* (永泰房地產(集團)有限公司), a subsidiary of Zhong Fa Group and had held the positions of legal supervisor for Lianyuangang Project\* (連雲港項目), legal manager, assistant manager, manager and assistant to general manager of the legal department under cost management division. Mr. Zang has more than 18 years of experience in legal practices.

*Independent Non-executive Directors*

**Mr. Chen Yihua** (“**Mr. Chen**”), aged 47, is the independent non-executive director, chairman of the nomination committee and a member of the remuneration committee and audit committee of the Company. Mr. Chen holds a bachelor’s degree in machinery manufacturing engineering from Tianjin University, the PRC. Mr. Chen has 19 years of experience in management in international express logistic industry. Mr. Chen is also familiar with import and export business in machinery and equipment. Mr. Chen held managerial position in different multinational companies, such as China National Overseas Engineering Corporation and FedEx Express-DTW Co. Ltd. Mr. Chen is currently the senior director of infrastructure and process engineering of DHL-Sinotrans International Air Courier Ltd.

**Mr. Du Hui** (“**Mr. Du**”), aged 47, is the independent non-executive director of the Company. Mr. Du is also a chairman of the remuneration committee, and a member of the audit committee and nomination committee of the Company. Mr. Du has over 15 years of experience in financial management in the PRC. Mr. Du has been the sales controller of Beijing Lanxum Technology Company Limited (“**Beijing Lanxum**”), a company listed on the Chinext of Shenzhen Stock Exchange (stock code: SHE: 300010), since December 2010. Prior to that, Mr. Du had been a financial controller in Beijing Lanxum from 2002 to November 2010. Mr. Du graduated in 1998 from Sun Yat-sen University with a bachelor’s degree of laws and graduated in 2002 from Renmin University of China, with an undergraduate degree in Accounting.



**Dr. Wong Wing Kuen Albert (“Dr. Wong”)**, aged 69, is the independent non-executive director, chairman of the audit committee and a member of the nomination committee and remuneration committee of the Company. Dr. Wong holds a Doctor of Philosophy in Business Administration degree from the Bulacan State University, Republic of the Philippines. He is a fellow member of The Chartered Governance Institute, The Hong Kong Institute of Chartered Secretaries, The Taxation Institute of Hong Kong, Association of International Accountants and Society of Registered Financial Planners. He is a member of Hong Kong Securities Institute, The Chartered Institute of Arbitrators and The Chartered Institute of Bankers in Scotland and a full member of Macau Society of Certified Practising Accountants.

Dr. Wong is currently the principal consultant of KND Associates CPA Limited.

Dr. Wong is currently an independent non-executive director of each of Solargiga Energy Holdings Limited (Stock Code: 757), China Merchants Land Limited (Stock Code: 978), China VAST Industrial Urban Development Company Limited (Stock Code: 6166), China Medical & HealthCare Group Limited (Stock Code: 383), China Wan Tong Yuan (Holdings) Limited (Stock Code: 6966) (previously listed on the GEM of the Stock Exchange (Stock Code: 8199)) and Dexin China Holdings Company Limited (Stock Code: 2019), all companies listed on the Main Board of the Stock Exchange.

#### *Senior Management*

**Ms. Lam Fei Sui (“Ms. Lam”)**, aged 42, is the chief financial officer and authorised representative of the Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Ms. Lam joined the Group in July 2015. She holds a Bachelor’s Degree of arts in accountancy from The Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants. Ms. Lam has more than 15 years of experience in accounting and finance, auditing and internal audit in both Hong Kong and the PRC. Prior to joining the Group, Ms. Lam has worked for an international accounting firm and a company whose shares are listed on the Main Board of the Stock Exchange.

## 12. AUDIT COMMITTEE

The audit committee of the Company comprises of Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen Albert, who are independent non-executive Directors. Biographical details of them have been set out above.

The responsibilities and authorities of the audit committee of the Company shall include such responsibilities and authorities set out in the relevant code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as contained in Appendix 15 of the GEM Listing Rules (as amended from time to time) and the duty shall include relationships with the Company’s auditors, review of the Company’s financial information and oversight of the Company’s financial reporting system, risk management and internal control systems.

**13. MISCELLANEOUS**

- (a) The company secretary of the Company is Ms. Kwok Ka Huen, who holds a bachelor's degree in Accounting and Finance from Leeds Metropolitan University. She is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. She possesses over 11 years of experience in the fields of accounting, auditing and tax consultancy.
- (b) The business address of the Directors, senior management and the company secretary of the Company is the same as the head office and principal place of business of the Company in Hong Kong at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.
- (c) The Company's Hong Kong branch share registrar is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours on any weekday (except for public holidays) at the head office and principal place of business in Hong Kong of the Company at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 respectively;
- (c) the interim report of the Company for the six months ended 30 June 2020;
- (d) the unaudited pro forma financial information of the Group, the text of which is set out on pages II-4 to II-5 of this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 33 of this circular;
- (f) the letter of advice from Giraffe Capital, the text of which is set out on pages 34 to 73 of this circular;
- (g) the written consents of the experts as referred to in the section headed "Qualifications and consents of experts" in this appendix;

- (h) the material contracts referred to in the section headed "Material contracts" in this appendix; and
- (i) this circular.



**Capital Finance Holdings Limited**  
**首都金融控股有限公司**

*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8239)**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of the shareholders of Capital Finance Holdings Limited (the “**Company**”) will be held at Unit 2613A, 26/F., Mira Place Tower A, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong, on 26 January 2021 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

1. “**THAT** conditional upon, among others, the GEM Listing Committee (the “**GEM Listing Committee**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Rights Issue (as defined below):
  - (a) the issue by way of rights (the “**Rights Issue**”) of not less than 74,680,480 ordinary shares of HK\$0.05 each (each a “**Share**”) and up to 562,552,822 Shares (assuming that there is no change in issued share capital from the date hereof till the Record Date (as defined below)) (each a “**Rights Share**”) to the Shareholders (the “**Qualifying Shareholders**”) whose names appear on the register of members of the Company on the date by reference to which entitlements to the Rights Issue are to be determined (the “**Record Date**”) (excluding those shareholders (the “**Non-Qualifying Shareholders**”) of the Company with registered addresses as shown in the register of members of the Company at the close of business on the Record Date in places outside Hong Kong in respect of whom the Board consider it necessary or expedient not to offer the Rights Shares after making the relevant enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory body or stock exchange in those places), in the proportion of two (2) Rights Shares for every one existing Share then held on the Record Date at the subscription price of HK\$0.135 per Rights Share and otherwise on the terms and conditions set out in the circular of the Company dated 7 January 2021 and the transactions contemplated thereunder be and are hereby approved;

## NOTICE OF SGM

- (b) the placing agreement dated 3 December 2020 (the “**Placing Agreement**”) and entered into between the Company and KGI Asia Limited (a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) in relation to the Rights Issue and the transactions thereunder be and are hereby approved, confirmed and ratified;
- (c) the board (the “**Board**”) of directors (each a “**Director**”) of the Company or a committee thereof be and is hereby authorised to allot and issue the Rights Shares (in both nil-paid form and fully-paid form) pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to Non-Qualifying Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company; and
- (d) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things in connection with the Rights Issue or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Rights Issue, the Placing Agreement and the transactions contemplated thereunder.”

By Order of the Board  
**Capital Finance Holdings Limited**  
**Zhang Wei**  
*Chairman and Executive Director*

Hong Kong, 7 January 2021

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of business in Hong Kong:*  
Unit 2613A, 26/F.  
Mira Place Tower A  
132 Nathan Road  
Tsimshatsui  
Kowloon, Hong Kong

## NOTICE OF SGM

*Notes:*

1. Any member of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM (i.e. Sunday, 24 January 2021 at 11:00 a.m. (Hong Kong time)) or any adjournment thereof.
4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting in cases where the SGM was originally held within 12 months from such date.
5. Where there are joint holders of any shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
7. The Company's register of members will be closed during the period from Thursday, 21 January 2021 to Tuesday, 26 January 2021, both days inclusive, for the purpose of ascertaining the Shareholders' entitlement to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 20 January 2021.
8. The voting at the SGM (or any adjournment thereof) shall be taken by way of poll.