

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in KOALA Financial Group 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, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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



KOALA Financial Group Limited

樹熊金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8226)

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



Underwriter to the Rights Issue



Supreme China Securities Limited
智華證券有限公司

Independent Financial Adviser to
the Independent Board Committee and Independent Shareholders



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

A letter from the Board is set out on pages 9 to 29 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 30 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-24 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Wednesday, 13 July 2022. Dealings in the Rights Shares in nil-paid form are expected to take place from Tuesday, 26 July 2022 to Tuesday, 2 August 2022 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Tuesday, 26 July 2022 to Tuesday, 2 August 2022 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

A notice convening the EGM to be held at Units 01-02, 13th Floor, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong on Monday, 11 July 2022 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed in this circular. Such form of proxy is also published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.koala8226.com.hk.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish. Delivery of an instrument appointing a proxy shall not preclude you from attending and voting in person at the EGM and in such event, the instrument appointing a proxy shall be deemed revoked.

The Rights Issue will proceed on a best effort basis irrespective of the level of acceptance of the provisionally allotted Rights Shares and is subject to the fulfilment of conditions. Details of the underwriting arrangement are set out in the paragraph headed “THE UNDERWRITING ARRANGEMENT” in the Letter from the Board. It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right in its absolute discretion to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. Such events are set out in the section headed “Termination of the Underwriting Agreement” of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

PRECAUTIONARY MEASURES FOR THE EGM

Please see page EGM-3 of this circular for measures being taken to try to prevent and control the spread of the 2019 Novel Coronavirus (“COVID-19”) at the EGM, including:

- compulsory body temperature checks
- wearing of a surgical face mask for each attendee
- no distribution of corporate gift or refreshment

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company strongly recommends Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.

23 June 2022

CHARACTERISTICS OF GEM

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

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

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DEFINITIONS

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

“acting in concert”	has the same meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 12 May 2022 relating to, among other things, the proposed Rights Issue
“associate(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	KOALA Financial Group Limited, a company incorporated in the Cayman Islands with limited liability, whose issued shares are listed on GEM (stock code: 8226)
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EAF(s)”	the excess application form(s) for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, in such usual form as may be agreed between the Company and the Underwriter
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the proposed Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder
“Financial Resources Rule”	Securities and Futures (Financial Resources) Rules (Chapter 574N of the Laws of Hong Kong)

DEFINITIONS

“GEM”	GEM of the Stock Exchange
“GEM Listing Committee”	has the meaning as defined in the GEM Listing Rules
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising all three independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Luk Kin Ting and Mr. Ng Wah Leung, established to give a recommendation to the Independent Shareholders in respect of the Rights Issue and the Underwriting Agreement
“Independent Financial Adviser” or “VC Capital”	VC Capital Limited, a licensed corporation carrying out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Rights Issue and the Underwriting Agreement
“Independent Shareholder(s)”	any Shareholder(s) other than any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons
“Last Trading Day”	12 May 2022, being the date of the Underwriting Agreement
“Latest Practicable Date”	22 June 2022, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information contained therein
“Latest Time for Acceptance”	4:00 p.m. on Friday, 5 August 2022 or other time or date as may be agreed in writing between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares and application and payment for excess Rights Shares

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on Monday, 8 August 2022 or such other time or date as the Underwriter may agree in writing with the Company
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose registered address(es) as shown on such register at that time is (are) in (a) place(s) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL and the EAF
“Prospectus Posting Date”	Friday, 22 July 2022 or such other date as may be agreed in writing between the Underwriter and the Company, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders and the Prospectus for information only to the Non-Qualifying Shareholders
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Thursday, 21 July 2022 or such other date as may be agreed between the Company and the Underwriter in writing for the determination of the entitlements under the Rights Issue
“Registrar”	the branch share registrar and transfer office of the Company in Hong Kong, being Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong
“Rights Issue”	the proposed issue of the Rights Shares on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price on the terms and subject to the conditions in the Underwriting Agreement
“Rights Share(s)”	up to 278,335,994 Shares (assuming no change in the number of Shares in issue on or before the Record Date) to be allotted and issued pursuant to the Rights Issue

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.2 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\$0.3 per Rights Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Supreme China Securities Limited, a licensed corporation carrying out Type 1 (dealing in securities) regulated activity under the SFO
“Underwriting Agreement”	the underwriting agreement dated 12 May 2022 entered into between the Company and the Underwriter in respect of the Rights Issue
“Underwritten Shares”	all the Rights Shares to be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
“Untaken Share(s)”	any of the Underwritten Shares which have not been taken up by the Qualifying Shareholders or transferees of nil-paid Rights Shares or applicants under excess applications by the Latest Time for Acceptance
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below:

Event	2022
Latest time for lodging transfers of shares to qualify for attendance and voting at the EGM	4:00 p.m. on Monday, 4 July
Closure of register of members of the Company for transfer of the Shares to determine the right to attend and vote at the EGM (both days inclusive)	Tuesday, 5 July to Monday, 11 July
Latest time for lodging proxy forms for the EGM. (not less than 48 hours prior to the time of the EGM)	10:00 a.m. on Saturday, 9 July
Record date for determining attendance and voting at EGM	Monday, 11 July
Date and time of the EGM	10:00 a.m. on Monday, 11 July
Announcement of results of the EGM	Monday, 11 July
Last day of dealings in the Shares on a cum-rights basis of the Rights Issue	Tuesday, 12 July
First day of dealings in the Shares on an ex-rights basis of the Rights Issue	Wednesday, 13 July
Latest date and time for lodging transfers of Shares in order to be qualified for the Rights Issue	4:00 p.m. on Thursday, 14 July
Register of members closes (both days inclusive)	Friday, 15 July to Thursday, 21 July
Record Date for the Rights Issue	Thursday, 21 July
Register of members re-opens	Friday, 22 July
Despatch of the Prospectus Documents and nil-paid Rights Shares	Friday, 22 July
First day and time of dealings in nil-paid Rights Shares	9:00 a.m. on Tuesday, 26 July
Latest time for splitting of PAL(s)	4:00 p.m. on Thursday, 28 July
Last day and time of dealings in nil-paid Rights Shares	4:00 p.m. on Tuesday, 2 August

EXPECTED TIMETABLE

Event	2022
Latest time for acceptance and payment for the Rights Shares and application for excess Rights Shares	4:00 p.m. on Friday, 5 August
Latest time and date for termination of Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Monday, 8 August
Announcement of results of the Rights Issue	Friday, 12 August
Despatch of share certificates for fully-paid Rights Shares	Monday, 15 August
Despatch of refund cheques for wholly or partly unsuccessful applications for excess Rights Shares or if the Rights Issue is terminated	Monday, 15 August
Commencement of dealings in the fully-paid Rights Shares.	9:00 a.m. on Tuesday, 16 August

All times and dates stated above refer to Hong Kong local times and dates. The expected timetable for the Rights Issue set out above and all dates and deadlines specified in this circular are indicative only and may be varied. Any changes to the expected timetable will be announced in a separate announcement by the Company as and when appropriate.

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

The Latest Time for Acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place if a typhoon signal No. 8 (or above), “extreme conditions” caused by super typhoons as announced by the Government of the Hong Kong Special Administrative Region, or a “black” rainstorm warning is:

- (a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the 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 does not take place on the currently scheduled date, the dates mentioned in the “EXPECTED TIMETABLE” above may be affected. Announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

If at any time on or before the Latest Time for Termination:

- (a) it has come to the notice of the Underwriter:
 - (i) that any of the representations, warranties and undertakings in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or
 - (ii) that any statement, considered reasonably by the Underwriter to be material, contained in the Prospectus Documents was when the Prospectus Documents were issued, or has become untrue, incorrect or misleading in any material respect; or
 - (iii) any adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group which is material in the context of the Rights Issue; or
 - (iv) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the Prospectus Posting Date, constitute an omission therefrom reasonably considered by the Underwriter to be material; or
 - (v) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise; or
 - (vi) any event, act or omission which in the reasonable opinion of the Underwriter gives or are likely to give rise to any material liability of the Company pursuant to the terms of the Underwriting Agreement;
- (b) in the sole opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Group after the signing of the Underwriting Agreement; or
 - (ii) the occurrence of any local, national or international event or change of a political, military, financial, economic or other nature or in the nature of any local outbreak or escalation of hostilities or armed conflict, or adversely affecting local securities markets which materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially or adversely prejudice the success of the Rights Issue or otherwise makes inexpedient or inadvisable to proceed with the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (c) any change in market conditions (including without limitation suspension or material restriction or trading in securities) occurs which is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it expedient or inadvisable to proceed with the Rights Issue; or
- (d) any change in the circumstances of the Company or any members of the Group which will materially or adversely affect the prospect of the Company.

then the Underwriter may, by notice in writing given to the Company on or before the Latest Time for Termination, terminate the Underwriting Agreement.

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

LETTER FROM THE BOARD



KOALA Financial Group Limited
樹熊金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8226)

Executive Directors:

Ms. Kwan Kar Ching (*Chairlady*)

Ms. Hsin Yi-Chin

Independent non-executive Directors:

Mr. Hung Cho Sing

Mr. Luk Kin Ting

Mr. Ng Wah Leung

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

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

Units 01-02, 13th Floor

Everbright Centre

108 Gloucester Road

Wan Chai, Hong Kong

23 June 2022

To the Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement and the announcements of the Company dated 10 June 2022 and 17 June 2022, relating to, among other things, the proposed Rights Issue.

The purpose of this circular is to provide the Shareholders, among other things, (i) further details of the Rights Issue, certain financial information and other general information on the Group; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue and the Underwriting Agreement; (iii) a letter of advice from VC Capital to the Independent Board Committee and the Independent Shareholders on the terms of the Rights Issue and the Underwriting Agreement; and (iv) a notice convening the EGM.

LETTER FROM THE BOARD

PROPOSED RIGHTS ISSUE

The Board proposes to implement the Rights Issue with the terms set out as follows:

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.3 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$0.29 per Rights Share
Number of Shares in issue at the Latest Practicable Date	:	139,167,997 Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 278,335,994 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
		The aggregate nominal value of the Rights Shares will be HK\$55,667,198.8
Total number of Shares in issue upon completion of the Rights Issue	:	Up to 417,503,991 Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Gross proceeds from the Rights Issue	:	Up to approximately HK\$83.5 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date)
Right of excess applications	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

The Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares as at the Latest Practicable Date.

Assuming no further issue or repurchase of Shares on or before the Record Date, the maximum number of 278,335,994 Rights Shares to be issued and allotted pursuant to the terms of the Rights Issue represent 200% of the total number of issued Shares and approximately 66.67% of the total number of issued Shares as enlarged by the allotment and issuance of the Rights Shares.

LETTER FROM THE BOARD

Undertakings

The Company has undertaken in the Underwriting Agreement that the Company shall not issue new Shares and shall not grant new share options under the share option scheme from the date of the Underwriting Agreement up to and including the Record Date (both days inclusive).

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

The Subscription Price

The Subscription Price of HK\$0.3 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or when a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 11.76% to the closing price of HK\$0.34 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 4.76% to the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 7.12% to the average closing price of HK\$0.323 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 7.12% to the average closing price of approximately HK\$0.323 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 1.64% to the theoretical ex-rights price of approximately HK\$0.305 per Share based on the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (f) a discount of approximately 88.5% to the audited net asset value per Share of approximately HK\$2.61 (based on the latest published consolidated net asset value of the Group of approximately HK\$363,461,000 as at 31 December 2021 as disclosed in the annual report of the Company for the year ended 31 December 2021 and 139,167,997 Shares in issue as at the Latest Practicable Date).

The Rights Issue would result in a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 4.7%, based on the theoretical diluted price of HK\$0.307 per Share and the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules) of HK\$0.322 per Share.

LETTER FROM THE BOARD

The Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the latest business performance and financial position of the Group; and (iii) the reasons for and benefits of proposed Rights Issue as discussed in the section headed "REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS" in this circular. The Board had taken into consideration that Subscription Price should be set with reference to the fund-raising needs and the requirements of Rule 10.44A of the GEM Listing Rules. Accordingly, the Rights Issue should not result in a theoretical dilution effect of 25% or more.

The Directors noted that the Subscription Price represents discount of approximately 88.5% to the net asset value per Share as at 31 December 2021. Given that (i) the Shares have been consistently traded at a substantial discount to the net asset value per Share since 1 January 2021 and up to the Last Trading Day; (ii) the recent market price of the Shares reflects the recent market sentiment; and (iii) the Subscription Price represents a discount of approximately only 4.76% to the closing price of the Shares on the Last Trading Day, the Directors consider that it is fair and reasonable to make reference to the market price of the Share, rather than the net asset value per Share in determining the Subscription Price, and that the discount of the Subscription Price to the net asset value per Share is justifiable.

The Board (excluding the members of the Independent Board Committee whose opinion will be set forth in the Letter from the Independent Board Committee of this circular) consider that the terms of the Rights Issue, including the Subscription Price which has been set at a discount to the recent closing prices of the Share with an objective to encourage existing Shareholders to take up their entitlements so as to participate in the potential growth of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

The Rights Shares (when allotted, fully-paid or credited as fully-paid and issued) will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the 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.

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

Qualifying Shareholders

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

In order to be registered as members of the Company prior to the close of business on the Record Date, all transfers of the Shares (together with the relevant share certificate(s)) must be lodged with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. (Hong Kong time) on Thursday, 14 July 2022.

LETTER FROM THE BOARD

It is expected that the last day of dealings in the Shares on a cum-rights basis is Tuesday, 12 July 2022, and the Shares will be dealt with on an ex-rights basis from Wednesday, 13 July 2022.

Subject to the passing of the resolution to approve the Rights Issue by the Independent Shareholders at the EGM and the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date and will despatch the Prospectus (without the PAL(s) and the EAF(s)) to the Non-Qualifying Shareholders for their information only.

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

Closure of register of members

The register of members of the Company will be closed from Tuesday, 5 July 2022 to Monday, 11 July 2022 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Friday, 15 July 2022 to Thursday, 21 July 2022 (both days inclusive) for determining the entitlements to the Rights Issue.

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

Basis of provisional allotments

The Rights Shares will be allotted on the basis of two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders as at the close of business on the Record Date.

Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made only by lodging a duly completed PAL with a remittance for the Rights Shares being accepted with the Registrar by the Latest Time for Acceptance.

Rights of Overseas Shareholders

The Prospectus Documents to be issued in connection with the Rights Issue will not be registered or filed under the securities law of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

As at the Latest Practicable Date, (a) there was one (1) Overseas Shareholder with registered addresses situated in the United States of America, holding 1,117 Shares (representing approximately 0.0008% of the total issued Shares); and (b) there were three (3) Overseas Shareholders with registered addresses situated in Canada, holding 892 Shares (representing approximately 0.0006% of the total issued Shares). The Company will seek legal advice in relation to the feasibility of extending the offer of the Rights Shares to such Overseas Shareholders. The result of the enquiries and the basis of the exclusion, if any, will be set out in the Prospectus.

LETTER FROM THE BOARD

The Company will send the Prospectus (without the PAL and the EAF) to the Non-Qualifying Shareholders for their information only.

The Company will continue to ascertain whether there are any Overseas Shareholders on the Record Date and will, if necessary, make enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Rights Issue to such other Overseas Shareholders registered as a member of the Company on the Record Date and make relevant disclosures in the Prospectus.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold 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, will be paid pro rata (but rounded down to the nearest cent) to the Non-Qualifying Shareholders in Hong Kong dollars, except that the Company will retain individual amounts of less than HK\$100 for its own benefit. Any unsold entitlements of the Non-Qualifying Shareholders will be made available for excess application by the Qualifying Shareholders under the EAF(s).

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Application for the excess Rights Shares

Qualifying Shareholders shall be entitled to apply, by way of excess application, for (a) the Rights Shares representing the entitlement of the Non-Qualifying Shareholders and which cannot be sold at a net premium; and (b) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or transferees of nil-paid Rights Shares.

Applications for the excess Rights Shares can be made by duly completing and signing an EAF (in accordance with the instructions printed therein) and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar by the Latest Time for Acceptance.

LETTER FROM THE BOARD

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

- (a) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result;
- (b) any excess Rights Shares will be allocated to the applicants on a pro rata basis based on the number of excess Rights Shares applied for by them; and
- (c) no reference will be made to Rights Shares subscribed through applications by PALs or the existing number of Shares held by the Qualifying Shareholders.

In the event that the Board notes unusual patterns of excess applications and has reason to believe that any application may have been made with the intention to abuse the mechanism, such application for excess Rights Shares may be rejected at the sole discretion of the Board.

If the aggregate number of Rights Shares being available for excess application is greater than the aggregate number of excess Rights Shares being applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the actual number of excess Rights Shares being applied for.

Beneficial owners of the Shares whose Shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of the Shares whose Shares are registered in name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually and 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.

For those beneficial owners of the Shares whose Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for completion of the relevant registration not later than 4:00 p.m. (Hong Kong time) on Thursday, 14 July 2022.

LETTER FROM THE BOARD

Certificates of the Rights Shares and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be sent on Monday, 15 August 2022 to those entitled thereto by ordinary post, at their own risk, to their registered addresses. If the Underwriting Agreement is terminated or not becoming unconditional, refund cheques will be despatched on Monday, 15 August 2022 by ordinary post, at the respective Shareholders' own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on Monday, 15 August 2022, by ordinary post to the applicants, at their own risk, to their registered addresses.

Fractional entitlement to the Rights Shares

On the basis of provisional allotment of two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date, no fractional entitlement to the Rights Shares will arise under the proposed Rights Issue.

Taxation

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

Application for listing of the Rights Shares

The Company will apply to the GEM Listing Committee for the listing of, and the permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms) to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

The nil-paid Rights Shares shall have the same board lot size as the existing Shares (i.e. 5,000 Shares in one board lot).

Subject to the granting of the listing of, and the 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 respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

LETTER FROM THE BOARD

THE UNDERWRITING ARRANGEMENT

On 12 May 2022 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter. Further details of the Underwriting Agreement are set out below.

Underwriting Agreement

Date : 12 May 2022 (after trading hours)

Issuer : The Company

Underwriter : Supreme China Securities Limited

The Underwriter is a licensed corporation carrying out Type 1 (dealing in securities) regulated activity under the SFO and its ordinary course of business includes underwriting of securities

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Underwriter and its associates do not hold any Shares, and the Underwriter and its ultimate beneficial owners are Independent Third Parties. As such, the Underwriter complies with Rule 10.24A(1) of the GEM Listing Rules

Number of Rights Shares to be underwritten by the Underwriter : Up to 278,335,994 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date) underwritten by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement

Underwriting Commission : 3% of the aggregate Subscription Price in respect of the Rights Shares actually subscribed for through the Underwriter and/or its sub-underwriters

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiation between the Company and the Underwriter by reference to the financial position of the Group, the size of the Rights Issue, the current and expected market condition and the prevailing market rate. The Company had approached three (3) financial institutions to explore the possibility or their interest in acting as an underwriter of the Company either on a best effort basis or fully-underwritten basis before entering into the Underwriting Agreement. Other than the Underwriter, the other potential underwriters showed no interest to underwrite the Rights Issue. The Underwriter had expressed its interest in acting as the underwriter of the Rights Issue, after taking into account the financial healthiness of the Company (in particular, the net assets value and low gearing ratio) and the scale of the Rights Issue (which is considered acceptable to the Underwriter based on its service capacity).

LETTER FROM THE BOARD

In determining the underwriting commission, the Board also reviewed the prevailing market rate with reference to the recent rights issue exercises. Based on the key selection criteria of (i) publication of initial announcement of the rights issue from 12 November 2021 (being half year prior to the date of the Underwriting Agreement) up to and including the Last Trading Day; (ii) the rights issue is conducted by companies whose shares are listed on GEM; and (iii) the rights issue is subject to shareholders' approval, the Directors identified four comparables (the "**Four Comparables**"). It is noted that the commission rate of the Four Comparables ranges from 1% to 3.5%. The Directors noted that two out of the Four Comparables were underwritten on best effort basis with underwriting commission of 1%. However, the Directors also observed that one of them was terminated subsequently in March 2022 in view of the prevailing market conditions, in particular, the recent volatility of the financial market since its announcement of the rights issue, the sentiment of the investors and the uncertainty of the global macroeconomic environment. In view of the current economic environment and market sentiment, the Directors considered that a higher commission rate, which is still within the range of the Four Comparables, can increase the incentives for the Underwriter to procure subscribers to subscribe the Rights Shares in the event that the Rights Issue is undersubscribed. Given that (i) the Underwriter is the only financial institution agreed to underwrite the Rights Shares amid the recent uncertain market condition as affected by the fifth wave of COVID-19 in Hong Kong; and (ii) the commission rate for the Rights Issue is within the range of the Four Comparables and is the best rate available to the Company as requested by the Underwriter, the Board considers that the terms of the Underwriting Agreement (including the underwriting commission) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associates.

Conditions of the Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement are conditional on the fulfilment (or waiver, if applicable, by the Underwriter) of the following conditions:

- (a) the passing of necessary resolution(s) at the EGM to approve the Rights Issue (including, but not limited to the exclusion of the offer of the Rights Issue to the Non-Qualifying Shareholders) and the Underwriting Agreement by the Shareholders (where applicable, the Independent Shareholders) and the transactions contemplated thereunder by no later than the Prospectus Posting Date;
- (b) the GEM Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) by no later than the first day of their dealings;
- (c) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one duly certified copy of each of the Prospectus Documents (and all other documents required to be attached thereto) as having been approved by resolution of the Board not later than the Prospectus Posting Date and otherwise in compliance with the GEM Listing Rules and the Companies (WUMP) Ordinance;
- (d) the posting of the Prospectus Documents to the Qualifying Shareholders and the Prospectus to the Non-Qualifying Shareholders by no later than the Prospectus Posting Date;

LETTER FROM THE BOARD

- (e) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with the terms thereof; and
- (f) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement and the representations and warranties given by the Company under the Underwriting Agreement remaining true, correct and not misleading in all material respects.

The conditions precedent, save and except paragraph (f) above which can only be waived by the Underwriter, are incapable of being waived.

The Company shall use all reasonable endeavours to procure the fulfilment of the conditions precedent set out in paragraphs (a) to (d) and (f) above by the Latest Time for Termination. If the conditions precedent set out in the above paragraphs are not satisfied (or, if applicable, waived by the Underwriter) in whole or in part on or before the Latest Time for Termination and/or the condition set out in paragraph (f) above does not remain fulfilled (unless waived by the Underwriter under the terms of the Underwriting Agreement) up to the Latest Time for Termination or the Underwriting Agreement shall be rescinded by the Underwriter pursuant to the terms thereof, the Underwriting Agreement shall terminate (save in respect of the surviving provisions in relation to fees and expenses, indemnity, notices and governing law), all obligation and liabilities of the parties to the Underwriting Agreement will cease and determine and no party thereto will have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches, and the Rights Issue will not proceed.

The Rights Issue is only underwritten on a best effort basis. Pursuant to the Company's constitutional documents, the Companies Act of the Cayman Islands, the Companies (WUMP) Ordinance and the GEM Listing Rules, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfillment of the conditions precedent of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level.

In the event the Rights Issue is undersubscribed, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, or otherwise subscribed by the Underwriter or other subscribers procured by it pursuant to the Underwriting Agreement will not be issued by the Company, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

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

The Group is principally engaged in (i) provision of securities brokerage, margin financing, share placements and underwriting services (the “**Securities Brokerage Business**”); (ii) money lending (the “**Money Lending Business**”); (iii) securities investment; (iv) provision of assets management services; and (v) leasing of investment properties.

As disclosed in the annual report of the Company for the year ended 31 December 2021, the Group recorded revenue of approximately HK\$19.2 million from the Securities Brokerage Business for the year, representing approximately 55% growth from approximately HK\$12.4 million in the previous year. The Board expects that the Securities Brokerage Business will become one of the major growth drivers to the Group. With a view to further improving the revenue from the Securities Brokerage Business, the Group plans to continue to reserve additional funds for the expansion of margin financing services.

LETTER FROM THE BOARD

The Group carries out the Securities Brokerage Business through its subsidiary, namely KOALA Securities Limited (“**KOALA Securities**”), a licensed corporation carrying out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO. As advised by the senior management of the Company, they received requests from clients and other securities firms for the granting of margin financing for stock trading activities, including but not limited to, margin and short-term initial public offering (“**IPO**”) loans. However, the Board expects that, without further capital injection, the size of margin financing will be limited by the existing scale of KOALA Securities capital base as governed by the Financial Resources Rules. Pursuant to the Financial Resources Rules, liquid capital is the amount by which a licensed corporation’s liquid assets exceeds its ranking liabilities where (i) liquid assets are the amount of assets held by the licensed corporation, adjusted for such factors to take into account liquidity of certain assets as well as credit risks; and (ii) ranking liabilities are the sum of liabilities on the balance sheet of the licensed, adjusted for such factors to take into account market risks and contingency.

As at 31 December 2021, the cash and cash equivalents of the Group was approximately HK\$123.5 million, of which (i) approximately HK\$56.6 million was allocated for the Securities Brokerage Business; (ii) approximately HK\$32.7 million for securities investment; (iii) approximately HK\$25.7 million was allocated for the Money Lending Business; and (iv) the remaining balance of approximately HK\$8.5 million was reserved for general working capital. Majority of the Group’s existing financial resources has been allocated to the Securities Brokerage Business, which is the core business segment of the Group. During the year ended 31 December 2021, the Securities Brokerage Business had underwritten four (4) rights issue exercises with an average underwritten amount of approximately HK\$52.5 million, including only one fully underwritten rights issue exercise of approximately HK\$85.0 million. The financial resources of approximately HK\$56.6 million as at 31 December 2021 was allocated for supporting the existing operating scale of the Securities Brokerage Business, in particular, for the business need of the underwriting service. For the four months ended 30 April 2022, KOALA Securities has underwritten one (1) rights issue exercise on a fully underwritten basis with a total underwritten amount of approximately HK\$65.38 million. With an aim to diversify the risk and share the financial commitment, KOALA Securities entered into a sub-underwriting agreement with a sub-underwriter.

In respect of the Money Lending Business, the Group has provided new loans of approximately HK\$31.5 million in aggregate during the two years ended 31 December 2021. The Group plans to cautiously expand its loan business by soliciting new customers. The financial resources of approximately HK\$25.7 million was allocated for supporting the continuing development of the Money Lending Business.

Based on its historical financial record, the Group required general working capital of over HK\$13 million for settling the administrative expenses for a 12-month period. It is the Group’s plan to enhance the general working capital reserve to cover the administrative expenses for at least a 12-month period. The allocated financial resources of approximately HK\$8.5 million represents merely 65% of the target level.

Having regard to the aforementioned funding needs required for the continuing development of the Money Lending Business as well as the general working capital, the Board considers that it is not desirable to deploy the allocated financial resources from these areas to the Securities Brokerage Business. On the contrary, the Rights Issue allows the Group to satisfy the funding needs of the margin financing business without sacrificing business growth of other business segments and is therefore considered a better option to the Group.

LETTER FROM THE BOARD

In respect of the securities investment segment, the market value of the equity investments held by the Group as at 31 December 2021 was approximately HK\$126.4 million. Approximately 69.6% of such investment portfolio represented the investment in the listed securities of Hong Kong Aerospace Technology Group Limited (the “**Aerospace Technology Shares**”). As disclosed in the Company’s announcements dated 7 March 2022 and 17 June 2022, the Company proposed to seek and had obtained the approval for the disposal mandate (the “**Disposal Mandate**”) to allow the Directors to dispose of the Aerospace Technology Shares (the “**Aerospace Disposal**”). The Company intended to use the proceeds from the Aerospace Disposal to develop the Group’s existing businesses, in particular the Securities Brokerage Business and Money Lending Business. Nevertheless, whether and when the Company will proceed with the Aerospace Disposal will depend on a number of factors including without limitation the prevailing market sentiments and market conditions at the proposed time of executing the Aerospace Disposal. The exact amount of the proceeds from the Aerospace Disposal will be subject to the number of Aerospace Technology Shares being disposed of and the price at which they are sold. The Board therefore considers that, in light of the uncertainties aforesaid, it is not preferred to rely on the proceeds from the Aerospace Disposal to satisfy the business need of the margin financing service. In addition, the Aerospace Disposal as mentioned above is part of the Group’s investment strategy to balance its portfolio of investments and optimise the Group’s return as a whole. The Board has earmarked the intended use of proceeds from the Aerospace Disposal for funding the Securities Brokerage Business and Money Lending Business, both of which require capital investment for sustaining business growth. Nevertheless, the Group has no plan to discontinue the securities investment segment, especially when it achieved an outstanding financial performance with a segment profit of approximately HK\$96.4 million registered for the year ended 31 December 2021. As at the Latest Practicable Date, the Group has not disposed of any Aerospace Technology Shares.

The Group commenced the securities investment business in the third quarter of 2015. The investment scope includes short-term investments in listed securities in Hong Kong and other recognised overseas securities markets as well as other related investment products offered by banks and financial institutions, with the goal to generate additional investment returns on available funds of the Company from time to time. Giving top priority to prevention of excessive risk, the Company makes prudent decisions in respect of such investments on the principle of protecting the interests of its shareholders and the Company as a whole. The investment primarily focuses on, among others, industries which are developing sectors with relatively higher growth potential which are in line with the trend of the market. The Group’s decision to purchase a stock is made without regard to the market capitalization of the company or its weighting in any market index. The Group may invest in companies of all sizes, which includes large, mid-cap, and small-cap securities. The Group would monitor the global macroeconomic factors and trends as well as local economic and political factors in Hong Kong to identify the appropriate investment themes. Individual stocks are then selected based on fundamental and/or technical analysis assessment to fit into the investment themes identified.

As at the Latest Practicable Date, the Group has not identified any investment target. The Group will continue to identify appropriate securities investment opportunities from time to time. The timing of utilising the cash and cash equivalents of HK\$32.7 million allocated will be subject to the availability of investment opportunities. Nonetheless, the Board considers it is necessary to reserve certain level of cash resources, having regard that securities investment requires immediate readily available cash for capturing potential investment opportunities as and when they arise. Based on the above, the Board considers that it is not desirable to deploy the remaining cash resources from securities investment to the Securities Brokerage Business.

LETTER FROM THE BOARD

The Board observes the increasing demand from the new economy enterprises seeking to have listings in Hong Kong over the past two years. During the year ended 31 December 2021, the stock market in Hong Kong set new trading activity records, including the new-high total trading volume. In the same period, the Group's margin financing service generated revenue of approximately HK\$6.3 million, representing a 24% growth from the previous year. The Board also anticipates that the return listings of China concept stocks will further drive the growth of the IPO market in Hong Kong, leading to the growing appetite for margin financing in the second half of 2022. According to the market statistics published by the Securities and Future Commission of Hong Kong, the margin business in Hong Kong developed rapidly in recent years. The number of active margin clients increased from 1,470,396 as at 31 December 2020 to 2,219,721 as at 31 December 2021, representing an increment of about 51%. It is also observed that the number of securities dealers and securities margin financiers also experienced a growth, from 1,391 as at 31 December 2020 to 1,433 as at 31 December 2021. The Company expects that the strong demand in margin financing services will continue to remain stable in the upcoming future.

The following sets out certain key metrics for the margin financing services for the financial periods of 2019, 2020 and 2021:

	As at 31 December		
	2021	2020	2019
	<i>HK\$ 'million</i>	<i>HK\$ 'million</i>	<i>HK\$ 'million</i>
Accounts receivable from margin clients	57.5	45.2	3.8

	For the year ended 31 December	
	2021	2020
	<i>HK\$ 'million</i>	<i>HK\$ 'million</i>
Revenue generated from margin financing service	6.2	5.1

KOALA Securities commenced its margin financing business since 2019 and experienced a substantial growth in the following two financial years. It is noted that the accounts receivable from margin clients increased at a compound annual growth rate (CAGR) of approximately 289% from approximately HK\$3.8 million as at 31 December 2019 to approximately HK\$57.5 million as at 31 December 2021. According to the client records of KOALA Securities, number of margin clients also recorded an increase at a CAGR of over 261% from 2019 to 2021. The Directors anticipate that the margin financing business of KOALA Securities will continue to be scaled up in the next two to three years following the recovery from COVID-19. The Directors considered that enlarging the margin financing capacity would be critical for KOALA Securities to avoid losing market competitiveness, to accelerate the expansion of margin financing business and to maintain the brand awareness in the market.

To finance the development of margin financing business, the Company initially spared approximately HK\$31.8 million cash resources, which was the new capital raised by way of open offer completed in 2017. However, the business growth of margin financing service in 2020 has been stronger than the expectation of the Group. The accounts receivable from margin clients as at 31 December 2020 amounted to approximately HK\$45.2 million, exceeding the initial reserve of approximately HK\$31.8 million. The balance further grew to approximately HK\$57.5 million as at 31 December 2021. In other words, the margin financing activities currently shares the same pool of funds with the other service lines of the Securities Brokerage Business, such as, the underwriting service.

LETTER FROM THE BOARD

Since there is no set repayment schedule with margin loans, the Group has been unable to accurately predict the cash flow schedule, which led to the practical difficulty to reserve financial resources for committing fully-underwritten underwriting exercises. In 2021, only one out of four underwriting exercises carried out by KOALA Securities were on a fully underwritten basis, while the other three exercises were on best-effort basis. The Directors considered that, if there was a better management of financial resources, KOALA Securities would be able to secure more underwriting exercises on fully-underwritten basis rather than on best effort basis and the commission income would be higher accordingly.

In view of the above, the Directors believe that the business potential of the Securities Brokerage Business has not been fully unleashed, as certain business opportunities as described above were missed due to the lack of clarity of the allocation of financial resources. Looking forward, the Group plans to separate the financial resources for underwriting and margin financing, which will enable the Group to optimize the business development of each business activity, for instance, to secure more fully underwritten underwriting exercises and soliciting med-cap of listed clients for larger underwriting size.

Based on the financial resources of the Securities Brokerage Business as at 30 April 2022, the maximum financial capacity for both underwriting exercises and margin financing is approximately HK\$125.0 million (the “**Existing Capacity**”), comprising (i) cash and cash equivalents allocated for the Securities Brokerage Business of approximately HK\$65.7 million; and (ii) approximately HK\$59.4 million was accounts receivable from margin clients. With reference to the latest fully underwritten rights issue exercise conducted by KOALA Securities, the financial commitment was approximately HK\$85 million, which represented approximately 68.0% of the Existing Capacity. In other words, under the Existing Capacity, the margin financing credit will be significantly limited when the cash resources are occupied by the underwriting service line and vice versa. Having considered the above, the Board intends to reserve the cash portion of the Existing Capacity of approximately HK\$65.7 million for underwriting exercises and therefore expects that, without further new capital, the existing financial resources of KOALA Securities will not be able to meet funding needs of margin financing business. Before resolving to implement the Rights Issue, the Board also considered whether the funding need can be supported by the cash flow generated from the operating activities of the Group. However, the net cash generated from the operating activities of the Group amounted to merely approximately HK\$11.0 million for the year ended 31 December 2021, which is obviously not sufficient to support the expansion plan of the margin financing business. As such, the Company intends to allocate net proceeds of approximately HK\$72.0 million from the Rights Issue to strengthen the capital base of the margin financing business of the Group. KOALA Securities’ management estimates that, upon completion of the Rights Issue, the maximum amount of margin financing credit and underwriting exercises that can be offered to clients would increase to approximately HK\$197.0 million, representing an increase of approximately 57.6% from the Existing Capacity. While additional margin financing will bring in new revenue, the enlarged capacity of the margin financing services will help to attract new customers who have strong demand for both financing and related financial services. Currently, the margin financing services of KOALA Securities generates interest income at the annual rates of approximately 2% to 16%, which are generally higher than the prime lending rates as quoted by major commercial banks in Hong Kong. The expansion of the margin financing services would increase interest income, potentially broaden customer base, and lead to the growth in the Securities Brokerage Business as customers are required to trade through their accounts with KOALA Securities when utilising its margin financing services.

LETTER FROM THE BOARD

Upon completion of the Rights Issue, the Group plans to further expand the margin financing services by soliciting new margin clients primarily through:

- (i) promoting customer awareness of its own brand – “Koala Securities (樹熊證券)”. The Group mainly advertises its services in the media (including social media over the internet);
- (ii) its licensed representatives who are responsible for sourcing new customers, maintaining client relationships, promoting its services and soliciting new customers through referrals from existing customers;
- (iii) performing marketing activities with professional parties and existing customers to strengthen business relationships; and
- (iv) participating in charity events that enhance the Group’s sense of social responsibilities to promote corporate image.

The Board is of the view that the Rights Issue will enable the Group to strengthen its capital base for the margin financing business and enhance its working capital position. Furthermore, the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and participate in the growth and development of the Group.

The Board has also considered other alternative means of fund raising before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. However, the Board considers that debt financing will result in additional interest burden and higher gearing ratio of the Group. In addition, debt financing may not be achievable on favourable terms in a timely manner. As for equity fund raising, such as placing of new Shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market.

In view of the above, the Board considers that raising funds by way of the Rights Issue is more cost effective, efficient and beneficial to the Company and the Shareholders as a whole as compared to raising fund by other means.

LETTER FROM THE BOARD

Assuming full subscription under the Rights Issue, it is estimated that the Company will raise gross proceeds of approximately HK\$83.5 million from the Rights Issue and the relevant expenses would be approximately HK\$3.4 million, which include underwriting commission and professional fees. The estimated net proceeds from the Rights Issue will be approximately HK\$80.1 million (equivalent to a net price of approximately HK\$0.29 per Rights Share). In line with the aforesaid business objectives, the Company intends to utilise the net proceeds from the Rights Issue as follows:

- (a) approximately HK\$72.0 million (or approximately 90% of the total net proceeds) to be applied for the expansion of the Group's margin financing business on or before December 2022; and
- (b) the remaining balance of approximately HK\$8.1 million (or approximately 10% of the total net proceeds) to be applied for general working capital of the Group on or before December 2023. The following table sets out the breakdown of the intended use of proceeds as general working capital of the Group:

	<i>HK\$'million</i>
Staff costs	4.5
Rental expenses	2.0
Other operating expenses	<u>1.6</u>
Total	<u><u>8.1</u></u>

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

The Board (excluding the members of the Independent Board Committee whose opinion will be set forth in this circular) considered that the Rights Issue provides a good opportunity for the Group to expand its margin financing business and enhance its financial position, while at the same time the Rights Issue will enable all Qualifying Shareholders to participate in the future development of the Company on equal terms to maintain their respective pro-rata shareholdings in the Company. Hence, the Board (excluding the members of the Independent Board Committee whose opinion will be set forth in this circular) considered that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

LETTER FROM THE BOARD

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after the Rights Issue (assuming all Rights Shares are subscribed for by the Qualifying Shareholders); and (c) immediately after the Rights Issue (assuming no Qualifying Shareholders takes up any of the Rights Shares and the Underwriter takes up all Rights Shares pursuant to the Underwriting Agreement).

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue			
			Assuming all Rights Shares are subscribed for by the Qualifying Shareholders		Assuming no Qualifying Shareholders takes up any of the Rights Shares and the Underwriter takes up all Rights Shares pursuant to the Underwriting Agreement	
	<i>No. of Shares</i>	<i>Approx. % (Note 1)</i>	<i>No. of Shares</i>	<i>Approx. % (Note 1)</i>	<i>No. of Shares</i>	<i>Approx. % (Note 1)</i>
Wong Ka Man	26,533,363	19.07	79,600,089	19.07	26,533,363	6.36
Underwriter, sub-underwriter(s) and/or subscriber(s) procured by them (Notes 2&3)	-	-	-	-	278,335,994	66.67
Other public Shareholders	112,634,634	80.93	337,903,902	80.93	112,634,634	26.98
Total	139,167,997	100.00	417,503,991	100.00	417,503,991	100.00

Notes:

- (1) The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.
- (2) Pursuant to the Underwriting Agreement, the Underwriter shall confirm with the Company the actual number of Untaken Shares as at the Latest Time for Acceptance, and shall procure for subscription therefor on a best effort basis.

LETTER FROM THE BOARD

- (3) In any event and notwithstanding any provisions under the Underwriting Agreement, the Underwriter irrevocably undertakes to the Company that (i) each of the subscribers of the Untaken Shares procured by the Underwriter (or the Underwriter concerned, whichever shall be appropriate) shall be an Independent Third Party and are not acting in concert (within the meaning of the Takeovers Code) with the Underwriter and its associates; (ii) the Underwriter shall and shall cause the sub-underwriters to procure independent subscribers and/or placees to take up such number of Untaken Shares as necessary to ensure that the Company will comply with the public float requirement under the GEM Listing Rules upon completion of the Rights Issue; and (iii) the Underwriter or each subscriber procured by the Underwriter (together with parties acting in concert with the respective subscribers or any of the connected persons or associates of the respective subscribers) shall not hold in aggregate 30% or more of the voting rights of the Company immediately after the Rights Issue.

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

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY FOR THE PAST TWELVE MONTHS

The Company has not conducted any rights issue, open offer and/or specific mandate placing within the 12-month period immediately preceding the date of the Announcement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of such rights issue, open offers and/or specific mandate placings within such 12-month period.

GEM LISTING RULES IMPLICATIONS

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

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

As at the Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules and none of the Directors and the chief executive of the Company and their respective associates holds any Share. Accordingly, no Shareholder shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM and no Director shall abstain from voting in favour of the Rights Issue at the meeting of the Board.

LETTER FROM THE BOARD

GENERAL

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

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed herewith. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending or voting in person at the EGM or any adjourned meeting thereof should you so wish.

The register of members of the Company will be closed from Tuesday, 5 July 2022 to Monday, 11 July 2022 (both days inclusive) for determine the eligibility of the Shareholders to attend and vote at the EGM. In order to qualify for attendance and voting at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Registrar at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 4 July 2022.

In compliance with the GEM Listing Rules, all the resolutions to be proposed at the EGM will be voted on by way of poll at the EGM.

Subject to the approval of the Rights Issue by the Independent Shareholders at the EGM, the Prospectus containing further information regarding, among other things, the Rights Issue (including information on acceptances of the Rights Shares), PAL(s) and EAF(s) are expected to be despatched to the Qualifying Shareholders on Friday, 22 July 2022.

RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. VC Capital has been appointed as the Independent Financial Adviser in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on page 30 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from VC Capital set out on pages IFA-1 to IFA-24 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE BOARD

The Directors believe that the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, and the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and, accordingly, recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

ADDITIONAL INFORMATION

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

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

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

Any Shareholder or other person dealing in the Shares and/or the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares. Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s).

By order of the Board
KOALA FINANCIAL GROUP LIMITED
Kwan Kar Ching
Chairlady



KOALA Financial Group Limited
樹熊金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8226)

23 June 2022

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 23 June 2022 (“**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as the members of the Independent Board Committee, to advise the Independent Shareholders as to whether, in our opinion, the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Details of the Rights Issue are set out in the “Letter from the Board” on pages 9 to 29 of the Circular.

VC Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving thereat, are set out in its letter on pages IFA-1 to IFA-24 of the Circular.

Having taken into account the terms of the Rights Issue and the Underwriting Agreement, the information contained in the Circular and the advice of the Independent Financial Adviser, we are of the opinion that the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution approving the Rights Issue at the EGM.

Yours faithfully,

The Independent Board Committee
KOALA Financial Group Limited
Mr. Hung Cho Sing Mr. Luk Kin Ting Mr. Ng Wah Leung
Independent non-executive Directors

LETTER FROM VC CAPITAL

The following is the text of a letter from VC Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Underwriting Agreement for the purpose of inclusion in this circular.



7/F, Centre Point
181-185 Gloucester Road
Wanchai, Hong Kong

23 June 2022

To: the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 23 June 2022 (the “**Circular**”) issued to the Shareholders, 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 requires otherwise.

Reference is made to the announcement of the Company dated 12 May 2022 relating to, among other things, the proposed Rights Issue (the “**Announcement**”). The Board announced that the Company proposed 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\$0.3 per Rights Share, to raise gross proceeds of approximately HK\$83.5 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date), by way of the Rights Issue of up to 278,335,994 Rights Shares to the Qualifying Shareholders. The Rights Issue will not be available to the Non-Qualifying Shareholders.

On the date of the Announcement, the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares up to 278,335,994 (assuming no change in the number of Shares in issue on or before the Record Date), subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein.

LETTER FROM VC CAPITAL

Since the proposed Rights Issue will increase the issued share capital or the market capitalisation of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the proposed Rights Issue must be made conditional on approval by the Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the proposed Rights Issue. The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

As at the Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules and none of the Directors and the chief executive of the Company and their respective associates holds any Share. Accordingly, no Shareholder shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM and no Director had abstained from voting in favour of the Rights Issue at the meeting of the Board.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Luk Kin Ting and Mr. Ng Wah Leung, has been established to advise and make recommendation to the Independent Shareholders in respect of the Rights Issue (including the Underwriting Agreement). Our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this respect.

Our role as the Independent Financial Adviser is to advise the Independent Board Committee and the Independent Shareholders as to: (i) whether the terms of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder was entered into in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote on the resolution in relation to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder at the EGM.

OUR INDEPENDENCE

We did not act as a financial adviser to the Company or its subsidiaries or any parties involved in the Underwriting Agreement in the last two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser.

As at the Latest Practicable Date, apart from normal professional fees payable to us in connection with this appointment, we did not have any relationship with, or interest in, the Group or other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent and are eligible to give independent advice on the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders.

LETTER FROM VC CAPITAL

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

- (i) the Company's annual reports for the three years ended 31 December 2019 (“**FY2019**”), 31 December 2020 (“**FY2020**”) (the “**2020 Annual Report**”) and 31 December 2021 (“**FY2021**”) (the “**2021 Annual Report**”, and collectively, the “**Annual Reports**”);
- (ii) the Company's first quarterly report for the three months ended 31 March 2022 (“**1QFY2022**”);
- (iii) the Underwriting Agreement;
- (iv) the Announcement; and
- (v) other information as set out in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided by the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that the information and representations contained or referred to in the Circular and provided and opinions expressed to us are true, accurate and complete in all respects at the time they were made and will remain so up to the Latest Practicable Date. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other matters the omission of which would make any statement in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth and accuracy of the information provided to us, or the reasonableness of the opinions expressed by the Management to us.

We consider the information we have received is sufficient for us to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent investigation into the business, financial position and affairs of the Group or its prospects, nor have we carried out any independent verification of the information provided by the Management.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Rights Issue (including the Underwriting Agreement), we have taken into account the following principal factors and reasons:

I. Background information on the Group

(a) Summary of general information on the Group

As disclosed in the Board Letter, the Group is principally engaged in (i) the Securities Brokerage Business; (ii) Money Lending Business; (iii) securities investment; (iv) provision

LETTER FROM VC CAPITAL

of assets management services; and (v) leasing of investment properties. The Group carries out the Securities Brokerage Business through its subsidiary, namely KOALA Securities, a licensed corporation carrying out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO. As discussed with the Management, the Board expects that the Securities Brokerage Business will become one of the major growth drivers to the Group.

(b) Summary of financial information on the Group

Set out below is a summary of the consolidated statement of profit or loss of the Group as extracted from the Annual Reports:

Table 1

	For FY2019	For FY2020	For FY2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Revenue	38,957	23,372	25,862
Profit before tax	12,383	5,820	98,027
Profit and total comprehensive income for the year	10,062	5,001	82,662

With reference to the 2020 Annual Report and depicted in Table 1 above, for FY2020, the revenue of the Group decreased to approximately HK\$23.4 million (FY2019: approximately HK\$39.0 million), representing a decrease of approximately 40.0% when compared with that of 2019. The reason for the decrease in turnover was mainly due to the then outbreak of the COVID-19 and Hong Kong political uncertainty, which led to the decrease in segmental revenue from securities related business and Money Lending Business. Together with the effect of the increase in realised gain on sale of listed securities and unrealised loss on listed securities and the decrease in administrative expenses, the Group recorded a net profit of approximately HK\$5.0 million for FY2020, representing a decrease of approximately 50.3% as compared with a net profit of approximately HK\$10.1 million for FY2019.

With reference to the 2021 Annual Report and depicted in Table 1 above, for FY2021, the revenue of the Group increased to approximately HK\$25.9 million (FY2020: HK\$23.4 million), representing an increase of approximately 10.7% when compared with that of FY2020. The reason for the increase in turnover was primarily attributable to the increase of segmental turnover from the securities brokerage business from approximately HK\$12.4 million for FY2020 to approximately HK\$19.2 million for FY2021. Together with the effect of the increase in realised gain on sale of listed securities and unrealised gain on listed securities and the impairment loss on some particular borrowers, the Group recorded a net profit of approximately HK\$82.7 million for FY2021, representing an increase of approximately 1,552.9% as compared with a net profit of approximately HK\$5.0 million for FY2020.

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We note that the significant increase in the net profit for FY2021 compared to FY2020 was mainly due to the unrealised gain on listed securities of the Group of approximately HK\$85.3 million for FY2021 as compared to the loss of approximately HK\$6.7 million for FY2020. The significant increase in the unrealised gain on listed securities was mainly caused by an unrealised gain from the investment in Hong Kong Aerospace Technology Group Limited (stock code: 1725) of approximately HK\$83.7 million.

Set out below is a summary of the consolidated statement of financial position of the Group as extracted from the Annual Reports:

Table 2

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Bank balances and cash	98,594	126,065	123,471
Total assets	378,907	416,137	492,286
Total liabilities	111,280	143,509	128,825
Net assets	267,627	272,628	363,461

The total assets of the Group increased by approximately 9.8% from approximately HK\$378.9 million as at 31 December 2019 to approximately HK\$416.1 million as at 31 December 2020, and then further increased by approximately 18.3% to approximately HK\$492.3 million as at 31 December 2021. The total assets mainly comprised of bank balances and cash and financial assets at fair value through profit or loss.

Total liabilities of the Group increased by approximately 29.0% from approximately HK\$111.3 million as at 31 December 2019 to approximately HK\$143.5 million as at 31 December 2020, and then decreased by approximately 10.2% to approximately HK\$128.8 million as at 31 December 2021. The total liabilities mainly comprised of accounts payable.

As set out in the Board Letter, the cash and cash equivalents of the Group as at 31 December 2021 was approximately HK\$123.5 million, of which (i) approximately HK\$56.6 million was allocated for the Securities Brokerage Business; (ii) approximately HK\$32.7 million for securities investment; (iii) approximately HK\$25.7 million was allocated for Money Lending Business; and (iv) the remaining balance of approximately HK\$8.5 million was reserved for general working capital.

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(c) *Business development of the Group*

With reference to the 2021 Annual Report, revenue from the Securities Brokerage Business during FY2021 was approximately HK\$19.2 million, representing an increase of approximately HK\$6.8 million (i.e. approximately 54.8% growth) as compared to approximately HK\$12.4 million in FY2020. It accounted for approximately 74.1% (FY2020: 53.0%) of the Group's revenue during FY2021.

As discussed with the Management, the Board expects that the Securities Brokerage Business will become one of the major growth drivers to the Group. With a view to further improving the revenue from the Securities Brokerage Business, the Group plans to continue to reserve additional funds for the expansion of margin financing services. The Board is of the view that the Rights Issue will enable the Group to strengthen its capital base for the margin financing business and enhance its working capital position.

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

a) *Use of proceeds in business development in margin financing*

According to the Board Letter, assuming full subscription under the Right Issues, the estimated net proceeds from the Rights Issue will be approximately HK\$80.1 million (equivalent to a net price of approximately HK\$0.29 per Rights Share). In line with the business objectives detailed below, the Company intends to utilise the net proceeds from the Rights Issue as follows:

- (a) approximately HK\$72.0 million (or approximately 90% of the total net proceeds) to be applied for the expansion of the Group's margin financing business on or before December 2022; and
- (b) the remaining balance of approximately HK\$8.1 million (or approximately 10% of the total net proceeds) to be applied for general working capital of the Group on or before December 2023.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

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Table 3

	2020 <i>HK\$'000</i>	Percentage to total %	2021 <i>HK\$'000</i>	Percentage to total %
Revenue				
Securities Brokerage Business (excluding margin financing)	7,262	31.1%	12,928	50.0%
Margin financing	5,121	21.9%	6,247	24.2%
Subtotal	<u>12,383</u>	53.0%	19,175	74.1%
Securities investment	–	–	–	–
Leasing of investment properties	619	2.6%	407	1.6%
Money Lending Business	10,370	44.4%	6,280	24.3%
Provision of assets management services	–	–	–	–
Total	<u><u>23,372</u></u>	100.0%	<u><u>25,862</u></u>	<u><u>100.0%</u></u>

Referring to Table 3 above, based on the financial information disclosed in 2021 Annual Report, the segment revenue attributable to margin financing amounted to approximately HK\$5.1 million in FY2020 and approximately HK\$6.2 million in FY2021 respectively. Their percentage to the total revenue of FY2020 and FY2021 amounted to approximately 21.9% and approximately 24.2% respectively, representing an increase of approximately 10.2% in its proportion to the total revenue of the corresponding financial year.

Table 4

		2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue attributable to margin financing	(A)	5,121	6,247
Accounts receivable from business of securities brokerage from margin clients	(B)	<u>45,248</u>	<u>57,548</u>
Percentage	(A/B)	<u>11.3%</u>	<u>10.9%</u>

Referring to Table 4 above, based on the financial information disclosed in 2021 Annual Report, the percentage of the revenue attributable to margin financing to the accounts receivable from business of securities brokerage from margin clients amounted to approximately 11.3% in FY2020 and approximately 10.9% in FY2021 respectively.

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A positive correlation between the revenue attributable to margin financing and the accounts receivable from business of securities brokerage from margin clients is also observed from Table 4 above, which means the more the accounts receivable from business of securities brokerage from margin clients the Group has, the more revenue will be generated from this segment, which is conducive to the overall business development of the Group.

With reference to the Board Letter, the Directors considered that enlarging the margin financing capacity would be critical for KOALA Securities to avoid losing market competitiveness, to accelerate the expansion of margin financing business and to maintain the brand awareness in the market.

To finance the development of margin financing business, the Company initially spared approximately HK\$31.8 million cash resources, which was the new capital raised by way of open offer completed in 2017. However, the business growth of margin financing service in 2020 has been stronger than the expectation of the Group. The accounts receivable from margin clients as at 31 December 2020 amounted to approximately HK\$45.2 million, exceeding the initial reserve of approximately HK\$31.8 million. The balance further grew to approximately HK\$57.5 million as at 31 December 2021. In other words, the margin financing activities currently shares the same pool of funds with the other service lines of the Securities Brokerage Business, such as, the underwriting service.

Since there is no set repayment schedule with margin loans, the Group has been unable to accurately predict the cash flow schedule, which led to the practical difficulty to reserve financial resources for committing fully-underwritten underwriting exercises. In 2021, only one out of four underwriting exercises carried out by KOALA Securities were on a fully underwritten basis, while the other three exercises were on best-effort basis. The Directors considered that, if there was a better management of financial resources, KOALA Securities would be able to secure more underwriting exercises on fully-underwritten basis rather than on best effort basis and the commission income would be higher accordingly.

In view of the above, the Directors believe that the business potential of the Securities Brokerage Business has not been fully unleashed, as certain business opportunities as described above were missed due to the lack of clarity of the allocation of financial resources. Looking forward, the Group plans to separate the financial resources for underwriting and margin financing, which will enable the Group to optimize the business development of each business activity, for instance, to secure more fully underwritten underwriting exercises and soliciting med-cap of listed clients for larger underwriting size.

Based on the financial resources of the Securities Brokerage Business as at 30 April 2022, the maximum financial capacity for both underwriting exercises and margin financing is approximately HK\$125.0 million (the “**Existing Capacity**”), comprising (i) cash and cash equivalents allocated for the Securities Brokerage Business of approximately HK\$65.7 million; and (ii) approximately HK\$59.4 million was accounts receivable from margin clients. With reference to the latest fully underwritten rights issue exercise conducted by KOALA Securities, the financial commitment was approximately HK\$85 million, which represented approximately 68.0% of the Existing Capacity. In other words, under the

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Existing Capacity, the margin financing credit will be significantly limited when the cash resources are occupied by the underwriting service line and vice versa. Having considered the above, the Board intends to reserve the cash portion of the Existing Capacity of approximately HK\$65.7 million for underwriting exercises and therefore expects that, without further new capital, the existing financial resources of KOALA Securities will not be able to meet the funding needs of margin financing business. Before resolving to implement the Rights Issue, the Board also considered whether the funding need can be supported by the cash flow generated from the operating activities of the Group. However, the net cash generated from the operating activities of the Group amounted to merely approximately HK\$11.0 million for the year ended 31 December 2021, which is obviously not sufficient to support the expansion plan of the margin financing business. As such, the Company intends to allocate net proceeds of approximately HK\$72.0 million from the Rights Issue to strengthen the capital base of the margin financing business of the Group. KOALA Securities' management estimates that, upon completion of the Rights Issue, the maximum amount of margin financing credit and underwriting exercises that can be offered to clients would increase to approximately HK\$197.0 million, representing an increase of approximately 57.6% from the Existing Capacity.

We have also made enquiry to the Management in relation to the historical and expected amount of margin financing service of the Group. The amount of margin financing receivables as at 30 April 2022 was approximately HK\$59.4 million; KOALA Securities has from time to time received request from its clients for margin financing in daily operation.

With reference to the Board Letter, under the Existing Capacity, the margin financing credit will be significantly limited when the cash resources are occupied by the underwriting service line and vice versa, we are of the view that the proceeds of approximately HK\$72.0 million from the Rights Issue to be applied for the expansion of the Group's margin financing business on or before December 2022 will alleviate the limit on the cash resources for both the underwriting service line and margin financing credit.

Upon our enquiry to the Management, the Company has not entered into any arrangement, agreement, understanding and/or undertaking with its clients and other securities firm. However, the demand of the margin financing credits depends on the daily market conditions, market sentiment and any major IPOs.

In order to understand the growth of the securities market and the turnover of the securities market in Hong Kong, we refer to the "Market Statistics" issued by the Stock Exchange for the year from 2019 to 2021 and find that there was a significant growth in the average daily turnover which jumped from approximately HK\$87,155 million in 2019 to approximately HK\$166,730 million in 2021, representing an increase of approximately 91.30%. The IPO fund raised increased by approximately HK\$14,609.8 million from approximately HK\$314,241.1 million in 2019 to approximately HK\$328,850.9 million in 2021, representing an increase of approximately 4.65%. The post IPO funds raised increased by approximately HK\$301,877.6 million from approximately HK\$140,006.2 million in 2019 to approximately HK\$441,883.8 million in 2021, representing an increase of approximately 215.62%.

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According to “My Blog” of the Financial Secretary of Hong Kong, on 29 May 2022, it is mentioned that 21 “China Concept Stocks” issuers have returned to and been listed in Hong Kong through secondary or dual primary listing since 2019, the total market capitalization of which accounted for more than 70% of all the “China Concept Stocks” listed in the United States. More “China Concept Stocks” are expected to return to Hong Kong in the near future. As such, we concur with the Management that besides the funding needs of the underwriting services, the Company needs to prepare for funding for the margin financing credits especially for IPOs as the demands are expected to have a significant growth.

According to the “Financial Review of the Securities Industry” for the two years ended 31 December 2020 and 31 December 2021 published by the Securities and Futures Commission of Hong Kong, the outstanding margin loans increased by approximately HK\$52,517 million from approximately HK\$165,919 million as at 31 December 2019 to approximately HK\$218,436 million as at 31 December 2021, representing an increase of approximately 31.65%. In addition, the total number of active margin clients increased by approximately 1.62 million from approximately 0.60 million as at 31 December 2019 to approximately 2.22 million as at 31 December 2021, representing an increase of approximately 268.82%.

Upon discussion with the Management, we understand that the Management would like to cater the demand for margin financing credit as much as possible. Based on the Management’s allocation for the net proceeds of approximately HK\$72.0 million from the Rights Issue, we concur with the view of the Management that the Existing Capacity would increase significantly. In addition, having considered that (i) the Company may lose the competitiveness in the Securities Brokerage Business if their margin financing cannot meet their clients’ needs; and (ii) the revenue growth of the Securities Brokerage Business (including the margin financing) may lose the momentum if the funding for the margin financing is insufficient, we concur with the view of the Management that the Rights Issue allows the Group to satisfy the funding needs of the margin financing business without sacrificing business growth of other business segments and is therefore considered a better option to the Group. Accordingly, we are of the view that the Rights Issue is fair and reasonable.

In order to ascertain whether there will be a sustained growth of the Securities Brokerage Business (including the margin financing business), we have made reference to the unaudited first quarterly financial statements of the Group for 1QFY2022. The revenue attributable to margin financing soared to approximately HK\$2.2 million for 1QFY2022 from approximately HK\$1.1 million for the corresponding period of 2021, representing a significant increase of approximately 95.2%.

Upon discussion with the Management, despite the lockdown measures in the fifth wave of COVID-19 in Hong Kong in the 1QFY2022, there was a significant growth in the Securities Brokerage Business (including the margin financing business). Based on this fact, the Directors are of the view that there will be more room for further business development of KOALA Securities, among others, the demand for margin financing credit from the existing and potential clients of the Group. Based on the significant growth of the securities market in Hong Kong and the financial results of the margin financing business as disclosed in the first quarterly report of the Group in 1QFY2022, we concur with the above view and also consider it necessary to strengthen the capital base of KOALA Securities by way of the Rights Issue in order to reap the market opportunities.

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(b) Allocation of Financial Resources of the Group

As disclosed in the Board Letter, as at 31 December 2021, the cash and cash equivalents of the Group was approximately HK\$123.5 million, of which (i) approximately HK\$56.6 million was allocated for the Securities Brokerage Business; (ii) approximately HK\$32.7 million for securities investment; (iii) approximately HK\$25.7 million was allocated for the Money Lending Business; and (iv) the remaining balance of approximately HK\$8.5 million was reserved for general working capital.

It is disclosed in the Board Letter that during FY2021, the Securities Brokerage Business had underwritten four (4) rights issue exercises with an average underwritten amount of approximately HK\$52.5 million, including only one fully underwritten rights issue exercise of approximately HK\$85.0 million. For the four months up to 30 April 2022, the Company has underwritten one (1) rights issue exercise on a fully underwritten basis with a total underwritten amount of approximately HK\$65.38 million. With an aim to diversify the risk and share the financial commitment, KOALA Securities entered into a sub-underwriting agreement with a sub-underwriter. The above figures has shown that the existing financial resources of the Company may be occupied by its underwriting service from time to time.

The financial resources of approximately HK\$56.6 million as at 31 December 2021 was allocated for supporting the existing operating scale of the Securities Brokerage Business, in particular, for the business need of the underwriting service. Based on our discussion with the Management, we understand the allocation of HK\$56.6 million from the cash available as at 31 December 2021 to the Securities Brokerage Business will help (i) to reserve the funding for the underwriting business; (ii) to comply with the liquid capital requirements under the Financial Resources Rules when conducting the respective fund raising exercises; (iii) to meet the settlement deposit for clearing of the daily operation of the Securities Brokerage Business; and (iv) to cater for the unexpected situations occurred to avoid immediate impacts under the Financial Resources Rules. As such, we are of the view that the allocation of the abovementioned amount in the Securities Brokerage Business is fair and reasonable.

We have also made enquiry to the Management in relation to the deployment of the financial resources in the Money Lending Business. It is also mentioned in the Board Letter that the Group has provided new loans of approximately HK\$31.5 million (the “Loans”) in aggregate during the two years ended 31 December 2021. The Group plans to cautiously expand its loan business by soliciting new customers. The financial resources of approximately HK\$25.7 million was allocated for supporting the continuing development of the Money Lending Business.

Upon our discussion with the Management, due to the expected economy recovery after the COVID-19, demand of small to medium-size loan is expected to be increased. The Management have also supplemented that despite the increasing demand of loans, the Management will still adopt cautious and prudent way in the Money Lending Business and granting loan in small to medium-size is one of the risk management measures to the Group.

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In order to ascertain the Money Lending Business situation of the Group, we have also reviewed the loan portfolio of the Group in the latest two fiscal years. It is noted that 16 new loans have been granted to individuals and corporate clients among the Loans with the repayment period mainly from 1 year to 2 years. Given the diversity of clients and relatively long repayment period, the expected financial resources of approximately HK\$25.7 million to be allocated in this segment is prudent and reasonable and we concur with the Management's allocation on the Money Lending Business.

With reference to the Board Letter, the Group commenced the securities investment business in the third quarter of 2015. The investment scope includes short-term investments in listed securities in Hong Kong and other recognised overseas securities markets as well as other related investment products offered by banks and financial institutions, with the goal to generate additional investment returns on available funds of the Company from time to time. Giving top priority to prevention of excessive risk, the Company makes prudent decisions in respect of such investments on the principle of protecting the interests of its shareholders and the Company as a whole. The investment primarily focuses on, among others, industries which are developing sectors with relatively higher growth potential which are in line with the trend of the market. The Group's decision to purchase a stock is made without regard to the market capitalization of the company or its weighting in any market index. The Group may invest in companies of all sizes, which includes large, mid-cap, and small-cap securities. The Group would monitor the global macroeconomic factors and trends as well as local economic and political factors in Hong Kong to identify the appropriate investment themes. Individual stocks are then selected based on fundamental and/or technical analysis assessment to fit into the investment themes identified. As at the Latest Practicable Date, the Group has not identified any investment target. The Group will continue to identify appropriate securities investment opportunities from time to time. The timing of utilising the cash and cash equivalents of HK\$32.7 million allocated will be subject to the availability of investment opportunities. Nonetheless, the Board considers it is necessary to reserve certain level of cash resources, having regard that securities investment requires immediate readily available cash for capturing potential investment opportunities as and when they arise. Based on the above, the Board considers that it is not desirable to deploy the remaining cash resources from securities investment to the Securities Brokerage Business.

Upon the discussion with the Management, we understand that the Group has developed a research team which focuses on conducting research and analyses on the investment market. The research team is responsible for reviewing and monitoring the global market and trends as well as the significant factors that influence the Hong Kong market closely, so as to ensure the Group can catch up with the prevailing market trends and market sentiment in different investment sectors. Through keeping up-to-date information with professional analysis, as well as the available funding source, the Group can immediately react to and engage itself in such investment opportunities and to maximise its potential return.

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We have reviewed the Company's listed equity investment portfolio as at 31 December 2021 and noted that the fair value of the entire listed equity investment portfolio was approximately HK\$126.4 million. The allocation of approximately HK\$32.7 million to the securities investment represents approximately 25.87% of the entire listed equity investment portfolio as at 31 December 2021. Upon the discussion with the Management, we understand that the Management is of the view that upon the abatement of the COVID-19 epidemic, Hong Kong economy as well as the stock market is expected to rebound. Based on the above, we are of the view that the allocation of approximately HK\$32.7 million to the securities investment is fair and reasonable and we concur with the view of the Management that it is necessary to reserve certain level of cash resources, having regard that securities investment requires immediate readily available cash for capturing potential investment opportunities as and when they arise and it is not desirable to deploy the remaining cash resources from securities investment to the Securities Brokerage Business.

The Management has also planned to enhance the general working capital reserve to cover the administrative expenses for at least a 12-month period. The allocated financial resources of approximately HK\$8.5 million represents merely 65% of the target level. It is reasonable that the shortfall of the funding of approximately HK\$4.5 million will be supplemented by the proceeds from the Right Issue.

With reference to the Board Letter, whether and when the Company will proceed with the Aerospace Disposal is subject to a number of factors including without limitation the prevailing market sentiments and market conditions at the proposed time of executing the Aerospace Disposal. The exact amount of the proceeds from the Aerospace Disposal will be subject to the number of Aerospace Technology Shares being disposed of and the price at which they are sold. The Board therefore considers that, in light of the uncertainties aforesaid, it is not preferred to rely on the proceeds from the Aerospace Disposal to satisfy the business need of the margin financing service. In addition, the Aerospace Disposal as mentioned above is part of the Group's investment strategy to balance its portfolio of investments and optimise the Group's return as a whole. The Board has earmarked the intended use of proceeds from the Aerospace Disposal for funding the Securities Brokerage Business and Money Lending Business, both of which require capital investment for sustaining business growth. Nevertheless, the Group has no plan to discontinue the securities investment segment, especially when it achieved an outstanding financial performance with a segment profit of approximately HK\$96.4 million registered for the year ended 31 December 2021. As at the Latest Practicable Date, the Group has not disposed of any Aerospace Technology Shares.

Based on our discussion with the Management, we understand that Aerospace Disposal may last for 12 months given that the mandate period of the Aerospace Disposal is a period of 12 months from the date of passing of the relevant ordinary resolution at the extraordinary general meeting of the Company held on 17 June 2022. In light of the volatility of the securities market and the market sentiment, we concur with the view of the Management that the amount of proceeds from the Aerospace Disposal is uncertain. In addition, in comparing the prolonged period of the Aerospace Disposal and the completion date of the Rights Issue which will be a few months later, we are of the view that the proceeds from the Rights Issue may be more appropriate to meet the funding needs of the Company.

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Reference is also made to the financial report of 1QFY2022 of the Company. It is noted that the Group recorded an unrealised loss on listed securities of approximately HK\$47.7 million for 1QFY2022 which was mainly caused by an unrealised loss of approximately HK\$45.4 million from the investment in Aerospace Technology Shares while the Group recorded a gain of approximately HK\$2.2 million for the same corresponding period in 2021.

We therefore concur with the view of Management that it is not preferred to rely on the proceeds from the Aerospace Disposal to satisfy the business needs of the margin financing service.

(c) Cash generated from the Group's operating activities in the latest financial year

With reference to the Board Letter, the net cash generated from operating activities of the Group amounted to merely approximately HK\$11.0 million for the year ended 31 December 2021, which is obviously not sufficient to support the expansion plan of the margin financing business.

Upon the discussion with the Management, the abovementioned net cash generated from operating activities of the Group will not be reserved entirely to the Securities Brokerage Business, but also to the investing activities and financing activities of the Group as these activities generated a net cash outflow of approximately HK\$13.6 million for FY2021. As the net cash generated from operating activities of the Group for FY2021 represents approximately 8.80% of the Existing Capacity, we are of the view that it is not appropriate for the Company to rely on the net cash generated from operating activities of the Group for the expansion of its margin financing business.

III. Principal terms of the Rights Issue

Rights Issue Statistics

Set out below are the principal terms of the Rights Issue extracted from the Board Letter:

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.3 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	139,167,997 Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 278,335,994 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)

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Total number of Shares in issue upon completion of the Rights Issue	:	Up to 417,503,991 Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Gross proceeds from the Rights Issue	:	Up to approximately HK\$83.5 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date)
Right of excess applications	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

Underwritten on a best effort basis

The Rights Issue is only underwritten on a best effort basis. Pursuant to the Company's constitutional documents, the Companies Act of the Cayman Islands, the Companies (WUMP) Ordinance and the GEM Listing Rules, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment of the conditions precedent of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level.

In the event the Rights Issue is undersubscribed, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, or otherwise subscribed by the Underwriter or other subscribers procured by it pursuant to the Underwriting Agreement will not be issued by the Company, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

The Subscription Price

The Subscription Price represents:

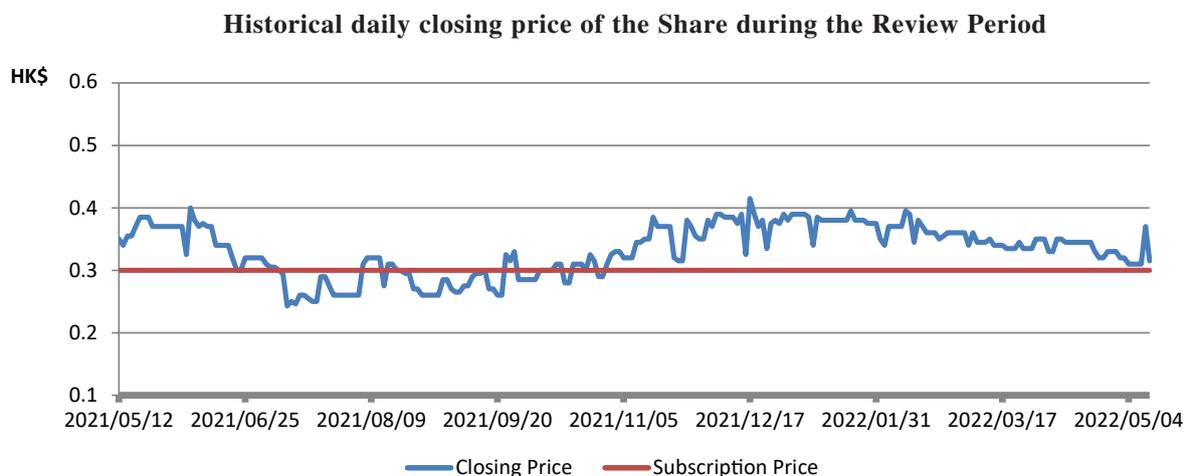
- (a) a discount of approximately 11.76% to the closing price of HK\$0.34 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 4.76% to the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 7.12% to the average closing price of HK\$0.323 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 7.12% to the average closing price of approximately HK\$0.323 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 1.64% to the theoretical ex-rights price of approximately HK\$0.305 per Share based on the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (f) a discount of approximately 88.5% to the audited net asset value per Share of approximately HK\$2.61 (based on the latest published consolidated net asset value of the Group of approximately HK\$363,461,000 as at 31 December 2021 as disclosed in the annual report of the Company for FY2021 and 139,167,997 Shares in issue as at the Latest Practicable Date); and
- (g) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 4.7%, based on the theoretical diluted price of HK\$0.307 per Share and the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules) of HK\$0.322 per Share.

Historical Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 12 May 2021 (being one year prior to the date of the Underwriting Agreement) up to and including the Last Trading Day (the “**Review Period**”). We consider the one year period to be adequate and reasonable for shareholders’ reference in regard to the Subscription Price because the Review Period has included the latest financial position and reflected the Share price performance of the Group. The general trend of the daily closing prices of the Shares during the Review Period and comparison with the Subscription Price is illustrated as follows:



Source: website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the highest and the lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.415 recorded on 17 December 2021 and HK\$0.243 recorded on 12 July 2021 and the average closing price was approximately HK\$0.332. The Subscription Price of HK\$0.3 is within the range of the lowest and highest closing prices of the Shares. We note that the Company published its first quarterly results announcement for the three months ended 31 March 2021 on 13 May 2021 and the closing prices of the Shares showed a general decreasing trend from May 2021 to July 2021 which reached its lowest at HK\$0.243 on 12 July 2021.

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After that, the Company announced a positive profit alert on 2 August 2021 and published its interim results announcement for the six months ended 30 June 2021 on 13 August 2021. The Company further announced another positive profit alert on 8 November 2021 and published its third quarterly results announcement for the nine months ended 30 September 2021 on 9 November 2021. The closing price of Shares showed a general increasing trend since July 2021 and reached its highest at HK\$0.415 on 17 December 2021.

It then fluctuated and closed at HK\$0.315 on the Last Trading Date. Save for the announcement published by the Company relating to the possible very substantial disposal mandate for disposal(s) of listed securities on 7 March 2022, its final results announcement for FY2021 published on 27 March 2022 and an announcement of profit warning for the three months ended 31 March 2022 published on 11 May 2022, the fifth wave of the COVID-19 pandemic was also prevalent during this period.

The Subscription Price of HK\$0.3 per Share represents (i) a premium of approximately 23.46% over the lowest closing price; (ii) a discount of approximately 27.71% to the highest closing price; and (iii) a discount of approximately 9.64% to the average closing price of approximately HK\$0.332 during the Review Period.

Having considered that (i) the Subscription Price represents only a single digit discount to the closing price of the Shares on the Last Trading Day and the average closing price of the Shares during the Review Period; (ii) the Subscription Price is within the range of the closing price of the Shares during the Review Period; (iii) the closing price of the Shares generally exhibited a declining trend since December 2021 and closed at HK\$0.315 on the date of the Underwriting Agreement; and (iv) the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter, we are of the view that the Subscription Price is fair and reasonable.

IV. Market Comparables Analysis

The Subscription Price

In assessing the fairness and reasonableness of the Subscription Price, we have performed an analysis of the comparison of the Subscription Price to other rights issue conducted by other listed companies (the “Listcos”) on GEM. We have reviewed rights issue conducted by Listcos during the Review Period (the “Comparables”) based on the key selection criteria of (i) publication of initial announcement of the rights issue is within the Review Period; (ii) the rights issue is conducted by Listcos on GEM; and (iii) the rights issue is subject to shareholders' approval. To the best of our knowledge and as far as we are aware of, we found 12 Comparables which we consider an exhaustive list of relevant Comparables.

We consider that the Review Period is adequate and appropriate given that (i) such period provides us the recent information to demonstrate the prevailing market practice for rights issue prior to the Last Trading Day; and (ii) sufficient number of Comparables were identified during the Review Period. Independent Shareholders should note that the

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businesses, operations and prospects of the Group may not be the same with the Comparables in Table 5 below. Nevertheless, we consider that the Comparables were determined under similar market conditions and sentiment which were also subject to shareholders' approval and therefore, the Comparables provide a general reference in assessing the fairness and reasonableness of the terms of the Underwriting Agreement, including the Subscription Price.

Details of the Comparables are set out below:

Table 5 Details of the Comparables

Stock code	Company name	Date of initial announcement	Basis of entitlement	Discount of the subscription price to the closing price on last trading day (%) (Note 1)	Discount of the subscription price to the theoretical ex-entitlement price (%) (Note 1)	Discount/(premium) of the subscription price to/(over) the net asset value per issued share (%) (Note 1)	Theoretical dilution effect (%) (Note 1)	Underwriting arrangement (Note 1)	Underwriting commission (%) (Note 1)
8360	AL Group Limited	07 June 2021	3 for 1	27.03	8.47	NA (Note 3)	20.27	Fully-underwritten	1.5
8428	CBK Holdings Limited	23 June 2021	3 for 2	22.73	10.53	Nil	13.64	Non-underwritten	N/A
8082	Sun Entertainment Group Limited (Note 2)	13 July 2021	4 for 5	52.50	38.60	(185.70)	23.60	Non-underwritten	N/A
8331	P.B. Group Limited	16 July 2021	1 for 1	36.40	22.20	70.80	18.20	Fully-underwritten	Nil (Note 4)
8292	Worldgate Global Logistics Ltd	29 July 2021	3 for 1	17.90	5.20	78.80	13.40	Non-underwritten	N/A
8217	Luen Wong Group Holdings Limited	02 August 2021	2 for 1	18.80	7.10	(5.60)	12.50	Non-underwritten	N/A
8299	Grand T G Gold Holdings Limited	02 November 2021	3 for 1	16.67	5.41	78.92	11.90	Partially underwritten	Nil (Note 4)
8456	Mansion International Holdings Limited	05 November 2021	3 for 1	18.60	5.40	NA (Note 3)	14.30	Non-underwritten	N/A
8385	Prosperous Printing Company Limited	29 December 2021	3 for 2	34.33	16.98	83.01	20.90	Underwritten on a best effort basis	1
8275	Beaver Group (Holding) Company Limited	14 January 2022	3 for 2	24.14	11.29	45.54	14.48	Non-underwritten	N/A
8112	Cornerstone Financial Holdings Limited	21 January 2022	3 for 1	11.63	3.18	87.86	14.62	Fully-underwritten	3.5
8056	Life Concepts Holdings Limited	28 April 2022	3 for 2	6.98	2.91	NA (Note 3)	9.28	Underwritten on a best effort basis	1
			Highest:	36.40	22.20	(5.60)	20.90		3.5
			Lowest:	6.98	2.91	87.86	9.28		Nil
			Median:	18.80	7.10	74.80	14.30		
			Average:	21.38	8.97	54.92	14.86		
			the Company	4.76	1.64	88.50	4.70		3

Source: website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. Extracted from the respective initial announcement of the Comparables.
2. The premium of the subscription price over the net asset value per issued share of the relevant Listco is exceptionally high and considered an outlier, and is therefore not included in the calculation.
3. The relevant Listcos recorded net liabilities as at the end of their respective latest financial year.
4. Underwritten by connected person of the respective Comparables.

As illustrated in the Table above, the discount of the subscription price to the closing price of the Comparables on the last trading day ranged from a discount of approximately 6.98% to 36.40%, with an average discount of approximate 21.38% and a median discount of approximately 18.80%. The discount of subscription price to the theoretical ex-entitlement price of the Comparables ranged from a discount of approximately 2.91% to 22.20%, with an average discount of approximately 8.97% and a median discount of approximately 7.10%. In comparison with the Comparables, we find that the discount of approximately 4.76% of the Subscription Price to the closing price on the Last Trading Day is far lower than the average and the median and even lower than the lowest of the Comparables. The discount of approximately 1.64% of the Subscription Price to the theoretical ex-entitlement price based on the closing price on the Last Trading Day is far lower than the average and the median and even lower than the lowest of the Comparables.

The discount of approximately 88.5% of the Subscription Price to the net asset value per Share as at 31 December 2021 (“NAV per Share”) is slightly higher than the highest discount of the Comparables.

As disclosed in the Board Letter, the Directors noted that the Subscription Price represents discount of approximately 88.5% to the net asset value per Share as at 31 December 2021. Given that (i) the Shares have been consistently traded at a substantial discount to the net asset value per Share since 1 January 2021 and up to the Last Trading Day; (ii) the recent market price of the Shares reflects the recent market sentiment; and (iii) the Subscription Price represents a discount of approximately only 4.76% to the closing price of the Shares on the Last Trading Day, the Directors consider that it is fair and reasonable to make reference to the market price of the Share, rather than the net asset value per Share in determining the Subscription Price, and that the discount of the Subscription Price to the net asset value per Share is justifiable.

With reference to the section headed “Historical Share price performance” above in this letter, we made comparison between the closing price of the Share during the Review Period and the NAV per Share. The highest and the lowest closing prices of the Shares of HK\$0.415 and HK\$0.243 represent a discount of approximately 84.10% and approximately 90.69% to the NAV per Share, whereas the average closing price of the Share of approximately HK\$0.332 represents a discount of approximately 87.28% to the NAV per Share.

Although the discount of the Subscription Price to the NAV per Share is slightly higher than the highest discount of the Comparables, taking into account (i) the significant discount of each of the highest, lowest and average closing prices of the Shares during the

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Review Period to the NAV per Share, meaning the Share has been trading significantly below the NAV per Share during the Review Period; (ii) the discount of the Subscription Price to each of the closing price on the Last Trading Day and the theoretical ex-entitlement price based on the closing price on the Last Trading Day is far lower than the average and the median and even lower than the lowest of the Comparables; and (iii) the reasons and benefits for conducting the Rights Issue, i.e. to expand the Group's margin financing business and to reserve additional capital for the general working capital of the Group as mentioned in the section headed "II. Reasons for and benefits of the Rights Issue and use of proceeds" above in this letter, setting the Subscription Price close to the NAV per Share would discourage the underwriters to underwrite or Independent Shareholders to participate in the Rights Issue.

Based on the above analysis, we are of the view that the Subscription Price is on normal commercial terms with regard to safeguarding the interests of the Company and the Shareholders and is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Underwriting arrangement and Underwriting commission

Pursuant to the Underwriting Agreement and with reference to the Board Letter, the Underwriter has agreed to underwrite the Underwritten Shares on a best effort basis and 3% of the total Subscription Price in respect of the Rights Shares actually subscribed for through the Underwriter and/or its sub-underwriters shall be paid as underwriting commission by the Company to the Underwriter, who and whose ultimate beneficial owners are Independent Third Parties provided the Rights Issue and the Underwriting Agreement shall have become unconditional and the Rights Issue shall have been completed in accordance with its terms and the Underwriter shall have fulfilled all its material obligations thereunder. Per our discussion with the Management, the Company had approached 3 financial institutions to explore the possibility or their interest in acting as an underwriter of the Company either on a best effort basis or fully-underwritten basis before entering into the Underwriting Agreement. To the understanding of the Management, those financial institutions tended to be prudent and conservative in the underwriting business in light of the uncertainty of the fifth wave of the COVID-19 pandemic and the prevailing market conditions. The Underwriter was the only financial institution who had expressed its interest in acting as the underwriter of the Rights Issue on a best effort basis.

With reference to Table 5 above, the rights issue for 2 out of 12 Listcos in the Comparables were underwritten on a best effort basis. As stated in the paragraph above, none of the financial institutions was willing to underwrite the Rights Issue on a fully-underwritten basis due to their prudent approaches in the underwriting business. The underwriting commission for both of those two Comparables underwritten on a best effort basis, which is the case of the Company, are 1%, being lower than that of the Rights Issue. Upon our enquiry to the Management, it is the view of the Management that the higher commission offered will provide further incentives and encourage the Underwriter to procure subscribers to subscribe for more Rights Shares given the best effort basis for the Underwriting of the Rights Issue under the current economic environment and market

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sentiment. We further noticed that the proposed rights issue announced by Prosperous Printing Company Limited (stock code: 8385) on 29 December 2021 was formally terminated in view of the prevailing market conditions, in particular the recent volatility of the financial market since the announcement of its rights issue, the sentiment of the investors and the uncertainty of the global macroeconomic environment. It was underwritten on a best effort basis with the underwriting commission of 1% on the basis of three rights shares for every two existing shares to raise up to approximately HK\$52.8 million. Taking into consideration the abovementioned, we concur with the view of the Management that under the current economic environment and market sentiment, higher commission rate may be able to increase the incentives for the Underwriter to procure subscribers to subscribe the Rights Shares in the event that the Rights Issue is undersubscribed and the 3% underwriting commission is the best rate available to the Company as requested by the Underwriter.

It is noticed that in Table 5, the range of the underwriting commission of all the Comparables is from nil to 3.5%. Given the Underwriter is the only financial institution that agreed to underwrite the Underwritten Shares despite that on a best effort basis; and as the commission rate for the Rights Issue is within such range and in view of the lingering uncertainties caused by the fifth wave of COVID-19 in Hong Kong with respect to the economy and society as a whole, we consider that the underwriting commission for the Rights Issue is acceptable.

Potential Dilution effect of the Rights Issue

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. Assuming full subscription under the Rights Issue, for those who take up their full provisional allotments under the Rights Issue, their proportionate shareholding interests in the Company will remain unchanged upon completion of the Rights Issue. Qualifying Shareholders who do not elect to subscribe for their entitled Rights Shares under the Rights Issue should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. Details of the changes in shareholding structure of the Company resulting from completion of the Rights Issue are set out in the section headed “EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY” in the Board Letter.

Assuming there will be no change in the shareholding structure of the Company before completion of the Rights Issue, if (i) all Right Shares are subscribed for by the Qualifying Shareholders, the shareholding of the public Shareholders will remain 80.93%; and (ii) assuming none of the Qualifying Shareholders takes up any of the Rights Shares and the Underwriter subscribes or procures the subscription of all Rights Shares, the shareholding of the public Shareholders will decrease from approximately 80.93% as at the Latest Practicable Date to approximately 26.98% upon completion of the Rights Issue, representing a possible dilution of approximately 53.95% shareholding of the Company as a result of the Rights Issue. With reference to the shareholding table under the section headed “EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY” in the Board Letter, the above scenario is for illustrative purpose only in accordance with the Underwriting Agreement to comply with the public float requirement under the GEM Listing Rules and to not trigger any obligations for mandatory general offer under the

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Takeovers Code by the Underwriter or any subscriber procured by the Underwriter (together with parties acting in concert (within the meaning of the Takeovers Code) with the respective subscribers or any of the connected persons or associates of the respective subscribers).

Notwithstanding the potential dilution may impact the Qualifying Shareholders who do not participate in the Rights Issue, taking into account that (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue so as to maintain their respective shareholding in the Company; (ii) the shareholding of the Qualifying Shareholders would not be diluted if they choose to subscribe for their entitled Rights Shares in full; (iii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not want to take up their rights entitlement; (iv) the theoretical dilution effect of 4.7% of the Rights Issue is far lower than the average and the median as well as the lowest of that of the Comparables; (v) compared with other fund raising alternatives, the Rights Issue is an appropriate financing alternative under present circumstances of the Company; and (vi) the Company is in need of the net proceeds from the Rights Issue to further develop the Securities Brokerage Business (including the margin financing business), we are of the opinion that the potential dilution effect arising from the Rights Issue to the Qualifying Shareholders who do not participate in the Rights Issue is acceptable.

V. Other financing alternatives

As disclosed in the Board Letter, the Board has also considered other alternative means of fund raising before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. However, the Board considers that debt financing will result in additional interest burden and higher gearing ratio of the Group.

As discussed with the Management, debt financing will result in additional interest burden and higher gearing ratio of the Group. In addition, debt financing may not be achievable on favourable terms in a timely manner.

Upon our enquiry to the Management, the Board also considered equity financing such as placing and open offer. As for placing of new Shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. Such placees may not necessarily be existing Shareholders but the Management looks forward to sharing the future growth of the Company with the existing Shareholders. As for open offer, while it is similar to the structure of a rights issue to let qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market. Shareholders who do not wish to take up their entitlements will not be offered the opportunity to sell their entitlements on the market.

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In light of the above, in particular that (i) the placing will lead to immediate dilution in the shareholding of existing Shareholders without offering them the opportunity to take part in the exercise; (ii) the open offer does not offer free trading of rights entitlements in the open market if they do not wish to take up their entitlements; and (iii) the Rights Issue offers more flexibility to the Qualifying Shareholders after considering other financing alternatives, we concur with the Board's view that raising funds by way of the Rights Issue is more cost effective, efficient and beneficial to the Company and the Shareholders as a whole as compared to raising funds by other means.

VI. Financial effects of the Rights Issue

Assuming full subscription under the Rights Issue and the estimated net proceeds of approximately HK\$80.1 million, the financial effects of the Rights Issue are set out below, for illustrative purpose only and do not represent the future financial position of the Group upon completion of the Rights Issue.

(a) Effect on the consolidated net tangible assets attributable to Shareholders

According to the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as disclosed in the appendix II to the Circular, the audited adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2021 was approximately HK\$314.7 million and the unaudited adjusted consolidated net tangible assets of the Group per Share attributable to the owners of the Company as at 31 December 2021 was approximately HK\$2.26 (based on 139,167,997 Shares in issue as at 31 December 2021). Upon completion of the Rights Issue, it is expected that the audited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2021 would increase to approximately HK\$394.8 million and the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the owners of the Company would decrease to approximately HK\$0.95.

(b) Effect on the liquidity

As disclosed in the 2021 Annual Report, the bank balances and cash (general bank accounts and cash) of the Group was approximately HK\$123.5 million and the current assets and current liabilities of the Group was approximately HK\$424.2 million and HK\$112.2 million respectively. Accordingly, the current ratio of the Group was equal to approximately 3.78 times. Upon the completion of the Rights Issue, it is expected that the inflow of the net proceeds will improve the current ratio to approximately 4.50 times.

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(c) *Effect on the funds available for the Securities Brokerage Business (including the margin financing business)*

As disclosed in the Board Letter, approximately HK\$56.6 million of cash and cash equivalents of the Group was allocated for the Securities Brokerage Business (including the margin financing business). With a view to further improving the revenue from the Securities Brokerage Business, the Management plans to utilise approximately HK\$72 million from the net proceeds of the Rights Issue for the expansion of the Group's margin financing business, which represents an increase of 127.2% of available funds.

In light of the above analysis, we are of the view that the effects on the consolidated net tangible assets attributable to Shareholders, the liquidity and the funds available for the Securities Brokerage Business (including the margin financing business) are positive and the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the principal factors and reasons as discussed above, we consider that although entering into the Underwriting Agreement is not in the ordinary and usual course of business of the Group, the terms of the Rights Issue are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
VC Capital Limited
Ginny Ho
Managing Director

Note: Ms. Ginny Ho is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of VC Capital Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO. She has extensive experience in the corporate finance industry.

1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three financial years ended 31 December 2019, 2020 and 2021 were disclosed in the annual reports of the Company for the years ended 31 December 2019 (pages 34 to 116), 2020 (pages 37 to 112) and 2021 (pages 42 to 120) respectively. The aforementioned financial information of the Group has been published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.koala8226.com.hk). Please refer to the hyperlinks as stated below:

- 2019 annual report:
<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0331/2020033100917.pdf>
- 2020 annual report:
<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0330/2021033000634.pdf>
- 2021 annual report:
<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0330/2022033002168.pdf>

2. STATEMENT OF INDEBTEDNESS

As at 30 April 2022, being the most recent practicable date for the purpose of this indebtedness statement, the Group had the following indebtedness:

	As at 30 April 2022 HK\$'000
Other borrowings – unsecured and unguaranteed (<i>note</i>)	20,000
Lease liabilities	1,803
	<u>21,803</u>

Note: Other borrowings represent the two corporate bonds with principal amount of HK\$10,000,000 which were due on 29 September 2021 and 9 March 2022, respectively, for repayment. The balance is unsecured, interest bearing and repayable on demand.

Save as aforesaid and apart from intra-group liabilities and normal account payables in the ordinary course of business, as at the close of business on 30 April 2022, the Group did not have any significant contingent liabilities, debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages or charges, contingent liabilities or guarantees outstanding.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the Group's present financial resources and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements for at least the 12 months from the date of this circular in the absence of any unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

Reference is made to the profit warning announcement of the Company dated 11 May 2022, in which it was disclosed that the Group was expected to record a loss of approximately HK\$37.9 million for the three months ended 31 March 2022 as compared to the profit of approximately HK\$3.4 million for the same corresponding period in 2021. The reason for the net loss was the unrealised loss on listed securities of approximately HK\$47.7 million as a result of the recent downturn of the equity market in Hong Kong (the "**Profit Warning Announcement**").

Save as disclosed in the Profit Warning Announcement and the first quarterly report for the three months ended 31 March 2022 of the Company published on 13 May 2022, the Directors confirm that there had been no material adverse change in the financial or trading position or outlook of the Group since 31 December 2021 (the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

5. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group recorded net current assets of approximately HK\$312.0 million as at 31 December 2021. For the year ended 31 December 2021 ("**FY2021**"), the Group recorded a turnover and net profit of approximately HK\$25.9 million and HK\$82.7 million respectively.

The Group is principally engaged in (i) the Securities Brokerage Business; (ii) the Money Lending Business; (iii) securities investment; (iv) leasing of investment properties; and (v) provision of assets management services. The Securities Brokerage Business has been the main contributor to the Group's revenue in recent years.

Securities Brokerage Business

The outbreak of the COVID-19 affected the most on small and medium-sized securities firms. The government has been taking restrictive preventive measures to prevent the spread of the coronavirus, including but not limited to social distancing measures and border controls. These factors had (i) generally prolonged the timetable for IPOs and placing transactions as more time was required for professional parties to prepare and complete the relevant transaction procedures; (ii) impacted and hindered the Group's ability to contact efficiently with issuers and relevant professional working parties (e.g. some of them are located in the PRC) to pitch for placing and underwriting deals; and (iii) increased the Group's difficulty in promoting its securities brokerage business with existing customers or soliciting new customers and conducting account opening on a face-to-face basis. Despite this, the Group will continue to focus its efforts to expand the business by broadening the customer base and cultivate new clients for long term growth.

In order to increase the Group's competitiveness and expand the Group's services, the Group commenced its collaboration with external brokers in the second half of 2021 as to allow its customers to trade securities listed on overseas exchanges, such as the stock exchange in the United States, and possibly extend further to the Shanghai Stock Exchange and Shenzhen Stock Exchange as well. The Group will provide access to overseas trading systems operated by external brokers licensed in their respective jurisdictions via its telephone system or online trading platform. Since the Group have greatly improved its marketing, the number of new securities customers of the Group has been increasing. The Group will also reserve more funds for margining and short-term IPO financing purposes.

With a view to further improving the revenue from the brokerage and margin financing services, during the year, the Group has enlarged the capacity of the margin financing service by reserving more funds to customers who wish to purchase securities on a margin basis. The Board expects this segment will become one of the major growth drivers to the Group.

Revenue from this business segment during FY2021 was approximately HK\$19.2 million, representing an increase of approximately HK\$6.8 million as compared to approximately HK\$12.4 million in the corresponding period of 2020. It accounted for approximately 74.1% (2020: 53.0%) of the Group's revenue during the year.

Money Lending Business

The outbreak of the COVID-19 had further worsened the economy, and heightened volatility and risks. The Group has adopted more cautious and prudent approach in the assessments and approval of new loans or renewal of existing loans in order to mitigate its credit risk.

During FY2021, the Group recorded loan interest income of approximately HK\$6.3 million (2020: HK\$10.4 million) from granting loans to both corporate and individual clients. It accounted for approximately 24.3% (2020: 44.4%) of the Group's revenue during the year. The loans and interests receivable as at 31 December 2021 was HK\$37.4 million (2020: HK\$49.2 million). During FY2021, an impairment loss of approximately HK\$5.0 million (2020: nil) were prudently made in its money lending activities after reviewing the relevant borrowers' financial positions.

Securities investment business

The Group commenced the securities investment business in the third quarter of 2015. The investment scope includes short-term investments in listed securities in Hong Kong and other recognised overseas securities markets as well as other related investment products offered by banks and financial institutions, with the goal to generate additional investment returns on available funds of the Company from time to time.

As at 31 December 2021, the Group managed a portfolio of listed equity investment with fair value of approximately HK\$126.4 million (2020: HK\$41.2 million) which are classified as held-for-trading investments. During FY2021, the Group recorded a gain on fair value change of listed equity investments of approximately HK\$85.3 million (2020: loss of approximately HK\$6.7 million) and a realised gain of approximately HK\$11.1 million (2020: gain of approximately HK\$8.7 million).

Properties investment business

In the third quarter of 2016, the Group had commenced its properties investment business and acquired certain commercial property in Hong Kong for investment purpose. The Group may lease out its investment properties for recurring rental income, which generates stable rental income to the Group.

In order to further expand the portfolio of investment properties of the Group, the Board is proactively identifying suitable commercial properties in Hong Kong, while it is also seeking the opportunities to expand the coverage to retail and industrial properties in Hong Kong, so as to diversify its investment properties portfolio.

During FY2021, the rental income was approximately HK\$0.4 million (2020: HK\$0.6 million). It accounted for approximately 1.6% (2020: 2.6%) of the Group's revenue during the year.

Asset management

For asset management, the operation was at the start-up stage, the Group expects it could provide some sources of stable and diversified income over the long term.

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

For illustrative purpose only, set out below is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group after completion of the Rights Issue. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions for the financial periods concerned.

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

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules is set out to illustrate the effect of the Rights Issue on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as if the Rights Issue had been completed on 31 December 2021.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2021 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 of the Group attributable to the equity holders of the Company as at 31 December 2021 is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2021, as extracted from the published annual report of the Company for the year ended 31 December 2021, with adjustments described below.

Audited adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2021 <i>HK\$'000</i> <i>(Note i)</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note ii)</i>	Audited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2021 immediately after the completion of the Rights Issue <i>HK\$'000</i>	Unaudited adjusted consolidated net tangible assets of the Group per share attributable to the owners of the Company as at 31 December 2021 <i>HK\$'</i> <i>(Note iii)</i>	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to the owners of the Company immediately after completion of the Rights Issue <i>HK\$'</i> <i>(Note iv)</i>
Based on of 278,335,994 Rights Shares at subscription price of HK\$0.3 per Rights Share	314,746	80,100	394,846	2.26
				0.95

Notes:

- (i) The audited adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2021 of approximately HK\$314,746,000 is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 31 December 2021 of HK\$353,048,000, adjusted by excluding goodwill of HK\$18,302,000 and other intangible assets of HK\$20,000,000 as shown on the consolidated statement of financial position of the Group as at 31 December 2021 as extracted from the published annual report of the Company for the year ended 31 December 2021.

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION
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- (ii) The estimated net proceeds from the Rights Issue of approximately HK\$80,100,000 is calculated based on 278,335,994 Rights Shares to be issued (in the proportion of two Rights Share for every one share held as at the rights issue record date) at the subscription price of HK\$0.3 per Rights Share, after deduction of the estimated related expenses of approximately HK\$3,400,000, including among others, underwriting commission and professional fees, which are directly attributable to the Rights Issue.
- (iii) The audited adjusted consolidated net tangible assets of the Group per share attributable to the equity holders of the Company as at 31 December 2021 is HK\$2.26, which is calculated based on the unaudited adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2021 of HK\$314,746,000 as set out in Note (i) above divided by 139,167,997 shares in issue as at 31 December 2021.
- (iv) The unaudited pro forma adjusted consolidated net tangible assets of the Group per share attributable to the owners of the Company immediately after completion of the Rights Issue of HK\$0.95 is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after completion of the Rights Issue of HK\$394,846,000 divided by 417,503,991 shares, which comprising 139,167,997 shares in issue as at 31 December 2021 and 278,335,994 Rights Shares to be issued, pursuant to the Rights Issue (in the proportion of two Rights Share for every share held as at the Rights Issue record date), that are in issue assuming that the Rights Issue had been completed on 31 December 2021.
- (v) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2021.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT

The following is the text of a report received from the reporting accountants, CWK CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of inclusion in this circular.



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

To the directors of KOALA FINANCIAL GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Koala Financial Group Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company 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 the equity holders of the Company as at 31 December 2021 and related notes (the “**Pro Forma Financial Information**”) as set out in on pages II-1 to II-2 of the circular dated 23 June 2022 (the “**Circular**”) issued by the Company. The applicable criteria on the basis of which the directors have compiled the Pro Forma Financial Information are described on pages II-1 to II-2 of the Circular.

The Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed rights issue of 278,335,994 rights shares at subscription price of HK\$0.3 per rights share (the “**Rights Share**”) on the basis of two Rights Shares for every share of the Company held on the rights issue record date (the “**Rights Issue**”) on the Group's audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2021 as if the Rights Issue had taken place on 31 December 2021. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's audited consolidated financial statements for the year ended 31 December 2021, on which an audited report has been published.

DIRECTORS' RESPONSIBILITY FOR THE PRO FORMA FINANCIAL INFORMATION

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

OUR INDEPENDENCE AND QUALITY CONTROL

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

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

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

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

The purpose of the Pro Forma Financial Information included in this 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 31 December 2021 would have been as presented.

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

A reasonable assurance engagement to report on whether the 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 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 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 Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 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 Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

CWK CPA Limited

Certified Public Accountants

Hong Kong

23 June 2022

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 Group. 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 and fully paid share capital of the Company (a) as at the Latest Practicable Date; and (b) immediately after completion of the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to completion of the Rights Issue and full acceptance by Qualifying Shareholders) were as follows:

(a) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares of HK\$0.2 each	<u>200,000,000</u>
<i>Issued and fully paid:</i>		
<u>139,167,997</u>	Shares of HK\$0.2 each	<u>27,833,599</u>

(b) Immediately after completion of the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to completion of the Rights Issue and full acceptance by Qualifying Shareholders)

<i>Authorised:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares of HK\$0.2 each	<u>200,000,000</u>
<i>Issued and fully paid:</i>		
139,167,997	Shares of HK\$0.2 each	27,833,599
<u>278,335,994</u>	Rights Shares of HK\$0.2 each to be allotted and issued under the Rights Issue	<u>55,667,199</u>
<u>417,503,991</u>	Total	<u>83,500,798</u>

All the existing Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and return of capital. The Rights Shares (when allotted, issued and fully-paid) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares in their fully-paid form will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares.

Neither part of the share capital nor any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

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

As at the Latest Practicable Date, none of the capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates had or was deemed to have any interest or short position 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) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial Shareholders and other person

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, no person (other than a Director or chief executive of the Company), had, or were deemed or taken to have interests or short positions 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 and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO, who were, directly or indirectly, interested in 5% or more of the number of any class of share carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Long positions in the Shares:

Name of Shareholder	Capacity	Total number of Shares held	Approximate percentage of total number of issued Shares of the Company
Ms. Wong Ka Man	Beneficial owner	26,533,363	19.07%

4. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (being the date to which the latest published audited accounts of the Group were made up); and
- (b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Group.

5. LITIGATION

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

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or was proposing to enter into any service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling shareholder of the Company nor their respective close associates (as defined in the GEM Listing Rules) had any interest in a business, which competes or may compete, either directly or indirectly, with the business of the Group or any other conflict of interest which any such person has or may have with the Group which would be required to be disclosed pursuant to the GEM Listing Rules.

8. MATERIAL CONTRACT

The following contract (not being contracts entered into in the ordinary course of business of the Group) have been entered into by the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date which are or may be material:

- (a) the Underwriting Agreement.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts or professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
CWK CPA Limited	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50 of Laws of Hong Kong) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588 of Laws of Hong Kong)
VC Capital	a licensed corporation carrying out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of CWK CPA Limited and VC Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

Each of CWK CPA Limited and VC Capital confirmed that as at the Latest Practicable Date:

- (a) it did not have any shareholding interest 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 securities in any member of the Group; and
- (b) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up.

10. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission and professional fees payable to financial advisers, legal adviser, reporting accountants, financial printer and other parties involved in the Rights Issue are estimated to be approximately HK\$3.4 million, which are payable by the Company.

11. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**Board of Directors***Executive Directors:*Ms. Kwan Kar Ching (*Board Chairlady*)

Ms. Hsin Yi-Chin

Independent non-executive Directors:

Mr. Hung Cho Sing

Mr. Luk Kin Ting

Mr. Ng Wah Leung

*Audit Committee:*Mr. Ng Wah Leung (*Committee Chairman*)

Mr. Hung Cho Sing

Mr. Luk Kin Ting

*Nomination Committee:*Ms. Kwan Kar Ching (*Committee Chairlady*)

Mr. Hung Cho Sing

Mr. Ng Wah Leung

*Remuneration Committee:*Mr. Ng Wah Leung (*Committee Chairman*)

Mr. Hung Cho Sing

Ms. Kwan Kar Ching

Registered officeCricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands**Head office and principal place of
business in Hong Kong**Units 01-02, 13th Floor
Everbright Centre
108 Gloucester Road
Wan Chai, Hong Kong

Authorised representatives	Ms. Kwan Kar Ching Mr. Tse Chi Shing
Compliance officer	Ms. Kwan Kar Ching
Company secretary	Mr. Tse Chi Shing
Principal share registrar and transfer office in the Cayman Islands	Suntera (Cayman) Limited Suite 3204, Unit 2A, Block 3 Building D, P.O. Box 1586, Gardenia Court Camana Bay, Grand Cayman KY1-1110 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Union Registrars Limited Suites 3301-04, 33/F Two Chinachem Exchange Square 338 King's Road, North Point Hong Kong
Principal bankers	Hang Seng Bank Limited 83 Des Voeus Road Central Hong Kong Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong Chong Hing Bank Limited Chong Hing Bank Centre 24 Des Voeux Road Central Hong Kong
Legal adviser to the Company	TANG TSO & LAU Room 209, 2/F China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Reporting accountants	CWK CPA Limited Units 2110-2111 Cosco Tower 183 Queen's Road Central Hong Kong

Financial adviser to the Company Akron Corporate Finance Limited
Room 811-812
China United Centre
28 Marble Road
North Point, Hong Kong

Independent Financial Adviser VC Capital
7/F, Centre Point
181-185 Gloucester Road
Wanchai, Hong Kong

Underwriter Supreme China Securities Limited
Room No. 2506
Tai Tung Building
No.8 Fleming Road
Wan Chai, Hong Kong

12. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT

(a) Profiles of the Directors and senior management

Executive Directors

Ms. Kwan Kar Ching (“**Ms. Kwan**”), aged 32, was appointed as an executive Director and the chairlady of the Company in April 2015 and in June 2016 respectively. Ms. Kwan holds a bachelor degree of business administration in accounting and finance from the University of Hong Kong. Ms. Kwan had worked for international bank and financial institution. She has over 10 years of experience in banking, asset management and investment.

Ms. Hsin Yi-Chin (“**Ms. Hsin**”), aged 35, was appointed as an executive Director in April 2016. She holds a bachelor degree in Chinese Literature from Providence University and a master degree of Science in Management from University of Leicester. Ms. Hsin has several years’ experience in educational sector and managerial experience in food and catering sector in Taiwan.

Independent non-executive Directors

Mr. Hung Cho Sing (“**Mr. Hung**”), age 81, was appointed as an independent non-executive Director in May 2015. He has over 30 years of experience in the film distribution industry. Mr. Hung was the founder of Delon International Film Corporation and has been its General Manager since June 2004. Mr. Hung was the Organising Committee Chairman of the 11th and 12th Hong Kong Film Awards from 1991 to 1993. And from 1993 to 1995, Mr. Hung was the Chairman of Hong Kong Film Awards Association Limited. Mr. Hung is currently the Chairman of Hong Kong Motion Picture Industry Association. In recognition of his contribution to the Hong Kong film industry, Mr. Hung was awarded the Bronze Bauhinia Star (BBS) by the Government of Hong Kong in 2005. From April 2007 to March 2013, Mr. Hung was appointed by the Government of Hong Kong as a member of the Hong Kong Film Development Council. Mr. Hung is also a member of Hong Kong Election Committee and since January 2013, he has been appointed by the Government of Hong Kong as a non-official member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission.

Currently, he is an executive director of EJE (Hong Kong) Holdings Limited (stock code: 8101). He is an independent non-executive director of China Star Entertainment Limited (stock code: 326), Oshidori International Limited (stock code: 622), Miko International Holdings Limited (stock code: 1247) and Harbour Digital Asset Capital Limited (stock code: 913).

Mr. Hung was a non-executive director of Capital VC Limited (stock code: 2324) from September 2011 to January 2014 and Universe Entertainment and Culture Group Company Limited (stock code: 1046) from October 2017 to July 2019, an independent non-executive director of ARTA TechFin Corporation Limited (formerly known as Freeman FinTech Corporation Limited) (stock code: 279) from January 2013 to January 2017 and China Ruyi Holdings Limited (formerly known as HengTen Networks Group Limited) (stock code: 136) from January 2013 to October 2015.

Mr. Luk Kin Ting (“**Mr. Luk**”), aged 37, was appointed as an independent non-executive Director in June 2016. He obtained a juris doctor degree from the Chinese University of Hong Kong, a master degree of laws (Majoring in Corporate Law) from New York University and a bachelor degree of business administration in Economics and Accounting from Hong Kong University of Science and Technology. He was admitted as a solicitor of the High Court of Hong Kong and had experience in legal counseling and solicitor practice. He was an independent non-executive director of Janco Holdings Limited (stock code: 8035) from September 2016 to September 2019.

Mr. Ng Wah Leung (“**Mr. Ng**”), aged 42, was appointed as an independent non-executive Director in February 2021. He holds a bachelor degree of arts in accountancy from the Hong Kong Polytechnic University. He is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. He has over 15 years of experience in accounting and audit on Hong Kong listed companies and private companies.

Senior Management

Mr. Tse Chi Shing (“**Mr. Tse**”), aged 38, joined the Group in April 2011. He is the chief financial officer and the company secretary of the Company. Mr. Tse holds a bachelor degree of arts in accountancy from the Hong Kong Polytechnic University. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and has over 15 years of experience in accounting and audit on Hong Kong listed companies and private companies.

(b) Business address of the Directors, the senior management and authorised representatives

The business address of the Directors, the senior management and authorised representatives is the same as the Company’s head office and principal place of business in Hong Kong located at Units 01-02, 13th Floor, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

13. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised three independent non-executive Directors, namely, Mr. Ng Wah Leung, Mr. Hung Cho Sing and Mr. Luk Kin Ting. The Audit Committee is chaired by Mr. Ng Wah Leung. The Audit Committee is responsible for monitoring and reviewing the risk management procedures and internal control system of the Group.

14. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.koala8226.com.hk/>) for 14 days from the date of this circular:

- (a) the annual reports of the Company for the years ended 31 December 2019, 2020 and 2021 respectively;
- (b) the material contract disclosed in the paragraph under the heading “8. Material Contract” in this Appendix to this circular;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 30 of this circular;
- (d) the letter of advice from VC Capital, the text of which is set out on pages IFA-1 to IFA-24 of this circular;
- (e) the accountants’ report on the unaudited pro forma financial information of the Group set out in Appendix II to this circular; and
- (f) the written consents of the experts referred to in the section headed “9. Experts and Consents” in this Appendix.

15. MISCELLANEOUS

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) As at the Latest Practicable Date, the Group had no exposure to foreign exchange liabilities.
- (c) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

NOTICE OF EGM



KOALA Financial Group Limited

樹熊金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8226)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of KOALA Financial Group Limited (the “**Company**”) will be held at Units 01-02, 13th Floor, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong on Monday, 11 July 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

1. “**THAT**

- (a) subject to and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Rights Issue (as defined below) and the transactions contemplated thereunder be and are hereby approved;
- (b) the underwriting agreement in respect of the Rights Issue (as defined below) dated 12 May 2022 and made between the Company and Supreme China Securities Limited (the “**Underwriting Agreement**”) (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) subject to the fulfillment of the conditions set out in the Underwriting Agreement, the allotment and issue of up to 278,335,994 rights shares (the “**Rights Shares**”) in the share capital of the Company pursuant to an offer by way of rights issue (the “**Rights Issue**”) to the shareholders of the Company (the “**Shareholders**”) at the subscription price of HK\$0.3 per Rights Share on the basis of two (2) Rights Shares for every one (1) existing Share held by the Shareholders whose names appeared on the register of members of the Company on Thursday, 21 July 2022 (the “**Record Date**”) as described in further details in a circular issued by the Company dated 23 June 2022 and on and subject to such terms and conditions as may be determined by the directors (the “**Director(s)**”) of the Company, be and is hereby approved, confirmed and ratified;

NOTICE OF EGM

- (d) the Directors be and are hereby authorised to allot and issue the Rights Shares 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 existing Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to any Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) 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, and to do all such acts and things as they consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (e) the Directors be and hereby authorised to do all acts and things in connection with the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement.”

By order of the board of Directors
KOALA Financial Group Limited
Kwan Kar Ching
Chairlady

Hong Kong, 23 June 2022

Registered Office:

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

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

Units 01-02, 13th Floor
Everbright Centre
108 Gloucester Road
Wan Chai, Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him/her/it. A proxy need not be a Shareholder.
2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not less than 48 hours before the time appointed for holding the EGM.
3. Completion and return of the form of proxy will not preclude a member of the Company from attending the EGM and voting in person at the EGM or any adjournment thereof if he/she/it so desires. If a member of the Company attends the EGM after having deposited the form of proxy, his/her/its form of proxy will be deemed revoked.
4. Where there are joint registered holders of any share of the Company, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present being the most, or as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holder stand on the register in respect of the relevant joint holding.

NOTICE OF EGM

5. For determining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 5 July 2022 to Monday, 11 July 2022 (both days inclusive) during which period no transfer of the shares of the Company will be registered. In order to qualify for entitlement to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 4 July 2022.
6. As at the date of this notice, the executive Directors are Ms. Kwan Kar Ching and Ms. Hsin Yi-Chin; and the independent non-executive Directors are Mr. Hung Cho Sing, Mr. Luk Kin Ting and Mr. Ng Wah Leung.
7. If Typhoon Signal No. 8 or above is hoisted, or a "black" rainstorm warning signal or "extreme conditions after super typhoons" announced by the Government of Hong Kong is/are in force in Hong Kong at or at any time after 7:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will publish an announcement on the website of the Company at www.koala8226.com.hk and on the website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.

In light of the recent ongoing spread of 2019 Novel Coronavirus (COVID-19), the Company will implement the following precautionary measures at the EGM in order to protect the health and safety of all participants including the Shareholders, their proxies and other personnel (the "**Participants**") in the EGM, including:

1. All the Participants will subject to compulsory body temperature checks;
2. All the Participants will be requested of wearing of surgical face masks throughout the EGM. Any person who does not comply with this requirement may be denied entry into the EGM venue and be asked to leave the EGM venue. A safe distance between seats are also recommended;
3. All Participants in the EGM shall use sanitiser to sanitise their hands at least once when they enter into the EGM venue, and when they leave after the EGM;
4. No beverage and refreshment will be served either during or after the EGM to avoid close contacts of the Participants during their attendance; and
5. Other safety measures as appropriate.

Shareholders are reminded that any person who is subject to any Hong Kong Government prescribed quarantine, with fever or respiratory symptoms, a body temperature over 37.5 degree Celsius or without wearing a surgical face mask will not be given access to the venue of the EGM, which also means that you will not be allowed to enter the venue and attend the EGM.

The Company strongly recommends Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person. Shareholders who choose to do so should take action as soon as possible to ensure the proxy instructions reach the Company's Hong Kong branch share registrar not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjourned meeting thereof.

If Shareholders have any questions relating to the EGM, please contact Union Registrars Limited, the Company's Hong Kong branch share registrar and transfer office as follows:

Address:
Suites 3301-04, 33/F., Two Chinachem Exchange Square,
338 King's Road, North Point, Hong Kong
Telephone: (852) 2849 3399
Fax: (852) 2849 3319