RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

12 January 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY THREE (3) CONSOLIDATED SHARES HELD ON THE RECORD DATE; (2) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT; AND (3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder, and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 12 January 2024 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

With reference to the Letter from the Board, the Company proposes the Share Consolidation and to offer for subscription of up to 221,733,332 Rights Shares (with par value of HK$0.0125 each upon the Share Consolidation having become effective, and assuming there is no other changes in the total number of issued Shares on or before the Record Date) by way of the Rights Issue at the Subscription Price of HK$0.136 each to the Qualifying Shareholders on the basis of two (2) Rights Shares for every three (3) Consolidated Shares held by the Qualifying Shareholders at the close of business on the Record Date in order to raise gross proceeds of approximately HK$30.2 million.

The Company had entered into the Underwriting Agreement with the Underwriter, which is a substantial Shareholder, whereby the Underwriter conditionally agrees to underwrite a maximum of 156,676,026 Rights Shares, being such number of Rights Shares to be issued pursuant to the Rights Issue, excluding the 65,057,306 Rights Shares to be undertaken by the Underwriter pursuant to the Irrevocable Undertaking. The Rights Issue is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Underwriter.

On 14 December 2023, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally agreed to appoint the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, placees to subscribe for the Unsubscribed Share on the terms and subject to the conditions set out in the Placing Agreement.

Listing Rules Implications

In accordance with Rule 7.19A and Rule 7.27A of the Listing Rules, as the Rights Issue will increase the total number of issued Shares by more than 50%, the Rights Issue is conditional upon the Independent Shareholders' approval at the EGM, and any controlling shareholders of the Company and their respective associates, or where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM. As at the Latest Practicable Date, the Underwriter is interested in 986,999,600 Existing Shares, representing approximately 29.67% of the entire issued share capital of the Company. Therefore, Mr. Cheung and his associates, including the Underwriter and Ms. Lin are required to abstain from voting in favour of the resolution(s) in relation to the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder at the EGM.

Silver Tycoon Limited, the Underwriter, is a substantial Shareholder and therefore a connected person of the Company. Accordingly, the transactions contemplated under the Underwriting Agreement constitute a connected transaction for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Takeovers Code Implications

Assuming (i) there is no change in the number of issued Shares up to and including the date of closing of the Rights Issue save for the Rights Shares; (ii) none of the Qualifying Shareholders other than the Underwriter have taken up their entitlements under the Rights Issue; and (iii) none of the Unsubscribed Shares have been taken up under the Unsubscribed Arrangements and the Underwriter is required to take up all the Unsubscribed Shares, the aggregate interests in the Company held by the Underwriter, Mr. Cheung, Ms. Lin and their respective concert parties upon the close of the Rights Issue will increase from approximately 29.67% to approximately 57.80% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

Accordingly, the Underwriter would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it, unless the Whitewash Waiver is granted.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, which will be conditional upon, among other things, (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder. The Underwriter, Mr. Cheung, Ms. Lin and the parties acting in concert with any of them and those who are involved in and/or interested in the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the EGM.

The Rights Issue is conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval by the Independent Shareholders at the EGM in respect of the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder, and the Whitewash Waiver. If the Whitewash Waiver is not granted and/or approvals by the Independent Shareholders are not obtained, or if any other conditions precedent under the Underwriting Agreement is not fulfilled, the Rights Issue will not proceed.

Independent Board Committee

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors, namely, Mr. Yue Kwai Wa Ken, Mr. Ngai Hoi Ying and Mr. Siu Shing Tak, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder, and the Whitewash Waiver are fair and reasonable so far as the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

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

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in this Circular; (ii) the annual reports of the Company for the years ended 31 March 2022 and 2023 (the "**2022 Annual Report**" and "**2023 Annual Report**", respectively) and the interim report of the Company for the six months ended 30 September 2023 (the "**2023 Interim Report**"); (iii) the information and opinions provided by the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Circular were true, accurate and complete in all material respects as at the Latest Practicable Date. We have also assumed that all statements contained and representations made or referred to in this Circular are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the Latest Practicable Date.

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

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Underwriter or any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background of the Group

As stated in the Letter from the Board, the Group is principally engaged in the sales and distribution of premium wine and spirits products and wine accessory products in Hong Kong. Products of the Group include red wine, white wine, sparkling wine, spirits, sake, wine accessory products and other products. The Group offers products through its retail showrooms, network of distributors, retail organisations, five-star hotels, and private clubs.

(i) Financial performance

Set out below is a summary of (a) the audited financial information of the Group for the two years ended 31 March 2022 and 2023 ("**FY2022**" and "**FY2023**", respectively) as extracted from the 2023 Annual Report; and (b) the unaudited financial information of the Group for the six months ended 30 September 2022 and 2023 ("**6M 2022**" and "**6M 2023**", respectively) as extracted from the 2023 Interim Report:

	FY2022 *HK$'000* *(audited)*	**FY2023** *HK$'000* *(audited)*	**6M 2022** *HK$'000* *(unaudited)*	**6M 2023** *HK$'000* *(unaudited)*
Revenue	107,789	74,443	41,218	29,519
Cost of sales	(93,948)	(66,574)	(36,224)	(25,814)
Gross profit	13,841	7,869	4,994	3,705
Interest revenue	4	28	–	–
Other income	5,976	2,879	1,615	2,066
Other gains and losses, net	(3,014)	(6,352)	27	(28)
Promotion, selling and distribution expenses	(11,385)	(9,632)	(5,248)	(4,480)
Administrative expenses	(9,606)	(10,665)	(4,595)	(5,853)
Finance costs	(577)	(758)	(268)	(121)
Loss before tax	(4,761)	(16,631)	(3,475)	(4,711)
Income tax (expense)/ credit	(3,953)	37	19	–
Loss attributable to the Shareholders	(8,714)	(16,594)	(3,456)	(4,711)

FY2023 compared to FY2022

For FY2023, the Group's revenue was approximately HK$74.4 million, representing a decrease of approximately 30.9% from approximately HK$107.8 million for FY2022. Such decrease was mainly due to decrease of the sales of red wine under the sluggish retail market in Hong Kong. As a results of the decrease in revenue and the sluggish retail market, more discounts were offered to customers in FY2023 to boost sales, whereby the gross profit margin decreased from approximately 12.8% for FY2022 to approximately 10.6% for FY2023.

The Group's loss attributable to the Shareholders increased by approximately 90.4% from approximately HK$8.7 million for FY2022 to approximately HK$16.6 million for FY2023. Such increase was primarily attributable to (a) the decrease in revenue and gross profit margin as mentioned above; (b) the decrease in other income as there was a one-off tax indemnity provided by shareholder of approximately HK$3.8 million in FY2022; and (c) the increase in other losses due to the impairment loss on goodwill of approximately HK$2.3 million on the wine trading, wine storage and wine consignment business.

6M 2023 compared to 6M 2022

For 6M 2023, the Group's revenue was approximately HK$29.5 million, representing a decrease of approximately 28.4% from approximately HK$41.2 million for 6M 2022, which was mainly due to the continuous decrease in sales of red wine during the period. In line with the decrease in revenue, the gross profit of the Group also decreased by approximately 25.8% from approximately HK$5.0 million for 6M 2022 to approximately HK$3.7 million for 6M 2023. The Group recorded other losses of approximately HK$28,000 for 6M 2023 as compared to other gains of approximately HK$27,000 for 6M 2022. Such increase in other losses was mainly due to fluctuation in foreign exchange. The Group's other losses mainly consist of loss allowance provision for trade receivables, impairment losses and loss on disposal of property, plant and equipment. Loss attributable to the Shareholders also increased from approximately HK$3.5 million for 6M 2022 to approximately HK$4.7 million for 6M 2023.

(ii) Financial position

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

	As at 31 March		As at 30 September
	2022	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(unaudited)*
Non-current assets, including:	4,876	9,775	8,373
– Property, plant and equipment	2,041	2,085	884
– Right-of-use assets	356	7,489	7,489
Current assets, including:	168,472	122,587	116,284
– Inventories	75,706	71,678	76,888
– Trade receivables	14,236	9,380	11,968
– Prepayments, deposits and other receivables	65,290	35,146	20,533
– Pledged bank deposits	6,060	–	–
– Bank and cash balances	7,180	5,933	6,445
Total assets	173,348	132,362	124,657
Current liabilities, including:	46,904	17,755	14,761
– Trade payables	1,063	1,701	2,325
– Contract liabilities	12,093	5,961	5,951
– Bank borrowings	22,546	4,000	2,733
– The amount due to a director	5,000	2,000	–
– Lease liabilities	1,100	3,337	3,337
Net current assets	121,568	104,832	101,523
Non-current liabilities:	37	4,794	4,794
– Lease liabilities	–	4,794	4,794
Total liabilities	46,941	22,549	19,555
Net assets	126,407	109,813	105,102

As at 30 September 2023, total assets of the Group were approximately HK$124.7 million, which mainly consisted of (a) inventories of approximately HK$76.9 million, which primarily were premium wine and spirits products; (b) prepayments, deposits and other receivables of approximately HK$20.5 million, which mainly comprised of trade deposits paid for the purchase of wine; (c) trade receivables of approximately HK$12.0 million; and (d) bank and cash balances of approximately HK$6.4 million.

As at 30 September 2023, total liabilities of the Group were approximately HK$19.6 million, which mainly consisted of (a) contract liabilities of approximately HK$6.0 million; (b) lease liabilities of approximately HK$8.1 million; and (c) bank borrowings of HK$2.7 million, which were unsecured import loans payable on demand.

(iii) Overall comment

The financial performance of the Group had been unsatisfactory in FY2023 and 6M 2023, both of which recorded escalation in loss for the period mainly due to the decrease in sales of red wines as a result of the sluggish retail market in Hong Kong. With reference to the 2023 Interim Report, due to the unstable global macroeconomic condition, the vulnerable Hong Kong retail market and the intensified competition in premium wine industry, the business environment of the Group had been unstable and challenging. In response to such business environment, the Group intends to improve its financial performance by improving its sales and marketing channels, adjusting its sales and marketing strategies and customizing its inventory portfolio, with an aim to become one of the main premium wine retailers in Hong Kong.

According to the Report on Monthly Survey of Retail Sales of October 2023 issued by the Hong Kong Census and Statistics Department, the value of total retail sales by type of retail outlet increased from approximately HK$286.8 billion for the ten months ended 31 October 2022 to approximately HK$336.1 billion for the ten months ended 31 October 2023, representing an increase of approximately 17.2%. For alcoholic drinks and tobacco segment, the value of total retail sales increased from approximately HK$1.0 billion for the ten months ended 31 October 2022 to approximately HK$3.0 billion for the ten months ended 31 October 2023, representing an increase of approximately 199.7%. With the strong growth in the market, we concur with the Directors that the financial performance of the Group may improve by optimizing its sales and marketing strategies and inventory portfolio.

In respect of the financial position of the Group, while the Group had net assets of approximately HK$105.1 million as at 30 September 2023, the liquidity of the Group is relatively thin, with bank and cash balances of only approximately HK$6.4 million as at 30 September 2023. On the other hand, the Group had high level of inventories and prepayments, deposits and other receivables of approximately HK$76.9 million and HK$20.5 million, respectively. As advised by the management of the Group, it is in line with the industry norm for the alcohol retailers to maintain a high level of inventory to cater for customers' needs. Nevertheless, the high level of inventory poses liquidity pressures on the Group and the Group had obtained import loans from time to time to maintain its liquidity.

2. Reasons for the Rights Issue and use of proceeds

The gross proceeds from the Rights Issue are expected to be approximately HK$30.2 million. The net proceeds from the Rights Issue after deducting related expenses are estimated to be approximately HK$29.0 million. The Company intends to apply the net proceeds from the Rights Issue by 31 March 2025 as follows:

(i) approximately HK$17.5 million for the setting up of a new retail shop in the PRC, in particular, (a) approximately HK$3.0 million as startup cost for such shop including, renovation cost, rental expense and staff cost; and (b) approximately HK$14.5 million for procurements of premium liquor for such PRC shop;

(ii) approximately HK$9.7 million for procurements of high-end premium liquor for the Hong Kong business of the Group, including red wine, white wine and champagne; and

(iii) approximately HK$1.8 million for improvement of the online shop and IT infrastructure of the Group.

As stated in the Letter from the Board, due to the complex global environment, such as the ongoing military conflict between Israel and Hamas, and Russia and Ukraine, global elevated high inflation and interest rate, the US-Sino trade war challenge, and intensified competition in premium wine industry, the overall business environment of the Group has been unstable and challenging. As mentioned in the section headed "1. Background of the Group — (i) Financial performance" above, the financial performance of the Group had worsen for FY2023 and 6M 2023, with loss attributable to the Shareholders increased by approximately 90.4% from approximately HK$8.7 million for FY2022 to approximately HK$16.6 million for FY2023, and from approximately HK$3.5 million for 6M 2022 to approximately HK$4.7 million for 6M 2023. As at 30 September 2023, the Group recorded unaudited bank and cash balances of approximately HK$6.4 million while bank borrowings of approximately HK$2.7 million which are repayable within one year. Having considered the prevailing market condition and low level of cash on hand available to the Group, the Directors are of the view that the Rights Issue could provide sufficient funds at no borrowing costs for the Group's operation and the development and expansion of the Group's business.

Leveraging on the business network and the renowned brand of the Group in the liquor industry, the Group plans to establish a new retail shop in the PRC so as to grasp the business opportunity and tap into the growing liquor market in the PRC. In Hong Kong, the Group commonly encounters customers from the PRC looking for genuine premium liquor. Hence, the Group considers there is demand for its products in the PRC. According to the National Bureau of Statistic, revenue and profit generated by Chinese Baijiu enterprises (above designated size) in 2022 amounted to approximately RMB662.6 billion and RMB220.2 billion, respectively, representing a year-on-year increase of approximately 9.6% and 29.4%, respectively. According to Statista, the wine market and spirits market in the PRC are expected to grow annually by 2.55% and 2.28% from 2023 to 2028, respectively. As disclosed in its official company website, Statista is a global data and business intelligence platform with an extensive collection of statistics, reports and insights on over 80,000 topics from 22,500 sources in 170 industries. Established in Germany in 2007, Statista operates in 13 locations worldwide and employs around 1,100 professionals. Hence, the Group considers there is demand for its products in the PRC. As at the Latest Practicable Date, the Group has been exploring the potential location for the new retail store in Shenzhen or Guangzhou.

Further, in order to improve the financial performance of the Group, the Company plans to adjust its sales and marketing strategy in Hong Kong by focusing more on high-end premium wine from countries such as Europe, North America and Japan, from which the wine generally may have higher profit margin. The Board is of the view that such high-end premium wine could help improve the performance of the Group. Moreover, in order to improve the customer experience, approximately HK$1.8 million is allocated for the renovation of the flagship store of the Group and to improve the Group's online shop and IT infrastructure, respectively.

As mentioned in the section headed "1. Background of the Group — (i) Financial position" above, while the financial position of the Group is generally healthy with net assets position of HK$105.1 million as at 30 September 2023, the majority of which comprised of in inventories and prepayments, deposits and other receivables of approximately HK$76.9 million and HK$20.5 million, respectively. As advised by the management of the Group, the inventories are the stock of wine and spirits necessary for the Group to maintain a wide selection to cater for customers' needs from time to time, and the Group is also required to continuously purchase and pay deposits new wine and spirits when they released. Hence, with the low level of cash position of the Group of approximately HK$6.4 million as at 30 September 2023, the Group encountered pressures on liquidity and is in need for fund raising to relieve its liquidity pressure as well as to establish a new retail shop in the PRC so as to grasp the business opportunity and tap into the growing liquor market in the PRC and implement the adjustment in its sales and marketing strategies in Hong Kong to increase focus on high-end premium wine, and thereby improve the financial performance of the Group.

Fundraising alternatives

As confirmed by the management of the Group, the Board has considered various fundraising alternatives before resolving to the Rights Issue, including debt financing and equity financing alternatives such as open offer and placing of new shares.

The Board is of the view that additional debt financing will increase the gearing ratio of the Group and having considered the prevailing high interest rate environment, additional debts will increase the on-going interest expenses of the Group which may in turn further affect the profitability of the Group.

With respect to equity financing alternatives, the Board considers that placing of new Shares would be a sub-optimal fundraising means as it will lead to an immediate dilution in shareholding interest of the existing Shareholders without offering them opportunities to participate in the enlargement of the capital base of the Company. As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing the overall working capital to fulfill the development plan of the Group without further increase the interest burden to the Group. The Rights Issue also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid shareholding dilution for those Shareholders who take up their entitlement under the Rights Issue in full.

In this respect, we have enquired to the management of the Group and were advised that given the loss-making performance of the Company, banks have been reducing their facilities to the Company. On the other hand, as the Company does not have material assets that could be provided as security to secure loans with amount sufficient for implementing its adjustment in sales and marketing strategies, the Company did not seek for debt financing or consider other financing alternatives.

Taking into account (i) the unsatisfactory financial performance and the liquidity level of the Group; (ii) the funding requirement of the Group to expand its business in the PRC and implement its adjustment in sales and marketing strategies in Hong Kong so as to improve its financial performance; (iii) that the Rights Issue will strengthen the capital base of the Group for further development of its existing businesses; and (iv) that the Rights Issue offers all Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables them to maintain their proportionate interests in the Company and continue to participate in the future development of the Company, we concur with the management of the Group that the Rights Issue is the most appropriate means of financing over the alternative fund-raising methods and is in the interest of the Company and the Shareholders as a whole.

3. Principal terms of the Rights Issue, the Irrevocable Undertaking, the Underwriting Agreement and the Placing Agreement

(i) The Rights Issue

The Rights Issue will proceed on a fully underwritten basis. For details of the terms of the Rights Issue, please refer to the section headed "Proposed Rights Issue" in the Letter from the Board. Set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue	:	Two (2) Rights Shares for every three (3) Consolidated Shares held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK$0.136 per Rights Share
Number of Consolidated Shares in issue upon the Share Consolidation having become effective	:	332,600,000 Consolidated Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	221,733,332 Rights Shares (assuming no Shares are issued or repurchased on or before the Record Date)
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	554,333,332 Consolidated Shares (assuming no Shares are issued or repurchased on or before the Record Date)
Gross proceeds from the Rights Issue	:	Approximately HK$30.2 million before expenses (assuming no Shares are issued or repurchased on or before the Record Date)

As at the Latest Practicable Date, the Company had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into Shares on or before the Record Date.

Assuming no Shares are issued or repurchased on or before the Record Date, the 221,733,332 Rights Shares to be issued pursuant to the terms of the Rights Issue represent approximately 66.7% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and approximately 40.0% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares.

(ii) The Irrevocable Undertaking

As at the Latest Practicable Date, the Underwriter is interested as to 975,859,600 Shares, representing approximately 29.34 % of the Existing Shares.

Pursuant to the Irrevocable Undertaking, the Underwriter has unconditionally and irrevocably undertaken to the Company,

(a) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (1) the 975,859,600 Existing Shares of HK$0.00125 each (equivalent to 97,585,960 Consolidated Shares of HK$0.0125 each, upon the Share Consolidation becoming effective) ultimately beneficially held by the Underwriter as at the date of the Irrevocable Undertaking or (2) the nil-paid rights pertaining to the 65,057,306 Rights Shares provisionally allotted to the Underwriter;

(b) the 975,859,600 Existing Shares (equivalent to 97,585,960 Consolidated Shares, upon the Share Consolidation becoming effective) registered in its name and/or under the name(s) of its nominee(s) as at the date of the Irrevocable Undertaking shall remain registered in its name and/or under the name(s) of its nominee(s) on the Record Date and until the close of the Rights Issue;

(c) to apply and pay for the Rights Shares which will be in the provisional allotment of Rights Shares in respect of the 975,859,600 Existing Shares (equivalent to 97,585,960 Consolidated Shares, upon the Share Consolidation become effective); and

(d) subject to compliance with the Takeovers Code, take all appropriate steps including but not limited to the engagement of a placing agent to procure subscribers (who are Independent Third Parties) to subscribe for the Shares which would otherwise be required to be taken up by the Underwriter under the Underwriting Agreement in order to restore the minimum public float requirement of the Company in compliance with Rule 8.08(1)(a) of the Listing Rules, if the subscription for the Unsubscribed Shares by the Underwriter pursuant to the Underwriting Agreement will result in insufficient public float of the Company within the meaning of the Listing Rules.

As disclosed in the Letter from the Board, Ms. Lin has indicated her intention to apply and pay for the Rights Shares which will be in the provisional allotment of Rights Shares in respect of the Shares held by her on the Record Date. Save for the Irrevocable Undertaking and Ms. Lin's intention as aforesaid, the Company has not received any information or irrevocable undertaking from any other Shareholders of their intention in relation to the Rights Shares to be allotted to them under the Rights Issue as at the Latest Practicable Date.

(iii) The Underwriting Agreement

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

Date	:	14 December 2023
Underwriter	:	Silver Tycoon Limited, being a substantial shareholder of the Company
Number of Rights Shares to be underwritten	:	The total number of the Unsubscribed Shares that have not been placed by the Placing Agent or they have been placed by the placees have not paid therefor at 4:00 p.m. on the Placing End Date Up to 156,676,026 Rights Shares (upon the Share Consolidation becoming effective), being the maximum total number of Rights Shares issuable (assuming no change in the number of Consolidated Shares in issue on or before the Record Date), excluding the 65,057,306 Rights Shares to be undertaken by the Underwriter pursuant to the Irrevocable Undertaking
Underwriting commission	:	Nil

(iv) The Placing Agreement

Pursuant to Rule 7.21(2) of the Listing Rules, as the Underwriter, being a substantial Shareholder, will act as the underwriter of the Rights Issue, the Company must make arrangements as stipulated in Rule 7.21(1)(b) of the Listing Rules to dispose of any Unsubscribed Shares by offering such Unsubscribed Shares to independent placees for the benefit of the relevant No Action Shareholders.

Any Unsubscribed Shares (which comprise (a) the fractional Rights Shares aggregated as mentioned above; (b) the Rights Shares that are not subscribed by the Qualifying Shareholders; and/or (c) Rights Shares which would otherwise have been in the provisional allotments of the Excluded Shareholders) will be first placed by the Placing Agent under the Unsubscribed Arrangements to investors who (or as the case may be, their ultimate beneficial owner(s)) are Independent Third Parties and not acting in concert with the Underwriter, Mr. Cheung or Ms. Lin. The Net Gain will be paid to those No Action Shareholders (except for the fractional Right Shares which will be sold for the benefit of the Company). For the avoidance of doubt, the Placing Agent will place the Unsubscribed Shares in the seniority and order of the Rights Shares that are not subscribed by the Qualifying Shareholders and/or which would otherwise have been in the provisional allotments of the Excluded Shareholders the first, and the fractional Rights Shares the second. The Placing Agent will, pursuant to the terms of the Placing Agreement, procure, by no later than Tuesday, 5 March 2024, acquires for all (or as many as possible) of those Unsubscribed Shares at a price not less than the Subscription Price. Any Unsubscribed Shares not successfully placed out, will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

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

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

Placing Agent	:	Lego Securities Limited
Placing commission	:	3% of the actual gross proceeds from the subscription of the Unsubscribed Shares under the Placing
Placing Price	:	not less than HK$0.136 per Unsubscribed Share
Placing Period	:	a period commencing from the first (1st) Business Day immediately after the Latest Time for Acceptance (i.e. 29 February 2024 under the current timetable) and ending on 5:00 p.m. on the fourth (4th) business after the Latest Time for Acceptance
Placees	:	The Unsubscribed Shares are expected to be placed to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties and not acting in concert with the Underwriter, Mr. Cheung, Ms. Lin or their respective concert parties

The Placing Agent will, on a best effort basis during the Placing Period, seek to procure subscribers who (or as the case may be, their ultimate beneficial owner(s)) are Independent Third Parties and not acting in concert with the Underwriter, Mr. Cheung, Ms. Lin or their respective concert parties for all (or as many as possible) of the Unsubscribed Shares.

4. **Assessment of the principal terms of the Rights Issue, the Irrevocable Undertaking, the Underwriting Agreement and the Placing Agreement**

(i) The Subscription Price

The Subscription Price of HK$0.136 per Rights Share is payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares. The Subscription Price was determined taking into consideration (i) the recent market price of the Existing Shares; (ii) the prevailing market conditions; (iii) the low trading volume of the Existing Shares; and (iv) the amount of funds the Company intends to raise under the Rights Issue for the purposes described in the section headed "Reasons for the Rights Issue and the use of proceeds" in the Letter from the Board.

The Subscription Price of HK$0.136 per Rights Share represents:

(a) a discount of approximately 43.33% to the closing price of HK$0.240 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date, assuming Share Consolidation has become effective;

(b) a discount of approximately 53.10% to the closing price of HK$0.290 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day, assuming Share Consolidation has become effective;

(c) a discount of approximately 51.77% to the average closing price per Consolidated Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$0.282, assuming Share Consolidation has become effective;

(d) a discount of approximately 50.90% to the average closing price per Consolidated Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK$0.277, assuming Share Consolidation has become effective;

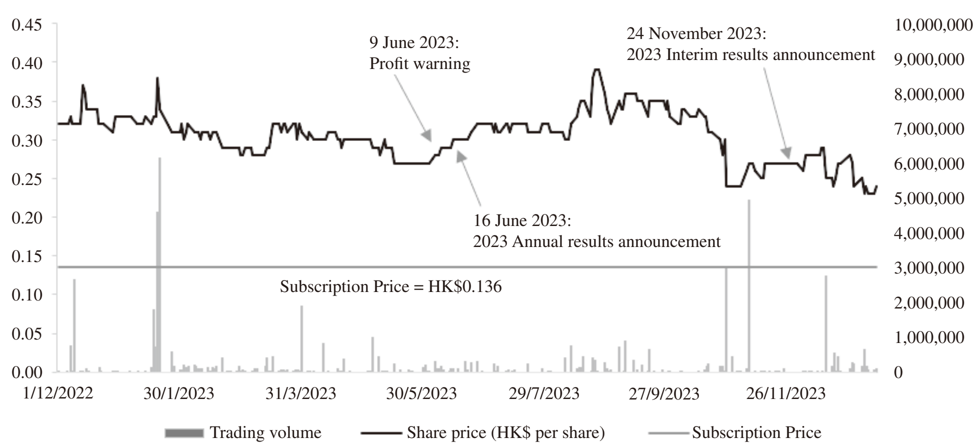
(e) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 21.24% represented by the theoretical diluted price of approximately HK$0.228 to the benchmarked price of approximately HK$0.290 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.290 per Consolidated Share and the average closing price of the Consolidated Shares in the five trading days immediately prior to the date of the Announcement of HK$0.282 per Consolidated Share), assuming Share Consolidation has become effective;

(f) a discount of approximately 58.79% to the consolidated net asset value per share attributable to the Shareholders as at 31 March 2023 of approximately HK$0.330 calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK$109,813,000 as at 31 March 2023 as set out in the annual report of the Company for the year ended 31 March 2023 and 332,600,000 Consolidated Shares in issue as at the Latest Practicable Date, assuming the Share Consolidation became effective on 31 March 2023; and

(g) a discount of approximately 56.96% to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2023 of approximately HK$0.316 calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK$105,102,000 as at 30 September 2023 as set out in the interim report of the Company for the six months ended 30 September 2023 and 332,600,000 Consolidated Shares in issue as at the Latest Practicable Date, assuming the Share Consolidation became effective on 30 September 2023.

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

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily adjusted closing prices (as adjusted for the Share Consolidation) of the Consolidated Shares from 1 December 2022 to the Last Trading Day (i.e. 13 December 2023) (the "**Review Period**"), being approximately one year preceding the Last Trading Day, and up to the Latest Practicable Date, assuming the Share Consolidation became effective before the Review Period. We consider the Review Period is adequate to reflect the general market sentiment and illustrates the general trend and level of movement of the daily closing price of the Existing Shares.



Performance of Share price

Source: Website of the Stock Exchange

As shown above, the closing prices of the Consolidated Shares were above the Subscription Price at all times during the Review Period, ranging from HK$0.24 from 27 October 2023 to 3 November 2023 to HK$0.39 from 23 August 2023 to 25 August 2023. In other words, the discounts of the Subscription Price to the closing prices of the Consolidated Shares ranged from approximately 43.33% to 65.13%.

The closing price of the Consolidated Shares exhibited a general downward trend and decreased from HK$0.32 per Share on 1 December 2022 to HK$0.27 per Share on 16 May 2023. It then rose to the highest of HK$0.39 on 23 August 2023. Afterwards, the closing price of the Consolidated Shares fell sharply and reached a low of HK$0.24 on 27 October 2023. The closing price of the Consolidated Shares then rebounded to HK$0.29 on 13 December 2023, the Last Trading Day. Based on our review of the Company's announcements published on the website of the Stock Exchange during the Review Period, except for the publication of profit warning, annual results and interim results announcements as indicated in the graph above, there is no particular reason and we are not aware of any information causing the fluctuations on the closing price of the Consolidated Shares. We have further made inquiry to the Directors and the management of the Group who are also not aware of any other reasons for the fluctuations on the closing price of the Consolidated Shares during the Review Period. As at the Latest Practicable Date, the closing price of the Consolidated Shares was HK$0.24, to which the Subscription Price represents a discount of approximately 43.33%.

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

(b) *Average daily trading volume of the Shares*

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

	Number of trading days	Approximate average daily trading volume	Approximate percentage of average daily trading volume to total number of Shares in issue *(Note 1)*	Approximate percentage of average daily trading volume to total number of Shares held by the public *(Note 2)*
2022				
December	20	1,894,200	0.06%	0.21%
2023				
January	18	7,970,889	0.24%	0.90%
February	20	1,158,600	0.03%	0.13%
March	23	1,546,087	0.05%	0.17%
April	17	828,235	0.02%	0.09%
May	21	1,035,905	0.03%	0.12%
June	21	979,838	0.03%	0.11%
July	20	444,000	0.01%	0.05%
August	23	1,397,391	0.04%	0.16%
September	19	1,560,000	0.05%	0.18%
October	20	2,132,700	0.06%	0.23%
November	22	2,414,727	0.07%	0.26%
December	19	2,427,895	0.07%	0.26%
2024				
From 1 January to the Latest Practicable Date	6	1,968,000	0.06%	0.21%

Source: Website of the Stock Exchange

Notes:

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

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

As illustrated in the table above, the trading of the Shares was generally inactive. The average daily trading volume for the respective month or period during the above period ranged from approximately 444,000 Shares in July 2023 to approximately 7,970,889 Shares in January 2023, representing approximately 0.01% to 0.24% of the total number of the Shares in issue and approximately 0.05% to 0.90% of the total number of the Shares held by the public, respectively.

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

(c) Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have further reviewed the rights issue exercises based on the following selection criteria: (1) initially announced by the companies listed on the Main Board of the Stock Exchange for the period from 1 June 2023 up to the Last Trading Day (being approximately six months); and (2) the rights issue exercises with gross proceeds less than approximately HK$100 million having regarded to the fundraising size of the Rights Issue of approximately HK$30.2 million. We have identified an exhaustive list of nine rights issue transactions (the "**Comparable Transactions**"). We consider that the aforesaid review period is adequate and appropriate to capture the recent market practice in relation to rights issue exercises under the prevailing market conditions, and provide a sufficient sample for comparison with the Rights Issue.

Although the listed issuers involved in the Comparable Transactions have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company, and includes rights issue transactions which are underwritten with different basis of entitlement and arrangements to dispose of any unsubscribed rights shares, we consider that the Comparable Transactions can provide a general reference to the pricing trend of recent rights issue transactions under the current market conditions as well as a sufficient sample size for comparison purpose, so as to determine whether the Subscription Price is in line with those of recent rights issue transactions in the market.

The details of the Comparable Transactions are set out below:

Date of Announcement	Company name (stock code)	Basis of entitlement	Gross proceeds	Discount of the subscription price to the closing price on the last trading day	Discount of the subscription price to the closing price on the latest practicable date of the circular	Discount of the subscription price to the consolidated net asset value attributable to the shareholders	Discount of the subscription price to the theoretical ex-rights price based on the closing price on the last trading day	Maximum dilution	Theoretical dilution	Underwriting commission	Excess application	Placing arrangement
			(HK$ million)	*(%)*	*(%)*	*(%)*	*(%) (Note 1)*	*(%) (Note 2)*	*(%) (Note 3)*	*(%) (Note 4)*		
1 December 2023	China Financial Leasing Group Limited (2312.HK)	1 for 1	20.8	(32.60)	(23.10)	(65.68)	(19.50)	50.00	16.30	1.00	Yes	No
17 November 2023	Huabang Technology Holdings Limited (3638.HK)	1 for 2	56.8	(24.05)	(29.41)	(34.07)	(17.43)	33.33	8.02	N/A	No	Yes
3 November 2023	Rego Interactive Co., Ltd (2422.HK)	1 for 2	100.0	(49.37)	(41.18)	(38.84)	(16.46)	33.33	16.46	N/A	No	Yes
11 September 2023	Asian Citrus Holdings Limited (73.HK)	1 for 2	43.7	(33.96)	(10.26)	(46.78) *(Note 5)*	(25.53)	33.33	11.32	2.50	Yes	No
3 September 2023	Rare Earth Magnesium Technology Group Holdings Limited (601.HK)	1 for 2	16.6	(39.85)	(56.52)	(96.52)	(23.81)	33.33	13.53	7.07	Yes	No
26 July 2023	China Best Group Holding Limited (370.HK)	2 for 5	98.8	(37.30)	(30.70)	(71.01)	(31.00)	28.57	11.10	N/A	No	Yes
24 July 2023	Platt Nera International Limited (1949.HK)	1 for 2	20.0	(57.98)	(42.86)	(54.13)	(47.92)	33.33	19.33	N/A	No	Yes
16 June 2023	Future World Holdings Limited (572.HK)	1 for 1	69.7	(27.71)	(15.79)	(91.72)	(16.08)	50.00	13.86	2.50	Yes	No
7 June 2023	GBA Holdings Limited (261.HK)	4 for 5	52.9	(25.00)	(1.64)	(90.24)	(16.67)	44.44	11.11	4.00	No	Yes
			Maximum	(57.98)	(56.52)	(96.52)	(47.92)	50.00	19.33	7.07		
			Minimum	(24.05)	(1.64)	(34.07)	(16.08)	28.57	8.02	1.00		
			Average	(36.42)	(27.94)	(65.44)	(23.82)	37.74	13.45	3.41		
14 December 2023	The Company	2 for 3	30.2	(53.10)	(43.33)	(56.96)	(40.35)	40.00	21.24	Nil	No	Yes

Source: *Website of the Stock Exchange*
Notes:

1. Theoretical ex-rights price is calculated as the sum of (1) the issuer's total market capitalisation by reference to the benchmarked price (as defined under Rule 7.27B of the Listing Rules) and the number of issued shares immediately before the rights issue; and (2) the total funds to be raised from the rights issue, divided by the total number of shares as enlarged by the rights issue;
2. The maximum dilution is calculated by the number of rights shares divided by the total number of issued shares as enlarged by the issue of the rights shares;
3. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules;
4. "N/A" denotes that the rights issue was conducted on a non-underwritten basis and therefore the underwriting commission is not applicable; and
5. Based on the exchange rate of RMB0.9 to HK$1.

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

(1) the subscription prices to the share price on the last trading day of the Comparable Transactions ranged from a discount of approximately 57.98% to a discount of approximately 24.05%, with an average discount of approximately 36.42%. The discount of approximately 53.10% as represented by the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day is within the range of the Comparable Transactions and deeper than the average discount of the Comparable Transactions;

(2) the subscription prices to the consolidated net asset value attributable to the shareholders of the Comparable Transactions ranged from a discount of approximately 96.52% to a discount of approximately 34.07%, with an average discount of approximately 65.44%. The discount of approximately 56.96% as represented by the Subscription Price to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2023 is within the range of the Comparable Transactions and smaller than the average discount of the Comparable Transactions;

(3) the subscription prices to the theoretical ex-rights price per share based on the last trading day of the Comparable Transactions ranged from a discount of approximately 47.92% to a discount of approximately 16.08%, with an average discount of approximately 23.82%. The discount of approximately 40.35% as represented by the Subscription Price to the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day is within the range of the Comparable Transactions and deeper than the average discount of the Comparable Transactions; and

(4) the theoretical dilution effect of the Comparable Transactions ranged from approximately 8.02% to 19.33%, with average dilution effect of approximately 13.45%. The theoretical dilution effect of the Rights Issue of approximately 21.24% is close to the high end of the range of the Comparable Transactions.

Given that (1) as shown in the table above, it is a common market practice that the subscription price of a rights issue represents a discount to (a) the closing share price prior to the announcement of the rights issue , (b) the consolidated net asset value attributable to the shareholders and (c) the theoretical ex-rights price of the shares; (2) the higher discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue; (3) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; (4) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market; (5) the discounts of the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day and the theoretical ex-rights price of the Consolidated Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and deeper than the average discounts of the Comparable Transactions; (6) although the discounts to the adjusted closing price and the theoretical ex-rights price of the Consolidated Shares on the Last Trading Day are the second highest among the Comparable Transactions, the discount of the Subscription Price to the consolidated net asset value attributable to the Shareholders is within the ranges of those of the Comparable Transactions and smaller than the average discount of the Comparable Transactions; (7) as discussed in the section headed "1. Background of the Group" above, the financial performance of the Group had been unsatisfactory in FY2023 and 6M 2023, both of which recorded escalation in loss for the period mainly due to the decrease in sales of red wines as a result of the sluggish retail market in Hong Kong. In response to such business environment, the Group intends to improve its financial performance by improving its sales and marketing channels, adjusting its sales and marketing strategies and customizing its inventory portfolio, with an aim to become one of the main premium wine retailers in Hong Kong. As at 30 September 2023, the Group only had bank and cash balances of approximately HK$6.4 million with continuous pressure on liquidity. As the Group is in need to raise funds for working capital, it is reasonable to set the Subscription Price with a deep discount to enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to take part in the Rights Issue; and (8) although the theoretical dilution effect of the Rights Issue is higher than the high end of the range of the Comparable Transactions, it is below 25% as required under Rule 7.27B of the Listing Rules and only slightly higher than the high end of the range of the Comparable Transactions by approximately 1.91%, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

In comply with Rule 7.21(1)(b) of the Listing Rules, there will be no excess application arrangement in relation to the Rights Issue and the Company has arranged for the Unsubscribed Arrangement and the Placing.

(ii) The Underwriting Agreement

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

Having considered that (a) the Unsubscribed will first be placed to the independent placee(s) before underwritten by the Underwriter; (b) the underwriting arrangement will enable the Group to secure funding if the level of subscription of the Rights Issue is low; (c) the underwriting arrangement by the Underwriter is in compliance with Rule 7.21(1)(b) of the Listing Rules and demonstrates the Underwriter's continuous support to the Company's development; (d) the nil underwriting commission for the Underwriter under the Underwriting Agreement is beneficial to the Company; and (e) the Rights Issue (including its use of proceeds) is in the interests of the Company and the Shareholders as a whole, we are of the view that (a) the Underwriting Agreement and the transactions contemplated thereunder are in the interests of the Company and the as a whole; and (b) the terms in relation to the Underwriting Agreement are on normal commercial terms and are fair and reasonable.

(iii) The Irrevocable Undertaking

Pursuant to the Irrevocable Undertaking, the Underwriter has unconditionally and irrevocably undertaken to the Company, (a) prior to the close of the Rights Issue, not to offer for sale, sell, transfer, contract to sell or otherwise dispose of any of (1) the 975,859,600 Existing Shares of HK$0.00125 each (equivalent to 97,585,960 Consolidated Shares of HK$0.0125 each, upon the Share Consolidation becoming effective) ultimately beneficially held by the Underwriter as at the date of the Irrevocable Undertaking or (2) the nil-paid rights pertaining to the 65,057,306 Rights Shares provisionally allotted to the Underwriter; (b) the 975,859,600 Existing Shares (equivalent to 97,585,960 Consolidated Shares upon the Share Consolidation becoming effective) registered in its name and/or under the name(s) of its nominee(s) as at the date of the Irrevocable Undertaking shall remain registered in his name and/or under the name(s) of its nominee(s) on the Record Date and until the close of the Rights Issue; (c) to apply and pay for the Rights Shares which will be in the provisional allotment of Rights Shares in respect of the 975,859,600 Existing Shares (equivalent to 97,585,960 Consolidated Shares, upon the Share Consolidation become effective); and (d) subject to compliance with the Takeovers Code, take all appropriate steps including but not limited to the engagement of a placing agent to procure subscribers (who are Independent Third Parties) to subscribe for the Shares which would otherwise be required to be taken up by the Underwriter under the Underwriting Agreement in order to restore the minimum public float requirement of the Company in compliance with Rule 8.08(1)(a) of the Listing Rules, if the subscription for the Unsubscribed Shares by the Underwriter pursuant to the

Underwriting Agreement will result in insufficient public float of the Company within the meaning of the Listing Rules.

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

(iv) The Placing Agreement

Pursuant to the Placing Agreement, any Unsubscribed Shares will be placed by the Placing Agent to independent placees on a best effort basis in compliance with Rule 7.21(1)(b) of the Listing Rules. Under the Placing Agreement, the Placing Agent will charge the Company a placing commission (the "**Placing Commission**") of 3% of the of the actual gross proceeds from the subscription of the Unsubscribed Shares under the Placing. There will be no excess application arrangements in relation to the Rights Issue as required by Rule 7.21(1)(a) of the Listing Rules.

(a) The Placing Price

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

(b) The Placing Commission

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent the Placing Commission of 3% of the actual gross proceeds from the subscription of the Unsubscribed Shares under the Placing. As advised by the management of the Group, the Placing Commission was determined with reference to the prevailing market rate and the Company considers the terms to be normal commercial terms.

In evaluating the fairness and reasonableness of the principal terms of the Placing Agreement, including the Placing Commission payable to the Placing Agent, we have further assessed the Comparable Transactions which included placing exercises as a result of the compensatory arrangement as required under the Listing Rules. Among the Comparable Transactions, there were five Comparable Transactions adopted placing as the compensatory arrangements (the "**Placing Comparables**"). We consider that the aforesaid review period is adequate and appropriate to (1) reflect the latest market sentiment on share placements; and (2) provide a sufficient sample for comparison with the Placing.

Set out below is a summary of the Placing Comparables:

Date of announcement	Company name (stock code)	Commission rate payable to the placing agent
17 November 2023	Huabang Technology Holdings Limited (3638.HK)	2% of the aggregate amount of the placing price multiplied by the number of shares successfully placed by the placing agent
3 November 2023	Rego Interactive Co., Ltd (2422.HK)	0.5% of the amount equal to the placing price multiplied by the number of shares successfully placed by the placing agent
26 July 2023	China Best Group Holding Limited (370.HK)	1% of the amount equal to the placing price multiplied by the number of shares successfully placed by the placing agent
24 July 2023	Platt Nera International Limited (1949.HK)	3% of the aggregate placing price of the shares successfully placed by the placing agent
7 June 2023	GBA Holdings Limited (261.HK)	3.5% of the amount equal to the placing price multiplied by the total number of shares successfully placed by the placing agent
14 December 2023	The Company	3% of the actual gross proceeds from the subscription of the Unsubscribed Shares under the Placing

Source: website of the Stock Exchange

As shown in the table above, we noted that the commission fees payable to the respective placing agents under the Placing Comparables are based on certain percentage of the gross proceeds from the subscription of the unsubscribed shares ranging from 0.5% to 3.5%. Although the placing commission of the Placing Comparables fell from 3.5% in June 2023 to a low of 0.5% in November 2023, it rebounded to 2% for the latest Placing Comparable. Given (1) the Placing Commission was determined after arm's length negotiation between the Placing Agent and the Company with reference to the prevailing market rate; (2) the placing commission of the latest Placing Comparable doesn't follow the downward trend; and (3) the Placing Commission falls within the range of the Placing Comparables, we consider that the Placing Commission is fair and reasonable.

We have also reviewed other major terms of the Placing Agreement, including but not limited to the conditions and termination clause of the Placing Agreement, details of which are set out in the Letter from the Board, and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Placing Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

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

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

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will not be diluted after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

Upon the completion of the Rights Issue (assuming no subscription by the Shareholders (other than those subscriptions pursuant to the Irrevocable Undertakings) and none of the Placing Shares are placed to the placees under the compensatory arrangements), the shareholding of the existing public Shareholders will be diluted to approximately 16.88%.

For illustrative purposes only, set out below is the shareholding structure of the Company as at (i) the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective; (iii) immediately after completion of the Rights Issue, assuming full acceptance by all Shareholders; (iv) immediately after completion of the Rights Issue assuming none of the Qualifying Shareholders (other than the Underwriter pursuant to the Irrevocable Undertaking) have taken up any entitlements of the Rights Shares and all the Unsubscribed Shares are placed to the independent placees ("**Scenario I**"); and (v) immediately after completion of the Rights Issue assuming none of the Qualifying Shareholders (other than the Underwriter pursuant to the Irrevocable Undertaking) have taken up any entitlements of the Rights Shares and none of the

Unsubscribed Shares are placed to the Placees and all the unplaced Unsubscribed Shares are subscribed by the Underwriter ("**Scenario II**"):

	As at the Latest Practicable Date		Immediately after the Share Consolidation becoming effective		Immediately after completion of the Rights Issue, assuming full acceptance by all Shareholders		Scenario I		Scenario II	
	No. of Existing Shares	*Approx. % (Note 2)*	*No. of Consolidated Shares*	*Approx. % (Note 2)*	*No. of Consolidated Shares*	*Approx. % (Note 2)*	*No. of Consolidated Shares*	*Approx. % (Note 2)*	*No. of Consolidated Shares*	*Approx. % (Note 2)*
The Underwriter *(Note 1)*	975,859,600	29.34	97,585,960	29.34	162,643,266	29.34	162,643,266	29.34	319,319,292	57.60
Ms. Lin *(Note 1)*	11,140,000	0.33	1,114,000	0.33	1,856,667	0.33	1,114,000	0.20	1,114,000	0.20
Sub-total of the Underwriter and parties acting in concert with it	986,999,600	29.67	98,699,960	29.67	164,499,933	29.67	163,757,266	29.54	320,433,292	57.80
Zheng Huanming	480,000,000	14.43	48,000,000	14.43	80,000,000	14.43	48,000,000	8.66	48,000,000	8.66
Zhang Guangyuan	477,140,400	14.35	47,714,040	14.35	79,523,400	14.35	47,714,040	8.61	47,714,040	8.61
Zhang Guozhong	446,000,000	13.41	44,600,000	13.41	74,333,333	13.41	44,600,000	8.05	44,600,000	8.05
Independent placees	-	-	-	-	-	-	156,676,026	28.26	-	-
Other public Shareholders	935,860,000	28.14	93,586,000	28.14	155,976,666	28.14	93,586,000	16.88	93,586,000	16.88
Total	3,326,000,000	100.00	332,600,000	100.00	554,333,332	100.00	554,333,332	100.00	554,333,332	100.00

Notes:

1. As at the Latest Practicable Date, Mr. Cheung beneficially owns the entire shareholding interests in Silver Tycoon Limited, the Underwriter. Therefore, Mr. Cheung is deemed to be interested in the 975,859,600 shares held by Silver Tycoon Limited. Ms. Lin, being the spouse of Mr. Cheung, beneficially owns 11,140,000 Existing Shares. By virtue of the SFO, Mr. Cheung is deemed to be interested in an aggregate 986,999,600 Existing Shares.

2. The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.

As set out in the table under the above section headed "(i) The Subscription Price — (c) Comparison with recent rights issue exercises", the maximum dilution of the Comparable Transactions ranged from approximately 28.57% to approximately 50.0% with an average dilution of approximately 37.74%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 40.0%, which falls within the range of the Comparables. Although the theoretical dilution impact of approximately 21.24% is not within the range but close to the low end of the Comparable Transactions of approximately 19.33%, it is below 25% which is in compliance with Rule 7.27B of the Listing Rules. As such, we consider that it is acceptable for the Rights Issue with such a theoretical dilution impact.

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

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

6. Financial impact of the Rights Issue

(i) Net tangible assets

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

	As at 30 September 2023	**Upon completion of the Rights Issue (assuming there is no change in the number of Consolidated Shares in issue on or before the Record Date)** *(Note 1)*
Consolidated net tangible assets attributable to the Shareholders (in HK$)	105,102,000	134,102,000
Total number of Consolidated Shares in issue	332,600,000	554,333,332
Unaudited consolidated net tangible assets per Consolidated Share (in HK$)	0.32	0.24

Note:

1. Based on (a) 221,733,332 Rights Shares (assuming there is no change in the number of Consolidated Shares in issue on or before the Record Date); (b) the Subscription Price of HK$0.136 per Rights Share; and (c) the estimated professional fees and related expenses of approximately HK$1,156,000 as disclosed in the Circular.

As show in the table above, the net tangible assets of the Group as at 30 September 2023 would increase upon completion of the Rights Issue. The pro forma consolidated net tangible assets per Consolidated Share upon completion of the Rights Issue would be approximately HK$0.24 (assuming there is no change in the number of Consolidated Shares in issue on or before the Record Date).

(ii) Liquidity

As at 30 September 2023, the Group had bank and cash balances of approximately HK$6.4 million, current assets of approximately HK$116.3 million and current liabilities of approximately HK$14.8 million. Upon completion of the Rights Issue, bank and cash balances of the Group is expected to increase by the estimated net proceeds from the Rights Issue of approximately HK$29.0 million. The current ratio of the Group will increase from approximately 7.9 times to approximately 9.8 times. As such, the liquidity position of the Group would be improved upon completion of the Rights Issue.

(iii) Gearing

As at 30 September 2023, the Group's gearing ratio, being the sum of lease liabilities and bank borrowings divided by equity, was approximately 10.34%. The capital base of the Group would be enlarged from approximately HK$105.1 million to approximately HK$134.1 million upon completion of the Rights Issue. Accordingly, assuming there is no material change in the total lease liabilities and bank borrowings of the Group, the gearing ratio of the Group would decrease to approximately 8.10% as a result of the Rights Issue.

(iv) Earnings

Given that the net proceeds from the Rights Issue will be used to (a) establish a new retail shop in the PRC and tap into the growing liquor market in the PRC; (b) procure high-end premium wine for its wine distribution and thereby achieve its adjustment in its sales and marketing strategies; and (c) improve the online shop and IT infrastructure of the Group, the Group may generate additional revenue if the strategies are implemented successfully. As at the Latest Practicable Date, the Group doesn't have any detailed projections on the strategies.

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

7. The Whitewash Waiver

As at the Latest Practicable Date, the Underwriter, Mr. Cheung, Ms. Lin and parties acting in concert with any of them are interested in 986,999,600 Shares in aggregate, representing approximately 29.67% of the entire issued share capital of the Company.

Upon completion of the Rights Issue, assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of closing of the Rights Issue; (ii) none of the Qualifying Shareholders other than the Underwriter have taken up their entitlements under the Rights Issue; and (iii) none of the Unsubscribed Shares have been taken up under the Unsubscribed Arrangements and the Underwriter is required to take up all the Unsubscribed Shares, the aggregate interests in the Company held by the Underwriter, Mr. Cheung, Ms. Lin and their respective concert parties upon the close of the Rights Issue will increase from the current level of approximately 29.67% to approximately 57.80% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares. The Underwriter will, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by it pursuant to Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by them and parties acting in concert with any of them.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, which will be conditional upon, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders at the EGM by way of poll; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder. The Underwriter, Mr. Cheung, Ms. Lin and the parties acting in concert with any of them and those who are involved in and/or interested in the Rights Issue and the Whitewash Waiver are required to abstain from voting in favour of the proposed resolution approving the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive, the Rights Issue will not proceed. In other words, a general offer obligation on the part of the Underwriter will not arise if it fails to obtain the Whitewash Waiver.

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

OPINION AND RECOMMENDATION

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

- as at 30 September 2023, the Group only had bank and cash balances of approximately HK$6.4 million with continuous pressures on liquidity. The Group is in need to raise funds for working capital;

- to improve the financial performance of the Group, the Group propose to expand its business in the PRC and adjust its sales and marketing strategies in Hong Kong to increase focus on high-end premium wine, the implementation would require fundings for procurement of high-end premium wine and renovate the retail shop of the Group;

- the Rights Issue is the most preferred option over other financing alternatives such as debt financing, placing of new Shares and open offer, as it will not result in a deterioration of the Group's gearing and allows all Qualifying Shareholders to participate in the fund-raising exercise for the future development of the Group with the flexibility of trading of rights entitlements in the market;

- the principal terms of the Rights Issue, in particular the Subscription Price, are fair and reasonable after considering the following:

    - it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue and to the theoretical ex-rights price of the shares;

    - the discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue given the current financial difficulties of the Group;

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

    - those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market;

    - the discounts of the Subscription Price to the historical adjusted closing price of the Consolidated Shares on the Last Trading Day and the theoretical ex-rights price of the Consolidated Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and deeper than the average discounts of the Comparable Transactions; and

- although the discounts to the adjusted closing price and the theoretical ex-rights price of the Consolidated Shares on the Last Trading Day are the second highest among the Comparable Transactions, the discount of the Subscription Price to the consolidated net asset value attributable to the Shareholders is within the ranges of those of the Comparable Transactions and smaller than the average discount of the Comparable Transactions;

- the Irrevocable Undertaking, being the intention of the Underwriter in respect of its interests in the securities of the Company under the Rights Issue, was given by the Underwriter in favour of the Company, indicating its support for the Rights Issue;

- the Unsubscribed Arrangements under the Placing Agreement, being part of the Rights Issue, are in compliance with the Listing Rules, which are managed by the Placing Agent who is an Independent Third Party. The Placing price will be not less than the Subscription Price which is fair and reasonable as mentioned above and the Placing Commission payable to the Placing Agent is in line with those charged in the Placing Comparables;

- the dilution effect on the shareholding interests of public Shareholders, which will be potentially diluted by up to a maximum of approximately 40.0% following completion of the Rights Issue, is considered to be acceptable given the current financial position of the Group, that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable as mentioned above and that the Rights Issue is not prejudicial to the Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue. Meanwhile, the Rights Issue does not result in a theoretical dilution effect of 25% or more on its own, complying with the Listing Rules; and

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

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

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

Larry Choi

Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.