

*To the Independent Board Committee and the Independent Shareholders*

28 June 2021

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY  
CCB INTERNATIONAL CAPITAL LIMITED  
FOR AND ON BEHALF OF  
TOMORROW EDUCATION TECHNOLOGY LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES IN THE COMPANY  
(OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED  
BY TOMORROW EDUCATION TECHNOLOGY LIMITED AND/OR PARTIES  
ACTING IN CONCERT WITH IT)**

**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 Share Offer. Details of the Share Offer are set out in the Composite Document, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

Reference is made to the Joint Announcement in relation to, among other things, the Sale and Purchase Agreement and the Share Offer.

Pursuant to the Sale and Purchase Agreement, the First Vendor, the Second Vendor and the Third Vendor have conditionally agreed to sell, and the Offeror has conditionally agreed to acquire 270,000,000 Shares from the First Vendor, 90,000,000 Shares from the Second Vendor, and 540,000,000 Shares from the Third Vendor, respectively, representing a total of 900,000,000 Shares (equivalent to 75.0% of the total issued share capital of the Company as at the date of the Joint Announcement) for a consideration of an aggregated amount of HK\$205 million, equivalent to approximately HK\$0.2278 per Sale Share. Completion under the Sale and Purchase Agreement took place on 10 June 2021. Immediately after the Acquisitions and as at the Latest Practicable Date, the Offeror was interested in 900,000,000 Shares in aggregate, representing 75.0% of the total issued share capital of the Company.

Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

#### INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee has been formed in accordance with Rule 2.8 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders in respect of the Share Offer, as to whether the Share Offer is fair and reasonable and as to the acceptance of the Share Offer. Given that Dr. Kwok Chun Dennis Chu, the non-executive Director, who wholly-owns the Second Vendor and he is considered to have conflict of interest, the Independent Board Committee comprised of all the independent non-executive Directors, being Dr. Michael Edward Ricco, Mrs. Kitty Yuk Yee Yeung and Mr. Sik Yuen Lau.

We, Octal Capital Limited, have been appointed, with approval of the Independent Board Committee, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Offer and in particular as to whether the Share Offer are fair and reasonable and as to the acceptance of the Share Offer. Our appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

During the last two years, there was no engagement between the Company or the Offeror and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or the Company or any party acting, or presumed to be acting, in concert with any of them. Therefore, we are considered eligible to give independent advice on the Share Offer under the requirement of the Listing Rules. As at the Latest Practicable Date, we are not in the same group as the financial or other professional advisers (including a stockbroker) to the Company, and we are not associated with the Offeror or the Company or any party acting, or presumed to be acting in concert with any of them and we had not had any connection, financial assistance or otherwise, with either the Offeror or the Company or the controlling shareholder(s) of either of them, and we are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders pursuant to Rule 2.6 of the Takeovers Code.

#### BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed by the Directors to us are true, accurate and complete in all material aspects. We have also relied on our discussion with the Board and/or the management of the Company, given in writing or orally, regarding the Company and the Share Offer, including the information and representations contained in the Composite Document. We have also assumed that all statements of belief, opinion and intention made by the Board and the management of the Company in the Composite Document were reasonably made after due enquiry. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group or any of their respective

associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document were true, accurate and complete in all material respects and not misleading or deceptive up to the time of the Latest Practicable Date, and there are no other matters the omission of which would make any statement herein or the Composite Document misleading.

As set out in the responsibility statement in Appendix III of the Composite Document, the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the Directors in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement in the Composite Document misleading.

As set out in the responsibility statement in Appendix IV of the Composite Document, the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

Should there be any subsequent material changes which occur during the period from the date of the Composite Document up to the close of the Share Offer, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the Share Offer (as the case may be) since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Share Offer and, if in any doubt, should consult their own professional advisers.

## **PRINCIPAL FACTORS TAKEN INTO CONSIDERATION ON THE SHARE OFFER**

In assessing the Share Offer and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### **1. Background of the Share Offer**

As at the Latest Practicable Date, the Company has 1,200,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

CCBL, on behalf of the Offeror and in compliance with the Takeovers Code, is making the Share Offer to acquire all the Offer Shares on terms set out in the Composite Document in accordance with the Takeovers Code on the following basis:

For each Offer Share .....HK\$0.2278 in cash

The Share Offer Price of HK\$0.2278 is equal to the price per Sale Share payable by the Offeror under the Sale and Purchase Agreement, which was determined by the Offeror after taking into account, among others, (i) the Company's historical share price performance and (ii) commercial assessment of the Company. The Share Offer Price will not be affected by the downward adjustment of the consideration, if any, as stipulated in the section headed "The Sale and Purchase Agreement — Downward Adjustment of the Consideration" in the Joint Announcement.

The Offer Shares to be acquired under the Share Offer shall be fully paid and free and clear of any lien and together with all rights attaching to them, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of the despatch of the Composite Document.

As at the date of the despatch of the Composite Document, the Company does not have any dividend and/or other distribution and/or other return of capital that is announced, declared or paid in respect of the Shares. As advised by the Board, the Company has no plan to make any distribution or declare dividends before the close of the Share Offer.

The Share Offer will be unconditional in all respects and will not be conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions.

## **2. Background of the Group**

The principal activity of the Company is an investment holding company. The Group is engaged in air ticket distribution, travel business process management and travel products and services in Canada and the United States.

### 3. Historical financial performance and prospects of the Group

#### *Financial information of the Group*

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2018 (“FY2018”), 2019 (“FY2019”) and 2020 (“FY2020”) as extracted from the annual reports of the Group for FY2019 (the “2019 Annual Report”) and for FY2020 (the “2020 Annual Report”) respectively:

	Year ended 31 December		
	2018	2019	2020
	(audited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000
- Air ticket distribution	94,598	71,604	21,380
- Travel business process management	25,562	25,947	28,118
- Travel products and services	29,021	14,590	2,107
<b>Total revenue</b>	<b>149,181</b>	<b>112,141</b>	<b>51,605</b>
<b>Gross profit</b>	<b>103,688</b>	<b>80,349</b>	<b>23,581</b>
<b>(Loss) / Profit for the year</b>	<b>11,095</b>	<b>10,747</b>	<b>(48,061)</b>

#### *FY2019 as compared to FY2018*

The Group derived its revenue mainly from the air ticket distribution segment which accounted for approximately 63.9% of total revenue for FY2019. The Group recorded total revenue of approximately HK\$112.1 million for FY2019, representing a decline of approximately HK\$37.0 million or 24.8% as compared to that for FY2018. According to the 2019 Annual Report, such decrease in revenue was primarily attributable to (i) decline in revenue generated from air ticket distribution of approximately HK\$23.0 million which is mainly due to decrease in the transaction volume and gross sales proceeds generated from air tickets sales as a result of declining international travel between North America and Asia due to the trade war between USA and the PRC; and (ii) decrease in revenue derived from travel products and services segment of approximately HK\$14.4 million for FY2019 because of the decreased sales volume of package tours. The gross profit of the Company decreased by approximately HK\$23.4 million or 22.6%, from approximately HK\$103.7 million for FY2018 to approximately HK\$80.3 million for FY2019 as a result of the decrease in gross profit generated by the air ticket distribution segment. As a result of the foregoing, profit for the year was approximately HK\$10.7 million for FY2019, which represented a slight decline of approximately HK\$0.4 million or approximately 3.6% from approximately HK\$11.1 million for FY2018.

#### *FY2020 as compared to FY2019*

The Group's financial performance has significantly deteriorated in FY2020 due to the COVID-19 pandemic. Travel business process management segment has become the main revenue driver of the Company as air ticket distribution segment was affected adversely as a result of the COVID-19 pandemic. The Group recorded total revenue of approximately HK\$51.6 million for

FY2020, representing a substantial decrease of approximately HK\$60.5 million or 54.0% as compared to that for FY2019. The decline in revenue was primarily attributable to (i) the decline in revenue from air ticket distribution segment as a result of the decrease in the transaction volume and gross sales proceeds generated from air tickets sales as a result of declining international travel due to the COVID-19 pandemic and travel restrictions such as entry restrictions, visa suspensions and quarantine measures imposed by different countries; and (ii) decrease in revenue from travel products and services segment which was mainly attributable to the decreased sales volume of package tours. The gross profit also exhibited a decline of approximately HK\$56.7 million from HK\$80.3 million in FY2019 to approximately HK\$23.6 million in FY2020 due to the decrease in the gross profit margin in air ticket distribution segment and travel business process management segment. As a result, the Company recorded a net loss of approximately HK\$48.1 million for FY2020.

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2020 as extracted from the 2020 Annual Report:

	As at 31 December 2020 (audited) HK\$'000
Prepayment, deposits and other receivables	49,206
Cash and cash equivalents	30,095
Others	<u>12,283</u>
Current assets	91,584
Deferred income tax assets	22,052
Interests in joint ventures	10,681
Others	<u>15,143</u>
Non-current assets	47,876
<b>Total assets</b>	<b>139,460</b>
Current liabilities	18,930
Non-current liabilities	6,665
<b>Total liabilities</b>	<b>25,595</b>
<b>Net assets</b>	<b><u>113,865</u></b>

As at 31 December 2020, the total assets of the Group mainly comprise of cash and cash equivalents, and prepayment, deposits other receivables and in aggregate amounted to approximately HK\$79.3 million, which represented approximately 56.9% of the total assets. The total liabilities of the Group mainly comprise of accruals and other payables of approximately HK\$15.8 million, which represented approximately 61.6% of the total liabilities. As a result, the Group recorded net assets of approximately HK\$113.9 million as at 31 December 2020.

### *Business prospects of the Group*

At the beginning of 2020, the development of the global travel market has been disrupted by the COVID-19 pandemic, mainly due to the travel restrictions. With reference to the latest industry fact sheet published by International Air Transport Association in April 2021, traffic volume, in term of scheduled passenger numbers, exhibited a drastic decline from approximately 4,543 million in 2019 to approximately 1,763 million in 2020, representing a year-on-year decrease of approximately 61.2%. As indicated by the dampening passenger flow, the pandemic drove a significant decline in travel demand resulting in reservation cancelations and reduced new orders, and therefore, the whole travel and tourism industry has been significantly and negatively impacted.

Since the beginning of 2021, a few waves of COVID-19 infections have emerged in various regions over the globe. In the light of that, many precautionary measures, including varying levels of travel restrictions and encouragement of reduced travel, were reinstated around the world during the first quarter of 2021. These travel restrictions continue to reduce the public demand for travel and tourism, and are expected to materially and adversely affect the travel and tourism industry in 2021 and potentially beyond.

As stated in the 2020 Annual Report, the Directors expected that the COVID-19 pandemic continues to impact on the airline, travel and tourism industry worldwide afterwards until widespread vaccinations. The prospect of travel and tourism industry cannot be predicted as it depends on not only the extent to which COVID-19 pandemic is in control, but also the progress of economic recovery among countries. The Group has adopted a series of measures to control costs and to enhance cash flow and operational efficiency, and will closely monitor the trend of the global environment and maintain pragmatic approach for its business.

Based on the above, we concur with the Directors' view that the overall outlook of the industry and the future development of the Group is still uncertain and the impact towards the travel and tourism industry will be hinged on future development of the pandemic, and that the turnaround of the Group from the loss-making position is uncertain in the near future.

#### **4. Information of the Offeror**

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability on 9 April 2020, the shares of which are owned as to 70% by Tomorrow Education Holding Limited (which is wholly-owned by Mr. Liu Xue Bin, a non-resident of Canada) and 30% by Tomorrow Education Investment Limited (which is wholly-owned by Ms. Kou Chung Yin Mariana, a non-resident of Canada).

As at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in 900,000,000 Shares, representing 75.0% of the total issued share capital of the Company.

**5. Principal terms of the Share Offer**

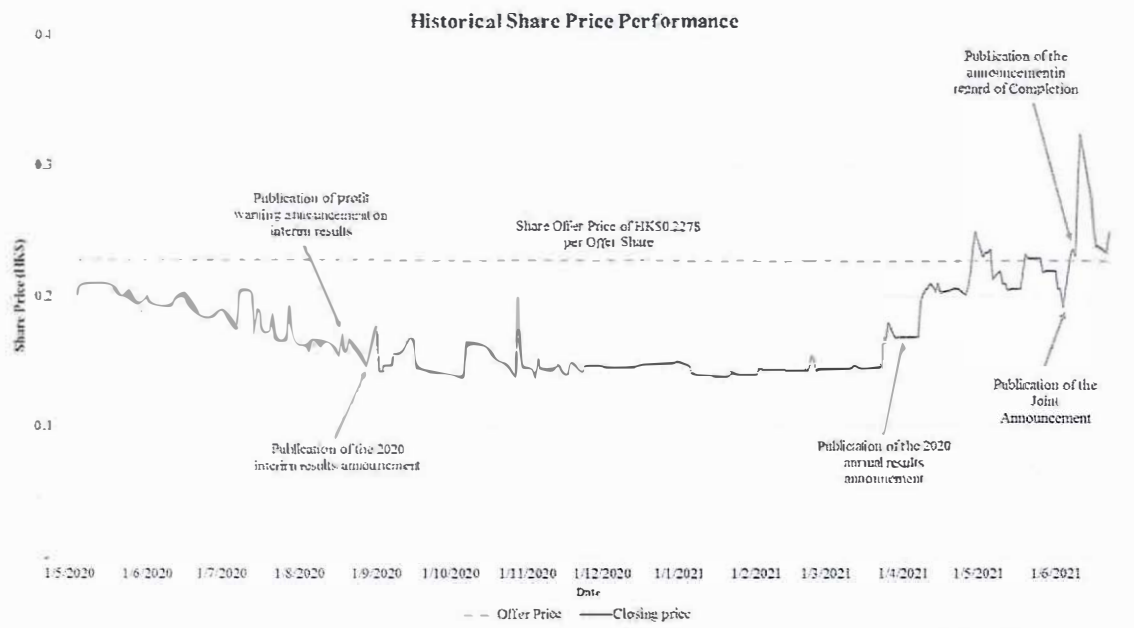
**(a) Comparison of Share Offer Price**

The Share Offer Price of HK\$0.2278 per Offer Share is equal to the price per Sale Share payable by the Offeror under the Sale and Purchase Agreement and represents:

- (i) a premium of approximately 18.65% over the closing price of HK\$0.192 per Share as quoted on the Stock Exchange on 4 June 2021, being the Last Trading Day;
- (ii) a premium of approximately 9.10% over the average closing price of approximately HK\$0.2088 per Share based on the daily closing prices as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 4.83% over the average closing price of approximately HK\$0.2173 per Share based on the daily closing prices as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 3.99% over the average closing price of approximately HK\$0.2191 per Share based on the daily closing prices as quoted on the Stock Exchange for the thirty consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 4.29% to the closing price of HK\$0.238 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vi) a premium of approximately 140.07% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.0949 per Share as at 31 December 2020, calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately HK\$113,865,000 as at 31 December 2020 by 1,200,000,000 Shares in issue as at the Latest Practicable Date.

(b) *Historical price performance of the Shares*

We have analysed the movement of the daily closing prices of the Shares quoted on the Stock Exchange, during the period commencing from 1 May 2020 up to the Latest Practicable Date (the “Review Period”). We consider that the duration of the Review Period of approximately one year would be a reasonable and sufficient period to illustrate the recent closing price movement of the Shares. The daily closing prices of the Shares are illustrated as follows:



Source: *The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))*

With reference to the chart above, the closing price of the Shares ranged from HK\$0.138 per Share to HK\$0.325 per Share during the Review Period. The average closing price of the Shares for the Review Period was approximately HK\$0.174 per Share. The Shares have been traded below the Share Offer Price for 260 trading days out of the total 285 trading days (representing approximately 91.2% of the total number of trading days) during the Review Period. The Share Offer Price represents a premium of approximately 31.0% over the average closing price of approximately HK\$0.174 per Share during such period.

Subsequent to the publication of the profit warning announcement on interim results of the Company for the six months ended 30 June 2020, the closing price of the Shares exhibited a decreasing trend from late June to August 2020 from the highest level of HK\$0.205 per Share on 9 and 10 July 2020 to the lowest level of HK\$0.146 per Share on 28 August 2020. The closing prices of the Shares rebounded back to HK\$0.177 per Share on 1 September 2020 after the interim results announcement was made on 28 August 2020. The closing price of Shares has been subsequently

fluctuated within the range from HK\$0.138 per Share to HK\$0.199 per Share from September 2020 to March 2021. After the publication of the 2020 annual results announcement in March 2021, the closing price of the Share exhibited an increasing trend with the closing price of the Shares increased to the highest level of HK\$0.25 per Share on 30 April 2021.

After the publication of the Joint Announcement on 4 June 2021 and the announcement jointly published by the Offeror and the Company on 10 June 2021 in relation to the completion of the Sale and Purchase Agreement, the closing price of the Shares bounced from HK\$0.233 per Share on 7 June 2021 to HK\$0.325 per Share on 11 June 2021, and subsequently dropped to the range between HK\$0.234 per Share and HK\$0.28 per Share during the period from 15 June 2021 to the Latest Practicable Date. During the period from 7 June 2021, being the first trading day after the publication of the Joint Announcement up to the Latest Practicable Date (the “**Post-announcement Review Period**”), the average closing price of the Shares is approximately HK\$0.252 per Share. The Share Offer Price represents a discount of approximately 9.7% to the average closing price during the Post-announcement Review Period. As advised by the Directors, the Company is not aware of any specific reason for the fluctuation of the closing price of the Shares during the Post-announcement Review Period. From the above observations, we consider that the increase in the closing price of the Shares may have reflected the market’s speculation on the Share Offer and may not be sustained during and after the close of the Offer Period.

Shareholders should note that the information set out above is not an indication of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing prices as at the Latest Practicable Date.

(c) *Liquidity of the Shares*

The table below sets out the trading volume of the Shares from 1 May 2020 up to the Last Trading Day (the “**Pre-announcement Review Period**”) and the Post-announcement Review Period:

Month/Period	Total volume of the Shares traded	Number of trading days	Average daily trading volume <i>(Note 1)</i>	Approximately % of average daily trading volume to the then total number of issued Shares as at the end of the period/month <i>(Note 3)</i>	Approximately % of average daily trading volume to the then total number of issued Shares held by the public as at the end of the period/month <i>(Note 4)</i>
<i>Pre-announcement Review Period</i>					
2020					
May	8,300,000	20	415,000	0.035%	0.138%
June	2,420,000	21	115,238	0.010%	0.038%
July	1,990,000	22	90,455	0.008%	0.030%
August	9,280,000	21	441,905	0.037%	0.147%

Month/Period	Total volume of the Shares traded	Number of trading days	Average daily trading volume <i>(Note 1)</i>	Approximately % of average daily trading volume to the then total number of issued Shares as at the end of the period/month <i>(Note 3)</i>	Approximately % of average daily trading volume to the then total number of issued Shares held by the public as at the end of the period/month <i>(Note 4)</i>
September	3,455,000	22	157,045	0.013%	0.052%
October	7,220,000	18	401,111	0.033%	0.134%
November	10,530,000	21	501,429	0.042%	0.167%
December	3,580,000	22	162,727	0.014%	0.054%
<b>2021</b>					
January	1,310,000	20	65,500	0.005%	0.022%
February	1,650,000	18	91,667	0.008%	0.031%
March	11,800,000	23	513,043	0.043%	0.171%
April	16,780,000	19	883,158	0.074%	0.294%
May	3,520,000	20	176,000	0.015%	0.059%
June (up to the Last Trading Day)	870,000	4	217,500	0.018%	0.073%
<b>Post-announcement Review Period</b>					
June (from 7 June 2021 up to the Latest Practicable Date)	1,206,438,820	14	86,174,201	7.181%	28.725%

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

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
2. The number of the issued Shares and public float have remained unchanged throughout the Review Period, where the number of the issued Shares is 1,200,000,000 and public float is 300,000,000 Shares.
3. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.
4. The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company held by the public at the end of each month or as at the Latest Practicable Date, as applicable.

The trading of the Shares was relatively inactive prior to the publication of the Joint Announcement. The average daily trading volume for the respective month or period during the Pre-announcement Review Period ranged from approximately 65,500 Shares to approximately 883,158 Shares, representing approximately 0.022% to 0.294% of the total number of Shares held by the public.

During the Post-announcement Review Period, we noted that there was a material increase in trading volume of the Share, representing approximately 7.181% of the total issued Shares and approximately 28.725% of the total number of Shares held by the public. The increase in the trading volume is mainly attributable to the completion of the Sale and Purchase Agreement involving the transfer of 900,000,000 Shares on 10 June 2021.

Taking into consideration that the trading volume of the Shares was thin in general during the Pre-announcement Review Period, it is uncertain that the overall liquidity of the Shares could be maintained in the near future and that there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market, especially those with large volume of Shares, without exerting a downward pressure on the Share price. The Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares, especially for those holding a large block of the Shares, at the Share Offer Price.

Nonetheless, Independent Shareholders should also take into account of their individual risk preference and tolerance level before making any investment decision in relation to the Shares. If any Independent Shareholders who, after reading through the Composite Document and this letter, would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire for their Shares at a price higher than the Share Offer Price and the net proceeds from the sale of their Shares would exceed the net amount receivable under the Share Offer, those Independent Shareholders may consider not accepting the Share Offer but selling their Shares in the open market and/or to such potential purchaser(s) (either in all or in part), as they wish to do so and as they think fit having regard to their own circumstances together with the relevant risks and uncertainties based on their individual risk preference and tolerance level.

## **6. Market comparable analysis**

To evaluate the fairness and reasonableness of the Share Offer Price, we have attempted to compare the Share Offer Price against the market valuation of other comparable companies in the same industry using the commonly adopted comparison benchmarks in the evaluation of a company, namely the price-to-earnings ratio and price-to-book ratio.

Having considered (i) the entire revenue of the Group for the year ended 31 December 2020 was generated from air ticket distribution, travel business process management and travel products and services; and (ii) the implied market capitalisation of the Company was approximately HK\$273.4 million based on the Share Offer Price and 1,200,000,000 Shares as the Last Trading Day, we have tried to select the companies listed on the Stock Exchange that (i) are principally engaged in the provision of travel products and services which contributed over 50% of the revenue; and (ii) have a market capitalization of less than HK\$1 billion as at the Last Trading Day. Based on the above selection criteria, we have identified 6 companies (the “**Comparable Company(ies)**”).

However, as the Group and all of the Comparable Companies are loss-making in their latest financial year, the price-to-earnings analysis are not applicable. Moreover, having considered the asset-light characteristic of the Group, the price-to-book analysis is not a fair analysis to assess the Group’s valuation. As such, we conducted the below analysis to assess the reasonableness of the Share Offer Price.

We have therefore attempted to compare the Share Offer Price with the offer prices of other similar transactions. Having considered that (i) the Group is principally engaged in provision of travel products and services; and (ii) the implied market capitalisation of the Group was approximately HK\$273.4 million based on the Share Offer Price and the number of issued Shares as the Last Trading Day, we have identified companies listed on the Stock Exchange based on the following selection criteria, which are (i) having announced mandatory general offer during the period from 1 December 2020 (being approximately six months prior the Last Trading Day) and up to the Latest Practicable Date; and (ii) having implied market capitalisation of less than HK\$1 billion based on corresponding offer prices and number of issued shares as at dates of respective offer announcements.

We have identified 13 listed companies on the Stock Exchange based on the above selection criteria (the “**Comparable Offer(s)**”), which represent an exhaustive list of comparable companies based on the aforementioned criteria. Though the listed companies under the Comparable Offers have different principal activities, market capitalisation, profitability and financial position as compared to those of the Company, we are of the view that the Comparable Offers provides a general pricing trend of recent general offer transactions in the past six months.

Company name (stock code)	Announcement date	Offer price (HK\$)	Implied market capitalisation based on the offer price (Note 1) (HK\$ million)	Implied price-to-book ratio based on the offer price (Note 2) (%)	Premium/ (discount) of offer price over/ (to) the closing price of the last trading day (as defined in the corresponding Comparable Offer) (%)	Premium/ (discount) of offer price over/ (to) the closing price of the last five consecutive trading days up to and including the last trading day (as defined in the corresponding Comparable Offer) (%)	Premium/ (discount) of offer price over/ (to) the closing price of the last ten consecutive trading days up to and including the last trading day (as defined in the corresponding Comparable Offer) (%)	Premium/ (discount) of offer price over/ (to) the closing price of the last thirty consecutive trading days up to and including the last trading day (as defined in the corresponding Comparable Offer) (%)
Fullwealth Construction (1034)	2 December 2020	0.125	200.0	1.4	(40.5)	(38.7)	(36.6)	(33.9)
BCI Group (8412)	17 December 2020	0.08	76.8	N/A <sup>(Note 3)</sup>	(55.1)	(55.1)	(55.1)	(55.1)
Cash Financial Services (510)	31 December 2020	0.75	182.0	0.4	7.1	10.6	21.0	30.7
Great Wall Belt & Road (524)	21 January 2021	0.1687	177.2	5.5	(30.6)	(37.7)	(45.9)	(45.1)
Loto Interactive (8198)	28 January 2021	0.75	284.3	1.0	8.7	6.5	6.7	7.1
Creative Enterprise (3992)	8 March 2021	1.456	728.0	2.3	(5.5)	3.0	4.0	3.3
HKE (1726)	9 April 2021	0.188	150.4	4.6	(27.7)	(26.6)	(25.5)	(17.9)
MEIGU Technology (8349)	15 April 2021	0.2	80.0	1.1	33.3	(66.3)	(66.9)	(67.7)
Eternity Technology (1725)	22 April 2021	2	600.0	2.0	(45.9)	(29.4)	(17.7)	(17.0)
LKS Holding Group (1867)	27 April 2021	0.22	246.4	2.0	83.3	73.8	82.4	93.5
Eagle Legend Asia (936)	28 April 2021	0.45	477.0	3.8	(21.1)	(17.6)	(16.8)	(12.5)
Speed Apparel (3860)	5 May 2021	0.988	494.0	3.8	(45.1)	(36.6)	(36.2)	(15.4)
TOMO (6928)	8 June 2021	0.5667	255.0	1.7	(80.1)	(80.7)	(77.6)	(64.3)
			Maximum	5.5	83.3	73.8	82.4	93.5
			Minimum	0.4	(80.1)	(80.7)	(77.6)	(67.7)
			Median	2.0	(27.7)	(29.4)	(25.5)	(17.0)
			Average	2.5	(16.8)	(22.7)	(20.3)	(14.9)
The Company		0.2278	273.4	2.4	18.7	9.1	4.8	4.0

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

Note:

- The calculation of implied market capitalisation is based on the offer price multiplied by the number of issued shares of the company as at the date of respective offer announcement of the Comparable Offers.
- The calculation of implied price-to-book ratio is based on the implied market capitalization divided by the net assets attributable to shareholders of respective companies extracted from the latest annual/interim report.
- BCI Group Holdings Limited recorded net liabilities attributable to shareholders of the company as at 31 May 2020, being the record date of the latest financial year. As such, the implied price-to-book ratio is not applicable.

The Share Offer Price represents a premium of approximately 18.7%, 9.1%, 4.8% and 4.0%, over the closing price of the Shares on the Last Trading Day and the average closing prices for the last five, last ten and last thirty consecutive trading days prior to and including the Last Trading Day, respectively. Such levels of premium (i) fall within those range of the Comparable Offers; and (ii) are higher than the average and median of those of the Comparable Offers.

## 7. Other considerations

### (a) Intention of the Offeror in relation to the Group

The Offeror intends to continue the existing business of the Company and has no intention to dispose of the Company's businesses immediately after completion of the Share Offer. The Offeror will, following the closing of the Share Offer, conduct a detailed review of the operations of the existing business and asset base and broaden its income stream. Each of the Company and the Offeror confirms that, during the Offer Period, there is no intention and no anticipation to further expand and/or divest the existing businesses of the Company should appropriate opportunities arise.

Given that the Group is a long-established air ticket consolidator, travel business process management provider and travel products and services provider, the Offeror expects that upon Completion, by leveraging the expertise and the existing business network of the Group in the sector of travel services, the Offeror and its ultimate beneficial owner, and the Group may all be benefited by fostering a long-term growth potential and create synergies through possible cooperation between the respective businesses of the Group, and the Offeror and its ultimate beneficial owner.

Regarding the proposed change of the composition of the Board, both the Offeror and the proposed Directors do not have relevant experience in any business similar to that of the Group. Nevertheless, in order to facilitate the operation of the existing business of the Group, the existing senior management members of the subsidiaries of the Group will be retained, and, furthermore, given the proposed Directors possess experiences in premium private education and real estate development, the Offeror believes that, by leveraging such experiences and their extensive business network, the customer base of the Group would be broadened and additional marketing channels for promoting the Group can be introduced. Also, given the proposed Directors share diverse background, including real estate, education, consumer products, corporate finances and financial services, as well as their hands-on experience in enterprise management, it is believed that the proposed Directors will enhance the Group's ability in exploring further business opportunities and strengthen the corporate governance of the Group.

As of the Latest Practicable Date, the Offeror has no plan of injecting any of its assets into the Company (but any proposed injection of assets in the future will be made in compliance with the Listing Rules) or redeploying the employees and fixed assets of the Company other than in the ordinary course of business. The Offeror also intends to continue to employ the employees of the Group after the completion of the Share Offer. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's businesses and operations to optimise the value of the Group.

**(b) Proposed change of the composition of the Board**

The Board is currently made up of two executive Directors, one non-executive Director and three independent non-executive Directors.

All of the existing Directors have tendered resignation to take effect from a date which is no earlier than such date as permitted under Rule 7 of the Takeovers Code (i.e. after the close of the Offer).

The Offeror has nominated (i) Mr. Liu and Ms. Kou Chung Yin Mariana as the new executive directors of the Board, (ii) Mr. Liu Jiefeng as the new non-executive director of the Board, (iii) Mr. Fong Wai Bun Benny, Ms. Suen Yin Wah Chloe and Ms. Kwan Ka Yee as the new independent non-executive directors of the Board. The appointment of the new directors will take effect on the close of the Offer. Any changes to the composition of the Board will be made in compliance with the Takeovers Code and the Listing Rules.

As referred to the biographies of the new directors to be nominated are set out in the paragraph headed "Proposed change of the Board Composition" in the "Letter from CCBI" in the Composite Document, we understood that Mr. Liu is currently the executive director of Wisdom Education International Holdings Company Limited (HKSE: 6068) and Ms. Kou participated in a number of IPOs in various business sectors. Moreover, the non-executive director and the three independent non-executive directors have working experience in various industries, including education, real estate development, retail of fashion apparels and accessories and asset management, as well as held various senior management positions in other private and listed companies. Having considered the industry background and working experience of the proposed Directors, we are of the view that the proposed Directors will enhance the corporate governance and the business development of the Group.

**(c) Tax implication in relation to the change of Directors**

The Company was incorporated under the laws of the province of Ontario and continued and redomiciled under the laws of the Cayman Islands. The Company is generally considered as a resident of Canada for the purposes of the ITA so long as their "mind and management" also remain in Canada. As such, the Company is subject to Canadian taxation under the ITA in the same manner as any other corporation resident in Canada, including being subject to full Canadian taxation on worldwide income.

As disclosed in the paragraph headed “Proposed change of the Board Composition” in the “Letter from CCBI” in the Composite Document, the Offeror intends to nominate new directors. It is probable that the departure taxes may be triggered at the time of the change to the Board. When such changes are made, certain adverse “departure taxes” (the “**Departure and Deemed Disposition Taxes**”) will be imposed on the Company and not its shareholders.

The executive Directors of the Company advised that the Company should be liable to pay the Departure and Deemed Disposition Taxes of approximately CAD4.4 million (equivalent to approximately HK\$27.3 million based on an exchange rate of CAD 1 to HK\$6.23), which is an estimation only and may vary subject to the fair value and the financial result of the Company when the Departure and Deemed Disposition Taxes are triggered, as well as subject to the review by the relevant tax authorities.

The Departure and Deemed Disposition Taxes will be recognized as additional tax of the Group and will be reflected in the consolidated statement of comprehensive income of the Group in future. Shareholders should note that such amount is an estimation only and may vary subject to the fair value and the financial result of the Company when the Departure and Deemed Disposition Taxes are triggered.

After the change of the Directors, if the Departure and Deemed Disposition Taxes are imposed, such potential taxes may have negative impact on the financial result of the Group in future.

**(d) Public float and maintaining the listing status of the Company**

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Share Offer. Pursuant to the Listing Rules, if, at the closing of the Share Offer, less than the minimum prescribed percentage applicable to the Company, being 25.0% of the issued share capital of the Company, are held by the public or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market.

the Stock Exchange will consider exercising its discretion to suspend dealing in the Shares. Therefore, it should be noted that upon closing of the Share Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares. Each of the directors of the Offeror and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares after the close of the Share Offer.

## RECOMMENDATIONS

Having considered the following reasons:

- (i) as the COVID-19 pandemic is still evolving, the impact towards the travel and tourism industry will be hinged on future development of the pandemic, the prospect and the turnaround of financial performance of the Group from the loss-making position is uncertain in the near future;
- (ii) the Share Offer Price has been above the closing price of the Shares for 260 trading days out of 285 trading days during the Review Period and represents a premium of approximately 31.0% over the average closing price of the Shares of approximately HK\$0.174 during the Review Period;
- (iii) the premium of the Share Offer Price over the closing price of the Shares on the Last Trading Day and the average closing prices for last five, last ten and last thirty consecutive trading days immediately prior to and including the Last Trading Day are approximately 18.7%, 9.1%, 9.8% and 4.0%, respectively, which (i) fall within those range of the Comparable Offers; and (ii) are higher than the average and median of those of the Comparable Offers;
- (iv) the increase in the closing price of the Shares during the Post-announcement Review Period may have reflected the market's speculation on the Share Offer and may not be sustained during and after the Offer Period;
- (v) the trading volume of the Shares was thin in general during Pre-announcement Review Period. The Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares, especially for those holding a large number of the Shares, at the Share Offer Price;
- (vi) after the change of the composition, if the Departure and Deemed Disposition Taxes are imposed, such potential taxes may have negative impact on the financial result of the Group in future; and
- (vii) The Offeror has not yet formulated a plan for the Group after the close of the Offer. Given the loss-making position of the Group and the negative impact of COVID-19 to the travel and tourism industry, the prospect of the Group remains uncertain.

we are of the opinion that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

Nonetheless, we would like to remind the Independent Shareholders who would like to realise part or all of their investments in the Shares to closely monitor the market price and liquidity of the Shares during the Offer Period and may, instead of accepting the Share Offer, consider selling their Shares in the open market should such sale proceeds, net of all transaction costs, exceed the amount receivable under the Share Offer. The Independent Shareholders who believe that they will not be able to sell the Shares in the market at a price higher than the Share Offer Price because of their size of the shareholding may consider the Share Offer as an alternative exit of their investments.

Yours faithfully,  
For and on behalf of  
Octal Capital Limited

  
Alan Fung  
*Managing Director*

  
Wong Wai Leung  
*Director*

Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer Type 9 (asset management) regulated activities. Mr. Wong has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.