



RAINBOW CAPITAL (HK) LIMITED  
流博資本有限公司

7 August 2024

*To the Independent Board Committee and the Independent Shareholders*

DL Holdings Group Limited  
Unit 2902  
Vertical Square  
28 Heung Yip Road  
Wong Chuk Hang, Hong Kong

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
PROPOSED REVISION OF TERMS AND ANNUAL CAPS  
OF THE ADVISORY AGREEMENT**

**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 Supplemental Advisory Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company dated 7 August 2024 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 29 December 2023 in relation to, among others, the Advisory Agreement entered into between DL Family Office and Mr. Chen. In view of the increasing demand from Mr. Chen for the investment advisory and asset management advisory services provided by DL Family Office, it is expected that the Existing Annual Caps will not be sufficient to meet the demand. Accordingly, on 17 July 2024 (after trading hours of the Stock Exchange), DL Family Office entered into the Supplemental Advisory Agreement with Mr. Chen to revise the Existing Annual Caps for a term of three years commencing from 1 April 2024 to 31 March 2027.

Mr. Chen is an executive Director and a substantial shareholder of the Company as defined under the Listing Rules and therefore is a connected person of the Company. Accordingly, the transactions contemplated under the Supplemental Advisory Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Proposed Revised Annual Caps exceeds 5%, the Supplemental Advisory Agreement and the transactions contemplated thereunder (including the Proposed Revised Annual Caps) are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors (i.e. Mr. Chang Eric Jackson, Mr. Chen Cheng-Lien (also known as Chen Cheng-Lang and Chen Stanley), Mr. Liu Chun and Mr. Li Xiaoxiao) has been established to advise the Independent Shareholders in respect of the Supplemental Advisory Agreement and the transactions contemplated thereunder (including the Proposed Revised Annual Caps). We, Rainbow Capital (HK) Limited, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, and Mr. Chen that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement or connection between the Group or Mr. Chen and us other than this appointment. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or Mr. Chen. Accordingly, we are independent from the Company pursuant to the requirements under Rule 13.84 and therefore are qualified to give independent advice in respect of the Supplemental Advisory Agreement and the transactions contemplated thereunder.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of 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 the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true 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 the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the 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 the 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 respects at the time they were made and continued to be so until the date of the Circular.

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 the 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, Mr. Chen or their respective substantial shareholders, subsidiaries or associates.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation on the terms of the Supplemental Advisory Agreement, we have taken into account the principal factors and reasons set out below:

### **1. Information of the Group**

#### ***(i) Information of the Group***

The Company is an investment holding company incorporated in the Cayman Islands with limited liability.

The Group is principally engaged in (i) provision of financial services of licensed businesses including financial advisory services; securities research services; securities trading and brokerage services; margin financing services; referral services; investment management and advisory services; and insurance brokerage services to customers; (ii) provision of family office services; (iii) provision of money lending services to customers; (iv) sales of apparel products with the provision of supply chain management total solutions to customers; and (v) provision of enterprise solutions services.

DL Family Office is a company incorporated in Hong Kong with limited liability and is principally engaged in provision of financial services of licensed businesses including securities advisory services and asset management services. DL Family Office is a licensed corporation under the SFO permitted to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

Set out below is a summary of the consolidated financial information of the Group for the three years ended 31 March 2024 (“FY2022”, “FY2023” and “FY2024”, respectively) as extracted from the annual reports of the Company for FY2023 and FY2024:

*Financial performance*

	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<b>Revenue</b>	309,065	191,116	202,353
– Financial services of licensed business	141,352	136,853	150,974
– Family office services business	–	–	16,172
– Money lending services	15,042	16,656	14,056
– Sales of apparel products	130,381	22,327	4,809
– Enterprise solutions services	22,290	15,280	16,342
<b>Gross profit</b>	172,720	102,640	130,457
<b>Profit/(Loss) for the year</b>	109,775	(49,177)	99,903

The Group’s revenue decreased from approximately HK\$309.1 million for FY2022 to approximately HK\$191.1 million for FY2023, which was mainly due to decrease in revenue generated from the sales of apparel products as the segment suffered from the severe adverse effect of COVID-19 outbreaks on its customers sourcing and other related business activities. In view of such pressure, the Group adopted a conservative strategy in the apparel business with the view to lower the risk exposure of the Group. In line with the decrease in revenue, the Group recorded decrease in gross profit from approximately HK\$172.7 million for FY2022 to approximately HK\$102.6 million for FY2023. As a result of the decrease in gross profit, the net losses on disposals of financial assets at fair value through profit or loss of approximately HK\$37.8 million and the increase in share-based payment expenses of approximately HK\$15.5 million incurred for FY2023, the Group recorded loss of approximately HK\$49.2 million for FY2023.

During FY2023, to expand the financial services business segment of the Group, the Group had, among others, acquired the remaining 55% interests in DL Family Office to expand the business to the provision of personalized wealth management and succession services. For FY2024, the revenue generated from the provision of financial services increased by approximately 10.3% from approximately HK\$136.9 million for FY2023 to approximately HK\$151.0 million, which was mainly attributable to the increase in management and performance fees generated from the provision of financial advisory services and investment management services. In addition, the Group commenced to record revenue generated from the family office services business which amounted to approximately HK\$16.2 million. On the other hand, the apparel business of the Group continued to shrink and revenue generated from this segment decreased to approximately HK\$4.8 million. Due to the combined factors above, the Group recorded increase in revenue from approximately HK\$191.1 million for FY2023 to approximately HK\$202.4 million for FY2024, and gross profit increased from approximately HK\$102.6 million for FY2023 to approximately HK\$130.5 million for FY2024. The Group also turnaround from loss to profit of approximately HK\$99.9 million for FY2024.

*(ii) Information of Mr. Chen*

Mr. Chen is the chairman of the Board, an executive Director, the chief executive officer of the Company and a substantial shareholder of the Company.

**2. Reasons for and benefits of the Supplemental Advisory Agreement**

As stated in the Letter from the Board, DL Family Office has been providing advisory services to Mr. Chen since 30 December 2021. The Directors believe that the entering into of the Supplemental Advisory Agreement will allow the Group to leverage on the extensive investment advisory and asset management experiences of DL Family Office to continue provide advisory services to Mr. Chen and is in line with the Company's policy to broaden the revenue base of the Group and provide a stable source of revenue to the Group.

The Directors have been monitoring the historical transaction amounts under the Advisory Agreement. The performance of the portfolio of Mr. Chen was better than expected when the Advisory Agreement was entered in December 2023. On the other hand, the net asset portfolio of Mr. Chen has also grown rapidly and significantly from approximately HK\$1.1 billion as at 31 December 2022 to approximately HK\$2.9 billion as at 31 December 2023 and further to approximately HK\$3.3 billion as at 31 March 2024. In view of the increasing demand from Mr. Chen for the advisory services provided by DL Family Office due to the increase in net asset portfolio of Mr. Chen, it is expected that the Existing Annual Caps will not be sufficient to meet the demand. Therefore, the Board proposed to revise the Existing Annual Caps to allow flexibility for transactions between DL Family Office and Mr. Chen.

As set out in the section headed “Information on the Group” above, following the acquisition of the remaining 55% interests in DL Family Office in FY2023, the Group has focused on the expansion of its financial services business and this business has become a major contributing factor to the revenue and gross profit of the Group. In view of the positive development and organic growth of its financial services business, as part of the forward-looking strategy, the Group aims to be a prominent asset management and financial services platform, with a core focus on family office in the Asia-Pacific region. In particular, the Group will continue to provide personalized wealth management and succession services throughout the entire life cycle for ultra-high net worth families. Hence, the increased provision of investment advisory and asset management services to Mr. Chen is in line with the business strategy of the Group.

Based on the above, we concur with the Board that the entering into of the Supplemental Advisory Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

**3. Principal terms of the Supplemental Advisory Agreement**

In view of the increasing demand from Mr. Chen for the advisory services provided by DL Family Office, it is expected that the Existing Annual Caps will not be sufficient to meet the demand. Accordingly, on 17 July 2024 (after trading hours of the Stock Exchange), DL Family Office entered into the Supplemental Advisory Agreement with Mr. Chen to revise the Existing Annual Caps for a term of three years commencing from 1 April 2024 to 31 March 2027. The nature and scope of the service is substantially the same as covered in the previous agreement. Details of the terms of the Supplemental Advisory Agreement are set out in the sections headed “Principal terms of the Supplemental Advisory Agreement” in the Letter from the Board. Set out below are the principal terms of the Supplemental Advisory Agreement:

Date	:	17 July 2024 (after trading hours of the Stock Exchange)
Parties	:	(1) Mr. Chen (2) DL Family Office
Duration	:	1 April 2024 to 31 March 2027
Subject matter	:	Pursuant to the Supplemental Advisory Agreement, the parties have agreed to revise the Existing Annual Caps under the Advisory Agreement to the Proposed Revised Annual Caps for a term of three years commencing from 1 April 2024 to 31 March 2027. Save as amended and supplemented by the Supplemental Advisory Agreement, all other terms of the Advisory Agreement remain unchanged.

- Condition precedent : The Supplemental Advisory Agreement will only become effective upon the Supplemental Advisory Agreement and the transactions contemplated thereunder (including the Proposed Revised Annual Caps) having been approved by the Independent Shareholders in compliance with the Listing Rules.
- Provisions of services : The scope of services to be provided by DL Family Office includes the followings:
1. Provide assistance in establishing sustainable strategic asset allocation plans in diversified asset classes, different investment products and structures in various countries, investigating potential investment opportunities and research on industry development and macroeconomy;
  2. Provide assistance in analyzing potential investment opportunities, proposing investment ideas based on the investment objectives, risk parameters, financial and economic preferences;
  3. Provide assistance in selection, recommendation and coordination of relevant agencies, professional institutions, investment banks, private banks and other professionals; and
  4. Provide assistance in taking advantage of the facilities and account services from custodian banks to acquire top quality research and strategy.

In assessing whether the terms of the Supplemental Advisory Agreement are fair and reasonable, we have reviewed the advisory agreement dated 30 December 2021 entered between DL Family Office and Mr. Chen for the provision of advisory services and the Advisory Agreement, and we noted that the terms of the agreements were substantially the same, including the management fee rate of 0.5%. During 2021 to 2023, DL Family Office entered into a total of 16 agreements with Independent Third Party customers. For comparison purpose, we have, on a random basis, obtained 9 out of the 16 agreements entered into between DL Family Office and Independent Third Party customers in 2021 to 2023 for similar advisory services, which represented approximately 56.3% of the total number of contracts and we consider the sample to be fair and representative. It is noted that the management fee charged by DL Family Office to the Independent Third Party customers ranged from 0.1875% to 1.5%, with the management fee rate generally decrease as the AUM increase. In this relation, we also noted that all agreements with management fee rate higher than 0.5% have AUM lower than the AUM of Mr. Chen as at 31 December 2023. Hence, we consider the management fee charged under the Supplemental Advisory Agreement is no less favourable to the Group than the terms available to Independent Third Party customers. It is also noted that the other major terms are substantially the same.

Based on our review of the agreements as stated above, we consider that the terms, including the management fee rate, of the Supplemental Advisory Agreement are on normal commercial terms which are fair and reasonable.

#### **4. Internal control measures of the Group**

The Company has adopted the following internal control measures with respect to the transactions contemplated under the Supplemental Advisory Agreement in order to safeguard the interests of the Shareholders:

- (1) On an annual basis or more regularly as necessary, the responsible business department of the Group will procure other quotations for similar transaction values from independent brokers and services providers in the market for comparisons of the advisory fee rates charged to their clients. The responsible business department of the Group will consider various macroeconomic factors across different asset classes, including, but not limited to, interest rates, inflation rates, credit risks, political and sovereign risks, liquidity risks, economic growth, etc., to determine whether a more regular time interval for procuring the quotations is required at the end of each quarter. If no comparable transaction is available, the Group will conduct review based on the nature and the scope of work performed.
- (2) Before the Group enters into any of the transactions, the responsible business department must ensure that (i) the price of the transaction is the same as, or within the price range of, comparable transactions carried out by independent third parties in the market and the pricing policy; and (ii) if there is any change to the Group's pricing policy or mechanism, that the revised pricing policy or mechanism is in line with market practice.
- (3) In accordance with the requirements under the Listing Rules, the auditors of the Company will provide an annual confirmation to the Board as to whether anything has come to their attention that causes them to believe that the continuing connected transactions of the Group: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the cap.
- (4) The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions of the Group throughout the preceding financial year and confirm in the annual report of the Company whether the transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (5) The finance department of the Group will also collect statistics of each of the renewed continuing connected transactions on a yearly basis to ensure the annual caps approved are not exceeded.



In assessing whether the above internal control measures are put in place and effectively implemented, as mentioned in the section headed “3. Principal terms of the Supplemental Advisory Agreement” above, we have obtained and reviewed the existing advisory agreements entered into between DL Family Office and Mr. Chen and a total of 9 advisory agreements entered between the DL Family Office and Independent Third Party customers, and the sample size of which we consider to be fair and representative, and consider that the terms, including the management fee, are on normal commercial terms which are fair and reasonable. Having considered that the Group had been effectively implemented its internal control measures for the transactions conducted between DL Family Office and Mr. Chen, we are of the view that the internal control measure for monitoring the transactions contemplated under the Supplemental Advisory Agreement would be effectively implemented.

Having considered the above, in particular (i) the ongoing monitoring of the transactions under the Supplemental Advisory Agreement; and (ii) the requirements under the Listing Rules for the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the transactions under the Supplemental Advisory Agreement and the annual caps thereunder, we concur with the Board that appropriate and adequate procedures are in place to ensure that the transactions contemplated under the Supplemental Advisory Agreement will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## 5. Assessment of the Proposed Revised Annual Caps

The historical transaction amount paid and payable by Mr. Chen to DL Family office for the provision of advisory services under the Advisory Agreement for the six months ended 30 June 2024 was approximately HK\$9.43 million, which represents approximately 99.3% of the Existing Annual Caps of HK\$9.5 million for the year ending 31 December 2024.

The following table sets out the Existing Annual Caps and the Proposed Revised Annual Caps of the management fees under the Advisory Agreement and the Supplemental Advisory Agreement, respectively:

	<b>For the year ending 31 December 2024 HK\$'000</b>	<b>For the year ending 31 December 2025 HK\$'000</b>	<b>For the year ending 31 December 2026 HK\$'000</b>
Existing Annual Caps	9,500	9,500	9,500
	<b>For the year ending 31 March 2025 HK\$'000</b>	<b>For the year ending 31 March 2026 HK\$'000</b>	<b>For the year ending 31 March 2027 HK\$'000</b>
Proposed Revised Annual Caps	25,000	35,000	45,000

As disclosed in the Letter from the Board, the Proposed Revised Annual Caps in respect of the advisory services provided by DL Family Office to Mr. Chen are determined with reference to: (i) the historical transaction amounts of the advisory services provided by DL Family Office to Mr. Chen; (ii) the growing demand for advisory services from Mr. Chen; (iii) the prevailing market rates and the estimated costs to be incurred in connection with provision of the advisory services; (iv) the management fee rate of 0.5% per annum, which is in line with normal market terms for similar advisory services; (v) the estimated net asset portfolio value of Mr. Chen which is estimated to be in the region of approximately HK\$3.0 billion to HK\$4.0 billion as at 31 March 2024; and (vi) the estimated increase in demand from Mr. Chan for the advisory services to be provided by DL Family Office for the three years ending 31 March 2027, taking into account the increase in the estimated net asset portfolio of Mr. Chen with an estimated growth rate of approximately 10% per quarter for the years ending 31 March 2025 and 2026 and approximately 5% per quarter for the year ending 31 March 2027.

In assessing the reasonableness of the Proposed Revised Annual Caps, we have discussed with the management of the Group on the basis and assumption underlying the projections for the advisory services to be provided by DL Family Office to Mr. Chen. As advised by the management of the Group, the performance of the portfolio of Mr. Chen was better than expected when the Advisory Agreement was entered in December 2023, and the net asset value of Mr. Chen's portfolio has grown significantly from approximately HK\$2.9 billion as at December 2023 to approximately HK\$3.3 billion as at March 2024, representing an increase of approximately 15.3%. In light of the significant growth which is attributable to the performance of DL Family Office, the Group estimate that the portfolio would continue to grow at a rate of 10% per quarter for the years ending 31 March 2025 and 2026 and 5% per quarter for the year ending 31 March 2027. Based on the actual management fee charged for the three months ended 31 March 2024 and the growth rate of 10% per quarter for the years ending 31 March 2025 and 2026 and 5% per quarter for the year ending 31 March 2027, it is expected that the total management fee chargeable to Mr. Chen would amount to approximately HK\$22.9 million, HK\$33.6 million and HK\$43.6 million for the years ending 31 March 2025, 2026 and 2027, respectively, and representing approximately 91.7%, 95.9% and 96.9% of the Proposed Revised Annual Caps, respectively. In view of the historical outstanding performance of DL Family Office on the portfolio of Mr. Chen, we concur with the Directors that the Proposed Revised Annual Caps are likely to be required to cater for the increase in portfolio size. Accordingly, we consider the Proposed Revised Annual Caps are fair and reasonable.

## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Supplemental Advisory Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Supplemental Advisory Agreement (including the Proposed Revised Annual Caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolution to be proposed at the EGM to approve the Supplemental Advisory Agreement (including Proposed Revised Annual Caps) and the transactions contemplated thereunder.

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



**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 ten years of experience in the corporate finance industry.*