WORLDGATE GLOBAL LOGISTICS LTD
盛良物流有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8292)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTION ACQUISITION OF INTEREST IN THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement of Worldgate Global Logistics Ltd (the "**Company**") dated 24 February 2020 (the "**Announcement**") in relation to the acquisition of interest in Grand Moore Capital Limited (the "**Target Company**") by Pacific Express Limited, a wholly-owned subsidiary of the Company. Terms used herein shall have the same meanings as defined in the Announcement unless otherwise stated.

The Board wishes to provide the Shareholders and potential investors of the Company with additional information in relation to the Acquisition of the Target Company as follows:

1. FURTHER INFORMATION ON THE ACQUISITION

As disclosed in the Announcement, the Issue Price and the Consideration were arrived at after arm's length negotiations between the parties to the SPA with reference to the Valuation of 100% equity interest in the Target Company in the value of HK$38,362,000 as at the valuation date of 31 December 2019 prepared by an independent valuer (the "**Valuer**") using the Market-Based approach and taking into account the historical financial performance, net asset value and the future development potential of the Target Company. It is emphasised that the key determinant of the Consideration was the independent Valuation on the Target Company by the Valuer.

Future development potential of the Target Company

The Target Company was set up in May 2015 and was granted licence by the SFC on 22 December 2015 to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. It was admitted as a CCASS Custodian Participant on 27 March 2017 and was granted the status of being a sponsor by the SFC on 8 January 2018. Since its establishment, it has rapidly developed and grown to a firm of sixteen staff comprising nine responsible officers registered with the SFC as at the date of the SPA.

There had been substantial growth in the Target Company over the years since it was incorporated. According to the audited reports of the Target Company for the years ended 31 March 2017, 2018 and 2019, the revenue of the Target Company had increased from approximately HK$1.4 million in 2016 to approximately HK$5.6 million in 2017, and then to approximately HK$7.8 million in 2018 and to approximately HK$19.5 million in 2019. For the year ended 31 March 2020 the Target Company recorded unaudited revenue in the amount of approximately HK$21.7 million.

The Target Company recorded unaudited net loss of only approximately HK$493,000 in the financial year ended 31 March 2020, as compared to net losses of approximately HK$1,154,000 and approximately HK$4,127,000 for the financial years ended 31 March 2019 and 2018, respectively. The Target Company was loss-making over the past few years because it focused on building the team, in particular, its IPO sponsor team. The largest cost item of the Target Company is its staff costs. The Target Company is minded to offering competitive remuneration packages to attract and retain high calibre and experienced corporate financiers. To obtain a sponsor license from the SFC, the Target Company needed to recruit qualified responsible officers before submitting application for uplifting the license condition of not acting as IPO sponsor. However, before the restriction was uplifted the Target Company could not sign up IPO sponsor mandates or solicit business for such. After being admitted as a licensed sponsor by the SFC in January 2018, the Target Company was able to launch its IPO sponsor services. An IPO sponsorship service cycle spans a long period of time from pitching deals, pre-deal due diligence, signing up IPO sponsor mandate, preparing IPO application, submission of application, responding regulators' queries to successful listing. The Target Company recorded losses over the past two years primarily due to the fact that there was not sufficient IPO sponsorship income at the set-up stage to absorb the related staff costs during the period. However, it is noted that the amount of net loss of the Target Company has been gradually reducing over the years. With a strong team of corporate finance staff in place, the management of the Target Company is positive that it will be able to turnaround and make profit in the near future.

Premium of licensed corporations

In addition, although there are no readily available statistics, it is a known fact in the market that licenced corporations in general command a premium on top of its net asset value. Taking into account that the Target Company is a licensed corporation to carry out SFC regulated activities but having an additional IPO sponsor licence (out of 127 licenced sponsors in Hong Kong as at the date of this announcement), the Company is of the view that, with the Acquisition being a long term investment, there is sufficient justification for the amount of premium over the Target Company's net assets value. By having an IPO sponsor licence, the Target Company is able to maintain a valuable income stream by signing and completing IPO mandates, which would otherwise not be available to a licensed company without an IPO sponsor licence. The Company was of the view that the Consideration of HK$11,600,000 to acquire the Target Company is fair and reasonable.

A portfolio of factors been considered

It should be emphasised that, in determining the Consideration, the Company had taken into account a portfolio of factors such as, amongst others, the Target Company being a licensed corporation with IPO sponsor qualification, the revenue growth of the Target Company over the years since its incorporation, and its ongoing business activities. However, it is impractical or impossible to quantify the weighting of each factor. In view of the foregoing, the Board considers the terms of the Acquisition (including its Consideration) is fair and reasonable and in the interests of the Company and its shareholders as a whole.

2. FURTHER INFORMATION ON THE VALUATION

As disclosed in the Announcement, the Valuation was HK$38,362,000 as at the valuation date of 31 December 2019.

Key Assumptions

The key assumptions of the Valuation were as follows:

- all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;

- there will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- there will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- there will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company;

- interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing; and

- the Valuer has not conducted site inspections or investigations on the projects owned by the Target Company. The Valuer also does not exam the information provided by the Company and the Target Company.

Key Inputs

The key inputs of the Valuation were:

- The Valuation was prepared by the Valuer using the Market-Based approach, which values the Target Company by comparison of the prices at which other similar business, companies or interest changes hands in arm's length transactions.

- The Valuer adopted the enterprise value-to-sales ("**EV/sales**") multiple as the Target Company was loss making for the years ended 31 March 2018 and 2019. EV/sales multiple is a valuation measure that compares the enterprise value ("**EV**") of a company to its annual sales. The EV/sales is calculated by:

    1. adding total debt to a company's market capitalization;

    2. subtracting out cash and cash equivalents; and

    3. dividing the result by the company's annual sales.

Five Comparable Companies

For the Valuation, the Valuer has identified a total of five public companies which engage in corporate advisory business in Hong Kong as comparable companies. The criteria used by the Valuer to identify the comparable companies are:

- listed in Hong Kong with sufficient listing and operating history;

- principally engaged in corporate advisory business in Hong Kong;

- licensed by the SFC to carry out regulated activities of dealing in securities (Type 1) and advising on corporate finance (Type 6) without limitation to act as sponsor in respect of an application for the listing on a recognized stock market of any securities; and

- majority of revenue are generated by corporate finance and advisory services.

The EV/sales multiple of the five comparable companies were determined to have a median of 2.4x and an average of 2.0x.

All five comparable companies had approximately 50% or more revenue generated from the corporate advisory business in Hong Kong based on the latest available public information as at 31 December 2019, which is consistent with the principal business activities and geographical segment of the Target Company in IPO sponsorship, corporate finance advisory and capital market services in Hong Kong. Furthermore, the Valuer believes that these comparable companies are representative of small to medium size corporate advisory firms in Hong Kong with revenue ranging from HK$14 million to HK$140 million. Hence, these five comparable companies are considered fair and representative for the Valuation.

Lack of Marketability Discount

The Valuer imposed a lack of marketability discount ("**LOMD**") on the Target Company, since there is a major difference between a closely-held private company's common shares and those of its publicly traded comparable companies is its lack of marketability. The Valuer has made reference to the 2019 edition of the Stout Restricted Stock Study Companion Guide, which indicates an average LOMD of 20.6% based on empirical study, which is adopted in the Valuation.

3. SAFEGUARDS OF THE COMPANY'S INTEREST IN THE TARGET COMPANY

The business plan, compliance functions, financial status as well as other aspects of the Target Company as a licensed corporation and its proposed regulated activity are regulated closely by the SFC.

The management of the Target Company are entrusted to professional management and qualified persons and segregated from its shareholders. None of the directors of the Target Company are nominated by its two shareholders. As a licensed corporation, the Target Company is required by Section 125 of the SFO to have at least two persons who have been approved by the SFC as "responsible officers" in relation to each of its regulated activities. At least one of those persons must be an executive director (defined as a director who actively participates in, or is responsible for directly supervising, the business of a regulated activity for which a corporation is licensed (Section 113(1) of the SFO)) of the licensed corporation. In addition, every executive director of a licensed corporation is required to be approved by the SFC as a "responsible officer" in relation to the regulated activity in which he participates or supervises.

The executive directors of a licensed corporation must satisfy the SFC that he or she is a fit and proper person under the SFO. Such a "responsible officer" of the Target Company must possess appropriate skills, knowledge and experience to properly manage and supervise the relevant regulated activity in order to obtain approval from the SFC. The SFC must be satisfied that the executive director of the licensed corporation, *inter alia*, are fit and proper persons and will assess, *inter alia*, his/her (1) financial status or solvency; (2) educational or other qualifications or experience having regard to the nature of the functions to be performed; (3) ability to carry on the regulated activity competently, honestly and fairly; and (4) reputation, character, reliability and financial integrity. As at the date of this announcement, the Target Company has three directors, two of which are Type 6 responsible officers registered with the SFC. The remaining director plays a non-executive role and advises the Target Company on compliance matters.

In view of the restrictions and requirements including (i) the appointment of directors under the SFO; (ii) that the Target Company is highly regulated by the SFC including periodic and timely Financial Resources Reporting (FRR) to the SFC; and (iii) the need of approval by the SFC for change in substantial shareholders, the shareholders of the Target Company consider there is no need to enter into any shareholders' agreement to govern the normal shareholders rights such as board representation etc. and the operation of the Target Company. Notwithstanding the absence of a shareholders' agreement, there has been substantial growth in the Target Company. Moreover, with the strict requirements imposed by the SFC under the SFO of having fit and proper responsible officers to manage the Target Company, the Company is of the view that the Target Company can be operated with sufficient competence in relation to each of its regulated activities without much intervention by the Company. In view of the rapid growth and development of the Target Company since its establishment, both the Grantor and the Company consider the current arrangement works well and should remain intact.

The Company would consider inviting a director of the Target Company to become a director of the Company after Completion. The benefits are twofold. The appointee will report directly to the Board and accounts for the performance and operation of the Target Company. The directors of the Target Company are all very experienced corporate financier. Appointment of any of them to the Board will bring a wealth of experience and business connections to the Board which will be very conductive to business development and enhancement of the corporate governance of the Group.

4. FURTHER INFORMATION OF THE VENDOR AND THE GRANTOR

As disclosed in the Announcement, the Vendor is a company incorporated on 11 November 2010 under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. Mr. Zhong Xian Wen (鍾憲文) ("**Mr. Zhong**") is the sole shareholder and sole director of the Vendor. According to the information provided by the Grantor and the Vendor and information submitted to the SFC upon application of license by the Target Company, Mr. Zhong is also currently a director of a private manufacturing company. He holds a Master of Laws (PRC Taxation) from Xian Jiaotong University awarded in 2003. Currently, Mr. Zhong is a fellow member of Society of Business Practitioners UK and an associate member of Institute of Commercial Management.

The Grantor is a company incorporated on 11 March 2015 under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding. Mr. Lei Iat Seng (李溢昇) ("**Mr. Lei**") is the sole shareholder and sole director of the Grantor. Mr. Lei is an owner of a sole proprietorship which provides trading and consulting services since 2005. He holds a Higher Diploma of Accounting from Hong Kong School of Commerce awarded in 2009.

The shareholders of the Target Company, namely the Vendor and Grantor, were introduced to the Company by the directors of the Target Company. As mentioned above, the executive directors of the Target Company are experienced corporate financiers and have extensive business networks. They came to know some directors of the Company in social occasions.

By Order of the Board
WORLDGATE GLOBAL LOGISTICS LTD
Lai Kwok Hei
Chairman

Hong Kong, 22 May 2020

As at the date of this announcement, the executive Directors are Mr. LAI Kwok Hei, Ms. WEN Jianping (duties suspended) and Ms. TSUI Ka Mei; and the independent non-executive Directors are Mr. WONG Siu Keung Joe, Ms. WONG Hoi Yan Audrey and Mr. MA Kin Hung.

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for a minimum period of seven days from the date of its publication and on the Company's website at http://www.worldgate.com.hk.