
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in P.B. Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.



(incorporated in Cayman Islands with limited liability)

(Stock code: 8331)

**(I) PROPOSED SHARE CONSOLIDATION;
(II) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY
ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE;
(III) CONNECTED TRANSACTION IN RELATION TO
THE UNDERWRITING AGREEMENT;
(IV) APPLICATION FOR WHITEWASH WAIVER;
AND
(V) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Underwriter to the Rights Issue

P.B. Asia Holdings Limited

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



Alliance Capital Partners Limited
同人融資有限公司

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 64 to 65 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 66 to 109 of this circular.

A notice convening the EGM to be held at Room 402A, 4/F, Park Commercial Centre, 180 Tung Lo Wan Road, Causeway Bay, Hong Kong at 2:30 p.m. on Tuesday, 26 October 2021 is set out on pages EGM-1 to EGM-6 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the designated website of the GEM (<http://www.hkgem.com>) and the website of the Company (www.thepbg.com).

Whether or not you are able to attend and vote at the EGM in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Precautionary measures to be taken at the EGM for better protection of the safety and health of the Shareholders and other participants at the meeting in light of COVID-19 are set out on pages 10 to 11 of this circular. Shareholders are reminded that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the date of publication and will also be published on the website of the Company at www.thepbg.com.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company served prior to 4:00 p.m. on Thursday, 25 November 2021 to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. Such events are set out in the section headed "Termination of the Underwriting Agreement" of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

4 October 2021

CHARACTERISTICS OF GEM

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

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

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DEFINITIONS

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

“acting in concert”	has the same meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 16 July 2021 in relation to, among other things, the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver
“Articles”	the amended and restated articles of association for the time being adopted by the Company and as amended from time to time
“associate(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon and the Stock Exchange is open for business of dealing in securities throughout its normal trading hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act (as revised) of the Cayman Islands (as amended, supplemented or otherwise modified from time to time)
“Company”	P.B. Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the GEM of the Stock Exchange (stock code: 8331)

DEFINITIONS

“Compensatory Arrangements”	the arrangement involving the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Placing Agent pursuant to the Placing Agreement in accordance with Rule 10.31(1)(b) of the GEM Listing Rules
“connected person(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Consolidated Share(s)”	ordinary share(s) of par value HK\$0.1 each in the share capital of the Company immediately following the Share Consolidation becoming effective
“controlling shareholder(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Chan”	Dr. Chan Man Fung, the Co-chairman of the Company and an executive Director
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder, and the Whitewash Waiver
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s)
“Existing Share(s)”	ordinary share(s) of par value HK\$0.01 each in the share capital of the Company prior to the Share Consolidation having become effective
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Committee”	has the same meaning ascribed thereto under the GEM Listing Rules

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange as amended by the Stock Exchange from time to time
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Yip Chong Ho Eric, Mr. Chow Chi Hang Tony and Mr. Zhang Kun, which has been established to give recommendation to the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver, and as to the voting action therefor at the EGM
“Independent Financial Adviser” or “Alliance Capital”	Alliance Capital Partners Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company with the approval of the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver, and as to the voting action therefor
“Independent Shareholder(s)”	the Shareholder(s) other than: (i) the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates; (ii) the Underwriter, Dr. Chan, Mr. Pui, its/his associate(s) and parties acting in concert with any one of them; (iii) Mr. Zhang Qiang and his associates; and (iv) any Shareholders who are involved in, or interested in the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and/or the Whitewash Waiver

DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not a connected person(s) of the Company within the meaning of the GEM Listing Rules
“Irrevocable Undertakings”	the irrevocable undertakings set out in the Underwriting Agreement and given by each of the Underwriter and Dr. Chan in favour of the Company, the details of which are set out in the paragraph headed “The Irrevocable Undertakings” under the section headed “Proposed Rights Issue” in this circular
“Last Trading Day”	Friday, 16 July 2021, being the last trading day of the Existing Shares on the Stock Exchange immediately prior to the publication of the Announcement
“Latest Placing Date”	Tuesday, 30 November 2021 or such later date as the Company and the Placing Agent may agree in writing, being the latest date for the Placing Agent to place the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares
“Latest Practicable Date”	Thursday, 30 September 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 24 November 2021 (or such other time and date as may be determined by the Company), being the latest time for acceptance of and payment for the Rights Shares
“Latest Time for Termination”	4:00 p.m. on Thursday, 25 November 2021 or such later time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
“Mr. Pui”	Mr. Pui Wai Lun, the Co-chairman of the Company and an executive Director

DEFINITIONS

“Net Gain”	the aggregate of any premium (being the aggregate amount paid by the placees after deducting (i) the aggregate amount of the Subscription Price for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares placed by the Placing Agent under the Compensatory Arrangements; and (ii) the aggregate amount of the expenses of the Placing Agent and any other related expenses/fees)
“No Action Shareholder(s)”	those Qualifying Shareholder(s) who does/do not subscribe for the Rights Shares (whether partially or fully) under the PALs, its/their renouncees, or such person(s) who hold(s) any nil-paid rights at the time such nil-paid rights are lapsed (including the Non-Qualifying Shareholders in respect of NQS Unsold Rights Shares)
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) to whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“NQS Unsold Rights Share(s)”	the Rights Share(s) which would otherwise have been provisionally allotted to the Non-Qualifying Shareholder(s) in nil-paid form that has/have not been sold by the Company
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose registered address(es) as shown on such register at that time is (are) in (a) place(s) outside Hong Kong
“PAL(s)”	the renounceable provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue

DEFINITIONS

“Placee(s)”	professional, institutional or other investor(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies) and not acting in concert with the connected persons of the Company, the Underwriter, Dr. Chan, Mr. Pui or any of their respective associates, procured by the Placing Agent and/or its sub-placing agent(s) to subscribe for any of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares pursuant to the Placing Agreement
“Placing”	the offer by way of private placing of a maximum of 60,153,400 Unsubscribed Rights Shares and the NQS Unsold Rights Shares first on a best effort basis then a maximum of 3,562,800 Underwritten Placing Shares on a fully underwritten basis by the Placing Agent and/or its sub-placing agents(s) to the Placees on the terms and subject to the conditions of the Placing Agreement
“Placing Agent”	CIS Securities Asset Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, being the placing agent appointed by the Company pursuant to the Placing Agreement to place any Unsubscribed Rights Shares and the NQS Unsold Rights Shares under the Compensatory Arrangements in accordance with Rule 10.31(1)(b) of the GEM Listing Rules
“Placing Agreement”	the placing agreement dated 16 July 2021 (and supplemented on 30 September 2021) and entered into between the Company and the Placing Agent in relation to the Placing
“PRC”	the People’s Republic of China which, for the purpose of geographical reference in this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus to be despatched to the Qualifying Shareholders (and the Non-Qualifying Shareholders for information only) in connection with the Rights Issue

DEFINITIONS

“Prospectus Documents”	the Prospectus and the PAL
“Prospectus Posting Date”	Tuesday, 9 November 2021 (or such other date as may be determined by the Company), being the date of despatch of the Prospectus Documents to the Qualifying Shareholders and the Prospectus for information only to the Non-Qualifying Shareholders (as the case may be)
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Monday, 8 November 2021, or such other date as may be agreed in writing between the Company and the Underwriter, being the record date for determining entitlements of Shareholders to participate in the Rights Issue
“Registrar”	the branch share registrar and transfer office of the Company in Hong Kong, being Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Period”	the period commencing six months prior to the date of the Announcement and ending on the Latest Practicable Date
“Rights Issue”	the proposed issue by way of rights of one (1) Rights Share for every one (1) Consolidated Share in issue and held on the Record Date at the Subscription Price on the terms and subject to the conditions to be set out in the Prospectus Documents
“Rights Share(s)”	the new Consolidated Share(s) to be allotted and issued under the Rights Issue
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Existing Share(s) and/or the Consolidated Share(s), as the case may be

DEFINITIONS

“Share Consolidation”	the proposed consolidation of every ten (10) issued and unissued Existing Shares of par value HK\$0.01 each into one (1) Consolidated Share of par value HK\$0.1
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.35 per Rights Share
“substantial shareholder(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	P.B. Asia Holdings Limited, a company incorporated in British Virgin Islands with limited liability which is owned as to 50% by Dr. Chan and 50% by Mr. Pui
“Underwriting Agreement”	the underwriting agreement dated 16 July 2021 (and supplemented on 30 September 2021) and entered into among the Company, the Underwriter and Dr. Chan in relation to the underwriting arrangement in respect of the Rights Issue
“Underwritten Placing Shares”	such number of Unsubscribed Rights Shares or NQS Unsold Rights Shares representing the difference between 3,562,800 Rights Shares and the actual number of Rights Shares for which valid acceptances have been received by the Company or successfully placed to the Placees by the Placing Agent on best effort basis
“Underwritten Shares”	60,153,400 Rights Shares to be underwritten by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement
“Unsubscribed Rights Shares”	those Rights Shares that are not subscribed by the Qualifying Shareholders

DEFINITIONS

“Whitewash Waiver”	a waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of the Underwriter to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it which would otherwise arise as a result of the taking up Unsubscribed Rights Shares, the NQS Unsold Rights Shares and the unsold faction of the Rights Shares pursuant to the Underwriting Agreement
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“CNY”	Chinese yuan, the lawful currency of the PRC
“%”	per cent.

** The English names used in this circular are just the transliteration of the Chinese names for reference only and shall not be regarded as formal names.*

If there is any inconsistency in this circular between the Chinese and English versions, the English version shall prevail.

PRECAUTIONARY MEASURES FOR THE EGM

The Company cares about the health of the Shareholders, staff and stakeholders which is of paramount importance. Should the COVID-19 pandemic continue to affect Hong Kong at or around the time of the EGM, the Company will implement precautionary measures at the EGM in the interests of the health and safety of the attendees of the EGM which include without limitation:

- (i) All attendees will be required to wear surgical face masks before they are permitted to attend, and during their attendance of, the EGM. Attendees are advised to observe good personal hygiene and maintain appropriate social distance with each other at all times when attending the EGM.
- (ii) There will be compulsory body temperature screening for all persons before entering the EGM venue. Should anyone seeking to attend the EGM decline to submit to temperature testing or be found to be suffering from a fever with a body temperature of 37.3 degrees Celsius or above or otherwise unwell, the Company will request such persons to stay in an isolated place for completing the voting procedures.
- (iii) Attendees may be asked if (i) he/she has travelled outside of Hong Kong within 14 days immediately before the EGM; (ii) he/she is subject to any Government of Hong Kong prescribed quarantine requirement; and (iii) he/she has any flu-like symptoms or close contact with any person under quarantine or with recent travel history. Any person who responds positively to any of these questions will be requested to stay in an isolated place for completing the voting procedures.
- (iv) Appropriate distancing and spacing in line with the guidance from the Government of Hong Kong will be maintained and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding.
- (v) Each attendee will be assigned a designated seat to facilitate contact tracing and to ensure appropriate social distancing.
- (vi) No gifts, food or beverages will be provided at the EGM.
- (vii) Company staff and representatives at the EGM venue will assist with crowd control and queue management to ensure appropriate social distancing.
- (viii) Due to the constantly evolving COVID-19 pandemic situation, the Company may implement further changes and precautionary measures in relation to the EGM arrangements at short notice. Shareholders should check the Company's website.

PRECAUTIONARY MEASURES FOR THE EGM

Furthermore, the Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights and strongly recommends Shareholders to appoint the chairman of the EGM as their proxy and submit their form of proxy as early as possible.

If any Shareholder has any question relating to precautionary measures for the EGM, please contact the Company's branch share registrar, Tricor Investor Services Limited, as follows:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

Tel: (852) 2980 1333

Fax: (852) 2810 8185

EXPECTED TIMETABLE

Set out below is the expected timetable for the Share Consolidation and the Rights Issue. All times and dates stated in this circular refer to Hong Kong local times and dates. The expected timetable below is indicative only and has been prepared on the assumption that all the conditions of the Share Consolidation and the Rights Issue will be fulfilled. The expected timetable is subject to change and further announcement(s) will be made by the Company should there be any changes to the expected timetable:

Event	Date (Hong Kong time) 2021
Despatch date of this circular, the notice of EGM and the proxy form	Monday, 4 October
Latest time for lodging transfer documents of the Shares to qualify for attendance and voting at the EGM	4:30 p.m. on Wednesday, 20 October
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the EGM (both dates inclusive)	Thursday, 21 October to Tuesday, 26 October
Latest time for lodging proxy forms for the EGM	2:30 p.m. on Sunday, 24 October
Record date for attending and voting at the EGM	Tuesday, 26 October
Expected time and date of the EGM	2:30 p.m. on Tuesday, 26 October
Announcement of the poll results of the EGM	Tuesday, 26 October
Register of members of the Company re-opens	Wednesday, 27 October
Effective date of the Share Consolidation	Thursday, 28 October
Commencement of dealings in the Consolidated Shares	9:00 a.m. on Thursday, 28 October
Original counter for trading in Existing Shares in board lots of 10,000 Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. on Thursday, 28 October

EXPECTED TIMETABLE

Event	Date (Hong Kong time) 2021
Temporary counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates) opens	9:00 a.m. on Thursday, 28 October
First day of free exchange of existing share certificates for new share certificates for Consolidated Shares	Thursday, 28 October
Last day of dealings in the Consolidated Shares on a cum-entitlement basis relating to the Rights Issue	Thursday, 28 October
First day of dealings in Consolidated Shares on an ex-entitlement basis relating to the Rights Issue	Friday, 29 October
Latest time for the Shareholders to lodge transfer documents of Consolidated Shares in order to be qualified for the Rights Issue	4:30 p.m. on Monday, 1 November
Closure of register of members to determine the entitlements to the Rights Issue (both dates inclusive)	Tuesday, 2 November to Monday, 8 November
Record date for the Rights Issue	Monday, 8 November
Register of members of the Company re-opens	Tuesday, 9 November
Expected despatch date of the Prospectus Documents, and in case of the Non-Qualifying Shareholders, the Prospectus only	Tuesday, 9 November
First day of dealings in nil-paid Rights Shares	Thursday, 11 November
Original counter for trading in the Consolidated Shares in board lots of 10,000 Consolidated Shares (in the form of new share certificates) reopens	9:00 a.m. on Thursday, 11 November
Parallel trading in the Consolidated Shares (in the form of both existing share certificates and new share certificates) commences	9:00 a.m. on Thursday, 11 November

EXPECTED TIMETABLE

Event	Date (Hong Kong time) 2021
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares	9:00 a.m. on Thursday, 11 November
Latest time for splitting the PAL	4:30 p.m. on Tuesday, 16 November
Last day of dealing in nil-paid Rights Shares	Friday, 19 November
Latest time for lodging transfer documents of nil-paid Rights Shares in order to qualify for the payment of Net Gain	4:00 p.m. on Wednesday, 24 November
Latest time for acceptance of and payment for the Rights Shares	4:00 p.m. on Wednesday, 24 November
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Thursday, 25 November
Announcement of the number of Unsubscribed Rights Shares subject to the Compensatory Arrangements and the NQS Unsold Rights Shares	Thursday, 25 November
Commencement of placing the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Placing Agent	Friday, 26 November
Latest time of placing the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Placing Agent	5:00 p.m. on Tuesday, 30 November
Designated broker ceases to provide matching services for odd lots of the Consolidated Shares	4:00 p.m. on Wednesday, 1 December
Temporary counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares (in the form of existing share certificates) closes	4:10 p.m. on Wednesday, 1 December

EXPECTED TIMETABLE

Event	Date (Hong Kong time) 2021
Parallel trading in Consolidated Shares (represented by both existing share certificates and new share certificates) ends	4:10 p.m. on Wednesday, 1 December
Announcement of allotment results of the Rights Issue (including results of the placing of Unsubscribed Rights Shares and the NQS Unsold Rights Shares)	Thursday, 2 December
Despatch of share certificates for fully-paid Rights Shares and refund cheques (if the Rights Issue is terminated)	Friday, 3 December
Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Monday, 6 December
Latest time for free exchange of existing share certificates for new share certificates	4:30 p.m. on Monday, 6 December
Payment of Net Gain to relevant No Action Shareholders (if any)	Thursday, 16 December

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

The Latest Time for Acceptance of and payment for the Rights Shares will not take place if:

1. typhoon signal No. 8 (or above);
2. “extreme conditions” caused by super typhoons as announced by the Government of the Hong Kong Special Administrative Region; or
3. a “black” rainstorm warning
 - (i) is/are in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or

EXPECTED TIMETABLE

- (ii) is/are in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section may be affected. An announcement will be made as soon as practicable by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

Pursuant to the Underwriting Agreement, the Underwriter shall be entitled, by notice in writing to the Company served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the sole and absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Group, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or the destruction of any material asset of any member of the Group; or
- (4) there is any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) there is any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of any of the Underwriter, a material omission in the context of the Rights Issue; or
- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

If prior to the Latest Time for Termination any such notice as is referred to above is given by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine.

If the Underwriter exercises such right of termination, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter. Upon termination of the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate and cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement save in respect of any antecedent breach of any obligation under it. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

LETTER FROM THE BOARD



(incorporated in Cayman Islands with limited liability)

(Stock code: 8331)

Executive Directors:

Dr. CHAN Man Fung (*Co-chairman*)

Mr. PUI Wai Lun (*Co-chairman*)

Mr. SU Chun Xiang

Mr. PANG Ho Yin (*Chief Executive Officer*)

Registered office:

71 Fort Street

P.O. Box 500, George Town

Grand Cayman KY1-1106

Cayman Islands

Independent Non-executive Directors:

Mr. YIP Chong Ho Eric

Mr. CHOW Chi Hang Tony

Mr. ZHANG Kun

Principal place of business

in Hong Kong:

Room 402A, 4/F

Park Commercial Centre

180 Tung Lo Wan Road

Causeway Bay, Hong Kong

4 October 2021

To the Shareholders,

Dear Sir or Madam,

- (I) PROPOSED SHARE CONSOLIDATION;
(II) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY
ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE;
(III) CONNECTED TRANSACTION IN RELATION TO THE
UNDERWRITING AGREEMENT; AND
(IV) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in the aforesaid regards; (iv) other information required under the GEM Listing Rules and the Takeovers Code; and (v) a notice convening the EGM.

PROPOSED SHARE CONSOLIDATION

The Board proposes to effect the consolidation of every ten (10) issued and unissued Existing Shares into one (1) Consolidated Share. As none of the Shareholders or their respective associates would have any interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution relating to the Share Consolidation at the EGM.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following:

- (i) the passing of the ordinary resolution by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the compliance with all relevant procedures and requirements under the laws of the Cayman Islands (where applicable) and the GEM Listing Rules to effect the Share Consolidation; and
- (iii) the GEM Listing Committee granting the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation.

The Share Consolidation will become effective on the second Business Day immediately following the fulfillment of the above conditions.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$100,000,000.00 divided into 10,000,000,000 Existing Shares of par value HK\$0.01 each, of which 795,572,000 Existing Shares have been issued and are fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective and on the basis that no further Existing Shares will be allotted, issued or repurchased prior thereto, the authorised share capital of the Company will become HK\$100,000,000.00 divided into 1,000,000,000 Consolidated Shares of par value HK\$0.1 each, of which 79,557,200 Consolidated Shares (which are fully paid or credited as fully paid) will be in issue.

LETTER FROM THE BOARD

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other in accordance with the Company's articles of association. No fractional Consolidated Shares will be issued by the Company to the Shareholders. Any fractional entitlements of Consolidated Shares will be aggregated, sold and retained for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests or rights of the Shareholders, save for any fractional Consolidated Shares which may arise.

Adjustments in relation to the other securities of the Company

As at the Latest Practicable Date, the Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares. The Company also has no intention to issue or grant any convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares on or before the Record Date.

Application for listing

An application will be made by the Company to the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective. Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, as well as compliance with the stock admission requirements of HKSCC, upon the Share Consolidation being effective, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

LETTER FROM THE BOARD

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, during the specified period, submit the existing share certificates for the Existing Shares to the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange, at the expense of the Company, for new share certificates for the Consolidated Shares. Thereafter, existing share certificates for Existing Shares will continue to be good evidence of legal title on the basis of ten (10) Existing Shares for one (1) Consolidated Share and may be exchanged for new share certificates for Consolidated Shares at the expense of the Shareholders on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each existing share certificate cancelled or each new share certificate issued for Consolidated Shares (whichever is higher) but are not acceptable for trading, settlement and registration after 4:10 p.m. on Wednesday, 1 December 2021.

The new share certificates for the Consolidated Shares will be issued in yellow colour in order to distinguish them from the existing share certificates for the Existing Shares which are in blue colour.

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares, if any, will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Existing Shares regardless of the number of existing share certificates held by such holder.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares following the Share Consolidation, the Company has appointed CIS Securities Asset Management Limited as an agent to stand in the market to provide matching services for sale and purchase of odd lots of the Consolidated Shares on a best effort basis and the period of such matching services commences from 9:00 a.m. on Thursday, 11 November 2021 and ends at 4:00 p.m. on Wednesday, 1 December 2021 (both dates inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Mr. Kwok of CIS Securities Asset Management Limited at 21/F Centre Point, 181-185 Gloucester Road, Wan Chai, Hong Kong (telephone number: 3112 8686) during office hours.

LETTER FROM THE BOARD

Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

REASONS FOR THE SHARE CONSOLIDATION

Pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and last updated on 1 October 2020, the expected board lot value should be greater than HK\$2,000 per board lot after taking into account the minimum transaction costs for a securities trade. As at the Latest Practicable Date, the closing price of each Existing Share is HK\$0.059, with a board lot size of 10,000 Existing Shares, the Existing Shares are trading under HK\$590 per board lot.

The Existing Shares have been constantly traded below HK\$1.00 for the past few years. In order to reduce transaction and registration costs incurred by the Shareholders and investors of the Company, the Board proposes to implement the Share Consolidation. It is expected that the Share Consolidation will increase the value of each board lot of the Consolidated Shares to more than HK\$2,000. The Board believes the Share Consolidation will not have any material adverse effect on the financial position of the Company nor result in change in the relative rights of the Shareholders and are in the interests of the Company and the Shareholders as a whole.

PROPOSED RIGHTS ISSUE

Rights Issue Statistics

The Board proposes, subject to, among other things, the Share Consolidation having become effective, the Rights Issue with the terms set out as follows:

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.35 per Rights Share

LETTER FROM THE BOARD

Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$0.33 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	795,572,000 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	79,557,200 Consolidated Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation up to the effective date of the Share Consolidation)
Number of Rights Shares to be issued pursuant to the Rights Issue	:	79,557,200 Rights Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	HK\$7,955,720 (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	159,114,400 Consolidated Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)
Gross proceeds from the Rights Issue	:	Approximately HK\$27.8 million before expenses (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)

LETTER FROM THE BOARD

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

Assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date, the 79,557,200 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 100% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and 50% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares.

The Subscription Price

The Subscription Price of HK\$0.35 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, and, where applicable, when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 36.4% to the theoretical closing price of HK\$0.55 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.055 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 31.4% to the theoretical closing price of HK\$0.51 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.051 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 31.4% to the average theoretical closing price of approximately HK\$0.51 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.051 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (iv) a discount of approximately 22.2% to the theoretical ex-rights price of approximately HK\$0.45 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.055 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (v) a discount of approximately 40.7% to the theoretical closing price of HK\$0.59 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.059 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a discount of approximately 74.8% to the net asset value of the Company of approximately HK\$1.39 per Consolidated Share based on the audited consolidated net asset value per Share of HK\$0.139 as at 31 December 2020 and the 795,572,000 Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 75.0% to the net asset value of the Company of approximately HK\$1.40 per Consolidated Share based on the unaudited consolidated net asset value per Share of HK\$0.14 as at 30 June 2021 and the 795,572,000 Shares in issue as at the Latest Practicable Date.

The Rights Issue would result in a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules and taking into account the Share Consolidation) of approximately 18.2%, representing a discount of the theoretical diluted price of approximately HK\$0.45 per Consolidated Share (after taking into account the effect of the Share Consolidation) to the benchmarked price of HK\$0.55 per Consolidated Share (after taking into account the effect of the Share Consolidation). The aforesaid benchmarked price is based on the higher of the closing price on the date of the Announcement of HK\$0.055 per Existing Share and the average of the closing prices of the Existing Shares as quoted on the Stock Exchange in the five (5) consecutive trading days immediately prior to the date of the Announcement of HK\$0.051 per Existing Share. The aforesaid theoretical diluted price has taken into account the sum of (i) the product of the said benchmarked price and the 79,557,200 Consolidated Shares in issue immediately before the Rights Issue; and (ii) the gross proceeds from the Rights Issue of approximately HK\$27.8 million, and divided by the 159,114,400 Consolidated Shares in issue upon completion of the Rights Issue, assuming there is no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date.

LETTER FROM THE BOARD

As disclosed above, the Subscription Price was set at a discount to the recent closing prices of the Shares as well as the net asset value of the Company of approximately HK\$1.40 per Consolidated Share based on the unaudited consolidated net asset value per Share of HK\$0.14 as at 30 June 2021 and the 795,572,000 Shares in issue as at the Latest Practicable Date. A breakdown of the Company's major assets and their carrying values as at 30 June 2021 are as follows:

	Total <i>CNY'000</i>
Non-current assets	
Right-of-use assets	2,392
Deferred Tax Assets	213
Property, plant and equipment	14,668
Intangible assets – Insurance brokerage license	432
Intangible assets – Mining right	4,763
Restricted cash and cash equivalents	<u>13,522</u>
 Total non-current assets	 <u><u>35,990</u></u>
Current assets	
Cash and cash equivalents	33,538
Pledged bank deposits	20,000
Trade receivables	14,815
Bill receivables	14,447
Others receivable and prepayments	3,232
Inventories	<u>3,829</u>
 Total current assets	 <u><u>89,861</u></u>
 Total assets	 <u><u>125,851</u></u>

LETTER FROM THE BOARD

The discount to the recent closing prices of the Shares as well as the net asset value of the Company serves to lower the investment cost of the Shareholders who wish to participate in the Rights Issue so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising any possible dilution impact to their shareholding interest. The terms of the Rights Issue, including, the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter, taking into account, among others, (i) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (ii) that it is not uncommon for listed companies on the Stock Exchange to issue rights shares at a discount to the prevailing market price in order to enhance the attractiveness of the rights issue; (iii) the comparison between the prevailing market prices of the Shares prior to the Last Trading Day and discounts to subscription price of recently completed rights issue exercises in the market, a comparison of which is prepared by the Independent Financial Adviser and set out in the letter from the Independent Financial Adviser in this circular; and (iv) the imminent funding and capital needs of the Company in Hong Kong more particularly disclosed in the paragraph headed "Reasons for the Rights Issue and use of proceeds".

In particular, the Subscription Price was determined with reference to the average closing price of HK\$0.51 (taking into account the effect of the Share Consolidation) per Existing Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the Last Trading Day, the financial conditions of the Company, current market conditions and the reasons and benefits of Rights Issue as discussed in the paragraph headed "Reasons for the Rights Issue and use of proceeds" under the section headed "Proposed Rights Issue" in this circular.

LETTER FROM THE BOARD

The Directors noted that the Subscription Price represents a discount of approximately 74.8% and 75.0% to the audited/unaudited consolidated net asset value per Share as at 31 December 2020 and 30 June 2021 respectively. Given that (i) the nature of the principal business of the Group is not capital intensive, the net assets value may not be a realistic and meaningful indicator for determining the subscription price; (ii) the Shares had been traded at a discount to the audited/unaudited consolidated net asset value per Share for the majority of last year (i.e. 220 trading days out of 248 trading days) and up to the Last Trading Day; (iii) the prevailing market prices of the Shares are indicative of the market valuation of the Company in general taking into account the demand and supply for the Shares and the trading volume and prices of the Shares; and (iv) it is not uncommon to set a subscription price which is at a discount to the net asset value of the shares, and in view of the above factors, the Directors (including the members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that it is reasonable to make reference to the market prices of the Shares, rather than solely basing the determination of the Subscription Price on the audited/unaudited consolidated net asset value per Share, in determining a Subscription Price that is meaningful and appealing to the Shareholders and that the discount of the Subscription Price to the audited/unaudited net asset value per Share is fair and unreasonable.

In view of the above, and having considered that all the Qualifying Shareholders will be offered equal opportunity to subscribe for the Rights Shares by way of provisional allotment, the Directors (excluding the members of the Independent Board Committee whose opinion after taking into account the advice of the Independent Financial Adviser are set forth in the letter from the Independent Board Committee in this circular) consider that the terms of the Rights Issue, the Placing Agreement and the Underwriting Agreement, including the Subscription Price, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

The Rights Shares (when allotted, fully paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares.

Qualifying Shareholders

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

LETTER FROM THE BOARD

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the said nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company, and are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date.

In order to be registered as members of the Company prior to the close of business on the Record Date, all transfers of the Consolidated Shares (together with the relevant share certificate(s) and/or the instrument(s) of transfer) must be lodged with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. (Hong Kong time) on Monday, 1 November 2021.

It is expected that the last day of dealings in the Shares on a cum-rights basis is Thursday, 28 October 2021, and the Consolidated Shares will be dealt in on an ex-rights basis from Friday, 29 October 2021.

Subject to the Share Consolidation having become effective and the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date and will despatch the Prospectus only (without the PAL) to the Non-Qualifying Shareholders for their information only.

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

Closure of register of members

The register of members of the Company will be closed from Tuesday, 2 November 2021 to Monday, 8 November 2021 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of the Consolidated Shares will be registered during the above book closure period.

LETTER FROM THE BOARD

Basis of provisional allotments

The basis of the provisional allotments shall be one (1) Rights Share (in nil-paid form) for every one (1) Consolidated Share held by the Qualifying Shareholders as at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made only by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

Rights of Overseas Shareholders

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

Based on the register of members of the Company as at the Latest Practicable Date, the Company identified that there were 1 and 11 Overseas Shareholders with registered addresses situated in the British Virgin Islands and the PRC, respectively. Having made reasonable enquiries of the legal requirements regarding the feasibility of extending the Rights Issue to the Overseas Shareholders with registered addresses in the jurisdictions set out above (as shown in the register of members of the Company as at the Latest Practicable Date) in compliance with 17.41(1) of the GEM Listing Rules and taken into account the legal advice provided by the respective legal advisers of the British Virgin Islands and the PRC engaged by the Company, the Directors are of the view that the relevant overseas legal restrictions and requirements of the relevant regulatory body or Stock Exchange do not make it necessary or expedient to exclude the Overseas Shareholders with registered addresses in the British Virgin Islands and the PRC from the Rights Issue. Accordingly the Rights Issue will be offered to the Overseas Shareholders in those jurisdictions. The 1 and 11 Overseas Shareholders with registered addresses situated in the British Virgin Islands and the PRC as identified from the register of members of the Company as at the Latest Practicable Date will therefore be entitled to participate in the Rights Issue.

The Company will continue to ascertain whether there are any other Overseas Shareholders at the Record Date and will, if necessary, make further enquiries with legal advisers in other overseas jurisdictions regarding the feasibility of extending the Rights Issue to such Overseas Shareholders as at the Record Date and make relevant disclosure in the Prospectus.

LETTER FROM THE BOARD

The Company will send the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL to them.

The Non-Qualifying Shareholders (which are excluded from the Rights Issue) will not have any entitlement under the Rights Issue. However, arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid pro rata (but rounded down to the nearest cent) to the Non-Qualifying Shareholders in Hong Kong dollars, except that the Company will retain individual amounts of less than HK\$100 for its own benefit. For the avoidance of doubt, the Non-Qualifying Shareholders may vote at the EGM unless such person is not an Independent Shareholder (in which case they shall abstain). Any NQS Unsold Rights Shares will first be placed by the Placing Agent under the Placing Agreement together with the Unsubscribed Rights Shares, and if unsuccessfully sold, will be taken up by the Underwriter.

Net Gain (if any) will be paid (without interest) on a pro-rata basis (but rounded down to the nearest cent) to the relevant No Action Shareholders according to their shareholdings held on the Record Date in Hong Kong dollars on the basis of all NQS Unsold Rights Shares and Unsubscribed Rights Shares. The Company will retain individual amounts of less than HK\$100 for its own benefit.

For the nil-paid Rights Shares that are sold in the market by the Company as described above, if the buyer(s) of such nil-paid Rights Shares does/do not take up the entitlement, such Unsubscribed Rights Shares will be subject to the Compensatory Arrangements.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. The Company reserves the right to treat as invalid any acceptance of Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders and beneficial owners of the Shares who are residing outside Hong Kong should exercise caution when dealing in the Shares.

The Rights Issue does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, nil-paid Rights Shares or fully-paid Rights Shares or to take up any entitlements to nil-paid Rights Shares or fully-paid Rights Shares in any jurisdiction in which such an offer or solicitation is unlawful. Shareholders and beneficial owners of the Shares (including, without limitation, their respective agents, custodians, nominees and trustees) should inform themselves of and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

LETTER FROM THE BOARD

Share certificates of the Rights Shares and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be sent on Friday, 3 December 2021 to those entitled thereto by ordinary post, at their own risk, to their registered addresses. Each allottee will receive one share certificate for all allotted Rights Shares. If the Underwriting Agreement is terminated or not becoming unconditional, refund cheques will be despatched on Friday, 3 December 2021 by ordinary post, at the respective Shareholders' own risk, to their registered addresses.

Fractional entitlement to the Rights Shares

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

The Irrevocable Undertakings

As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui, is beneficially interested in 125,000,000 Existing Shares, representing approximately 15.71% of the total issued share capital of the Company as at the Latest Practicable Date, and Dr. Chan is beneficially interested in 33,410,000 Existing Shares, representing approximately 4.20% of the total issued share capital of the Company as at the Latest Practicable Date.

Pursuant to the Irrevocable Undertakings, each of the Underwriter and Dr. Chan has provided irrevocable and unconditional undertakings to the Company that (a) all the above 158,410,000 Existing Shares held by them in aggregate will continue to be beneficially owned by them on the Record Date; and (b) each of them will accept and pay for all the 15,841,000 Rights Shares to be provisionally allotted to them in aggregate under the Rights Issue pursuant to the terms and conditions of the Prospectus Documents.

The Irrevocable Undertakings shall automatically lapse and be of no further force and effect in the event the Underwriting Agreement is terminated in accordance with its terms at or before the Latest Time for Termination.

Save for the Irrevocable Undertakings, the Company has not received any information or irrevocable undertaking from any substantial shareholder of their intention in relation to the Rights Shares to be provisionally allotted to them under the Rights Issue as at the Latest Practicable Date.

LETTER FROM THE BOARD

Application for listing

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

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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

Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, and the Compensatory Arrangements

As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui, is beneficially interested in 125,000,000 Existing Shares, representing approximately 15.71% of the total issued share capital of the Company and is a substantial shareholder of the Company. Pursuant to Rule 10.31(2) of the GEM Listing Rules, as the Underwriter is a substantial shareholder of the Company, the Company must make arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the rights issue. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 10.31(1)(a) of the GEM Listing Rules.

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The Company appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the Latest Time for Acceptance to independent placees, pursuant to the terms of the Placing Agreement as described below. Any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related costs and expenses), that is realised from the Placing (the “**Net Gain**”) will be paid to those No Action Shareholders. The Placing Agent will, pursuant to the terms of the Placing Agreement, procure, by no later than 5:00 p.m. on Tuesday, 30 November 2021, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares at a price not less than the Subscription Price. Any unsold Unsubscribed Rights Shares and the NQS Unsold Rights Shares under the Compensatory Arrangements will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Net Gain (if any but rounded down to the nearest cent) will be paid on a pro-rata basis to the No Action Shareholders as set out below:

- (i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL (unless that person is covered by (iii) below); or
- (ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS; or
- (iii) where an entitlement to the Rights Shares was not taken up by the Overseas Shareholders, to those Overseas Shareholders.

It is proposed that the Net Gain to any of the No Action Shareholder(s) mentioned above which is in an amount of HK\$100 or more will be paid to them in Hong Kong dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

If the Underwriter exercises its right of termination in accordance with the Underwriting Agreement, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed.

Taxation

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

LETTER FROM THE BOARD

THE PLACING AGREEMENT

On 16 July 2021, the Company and the Placing Agent entered into the Placing Agreement (as supplemented by a supplemental placing agreement on 30 September 2021), pursuant to which the Placing Agent has agreed to first procure Placee(s) to subscribe for a maximum of 60,153,400 Unsubscribed Rights Shares and the NQS Unsold Rights Shares on a best effort basis, then a maximum of 3,562,800 Underwritten Placing Shares on a fully underwritten basis. Details of the Placing Agreement are as follows:

Date : 16 July 2021 (as supplemented on 30 September 2021)

Placing Agent : CIS Securities Asset Management Limited was appointed as the Placing Agent to procure, placees to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares.

To the best knowledge, information and belief of the Directors, after making reasonable enquiries, as at the Latest Practicable Date,

- (a) the Placing Agent is an Independent Third Party;
- (b) neither the Placing Agent nor any of its associates hold any Shares;
- (c) there is no arrangement, agreement, understanding or undertaking with the Underwriter in relation to the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, save for the proposed terms of the Underwriting Agreement by which the Underwriter will take up all Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the proposed terms of the Placing Agreement by which the Placing Agent shall first procure a maximum of 60,153,400 Unsubscribed Rights Shares and the NQS Unsold Rights Shares on a best effort basis, then a maximum of 3,562,800 Underwritten Placing Shares on a fully underwritten basis;
- (d) it is not a party acting in concert with the Underwriter, Dr. Chan, Mr. Pui or any of their respective associates and concert parties; and

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- (e) none of the Placing Agent, its ultimate beneficial owner(s) and parties acting in concert with them holds any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company, and no sub-placing agents has been appointed by the Placing Agent.

Placing fee and expenses	:	1% of the aggregate placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares successfully placed by or on behalf of the Placing Agent.
Placing price of the Unsubscribed Rights Shares and/or and the NQS Unsold Rights Shares (as the case may be)	:	The placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) shall not be less than the Subscription Price. The final price determination will be dependent on the demand for and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares.
Placees	:	The Unsubscribed Rights Shares and the NQS Unsold Rights Shares are expected to be placed to the Placees who and whose ultimate beneficial owner(s) are Independent Third Parties, and not a party acting in concert with the Underwriter, Dr. Chan, Mr. Pui or any of their respective associates.
Ranking of Unsubscribed Rights Shares and the NQS Unsold Rights Shares	:	The Unsubscribed Rights Shares and the NQS Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank <i>pari passu</i> in all respects among themselves and with the Consolidated Shares then in issue.
Conditions precedent	:	The obligations of the Placing Agent under the Placing Agreement are conditional upon the Underwriting Agreement becoming unconditional and not terminated in accordance with the Underwriting Agreement.
Completion date	:	The second Business Day after the Latest Placing Date or such other date as the Company and the Placing Agent may agree in writing.

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Termination : The Placing Agent may terminate the Placing Agreement without any liability to the Company, by giving notice in writing to the Company at any time prior to 4:00 p.m. one day before the completion date of the Placing upon the occurrence of the following events which, in the absolute opinion of the Placing Agent, has or may have an adverse material effect on the business or financial conditions of the Group taken as a whole or the success of the Placing or otherwise makes it inappropriate to proceed with the Placing on the terms and in the manner contemplated in the Placing Agreement:

- (a) if there develops, occurs or comes into force:
 - i. any material adverse event, development or change and including an event or change in relation to or a material adverse development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a change in, or which may result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions in Hong Kong; or
 - ii. the imposition of any moratorium, suspension (for more than seven (7) trading days) or restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - iii. any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group; or
 - iv. a change or development occurs involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong; or

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- (b) any breach of any of the representations and warranties set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date of the Placing Agreement and prior to the completion date of the Placing which if it had occurred or arisen before the date of the Placing Agreement would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or
- (c) the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are not approved by the relevant regulatory bodies and/or regulatory authorities to be placed to any placees as contemplated in the Placing Agreement.

The terms of the Placing Agreement (including the placing fee) were determined after arm's length negotiation between the Placing Agent and the Company and are on normal commercial terms. Having discussed with other potential placing agent candidates, the Directors consider that the placing fee charged by the Placing Agent is no less favourable to the Company than the market rate in recent placing transactions and are therefore of the view that the terms of the Placing Agreement are on normal commercial terms.

Given that the Compensatory Arrangements would provide (i) a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares for the Company; and (ii) a channel of participation in the Rights Issue for independent investors, the Directors consider that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Shareholders. The Company will ensure that it will continue to comply with the public float requirement under 11.23(7) of the GEM Listing Rules after the Placing and the Rights Issue.

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In the event that the taking up of the Underwritten Shares by the Underwriter pursuant to the Underwriting Agreement would result in public float of the Company not being maintained upon completion of the Placing and the Rights Issue, the Underwriter may take necessary action to place down such number of Shares held by it to subscriber(s) who will be Independent Third Party(ies), and/or the Company may take necessary action to enter into placing arrangement with placing agents to place such number of new Shares to placee(s) who will be Independent Third Party(ies) and not acting in concert with the connected persons of the Company, the Underwriter, Dr. Chan, Mr. Pui or any of their respective associates, such that sufficient public float could be maintained in compliance with Rule 11.23(7) of the GEM Listing Rules.

THE UNDERWRITING AGREEMENT

On 16 July 2021, the Company, the Underwriter and Dr. Chan entered into the Underwriting Agreement (as supplemented by a supplemental underwriting agreement on 30 September 2021), pursuant to which the Underwriter has conditionally agreed to fully underwrite all the Rights Shares (other than those agreed to be taken up by the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) at the Subscription Price, subject to the terms and conditions of the Underwriting Agreement. Principal terms of the Underwriting Agreement are as follow:

Date	:	16 July 2021 (as supplemented on 30 September 2021)
Underwriter	:	P.B. Asia Holdings Limited

The Underwriter is a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding. As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui (both being executive Directors), is beneficially interested in 125,000,000 Existing Shares, representing approximately 15.71% of the total issued share capital of the Company and is a substantial shareholder of the Company. As such, the Underwriter is a connected person of the Company under Chapter 20 of the GEM Listing Rules. The principal members of the concert group of the Underwriter are the Underwriter, Dr. Chan and Mr. Pui. It is not in the ordinary course of business of the Underwriter to underwrite securities.

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Total number of Underwritten Shares	:	Up to 60,153,400 Rights Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), representing all the Rights Shares under the Rights Issue other than the 15,841,000 Rights Shares that have been undertaken to be subscribed by the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings and the Undewritten Placing Shares.
Underwriting commission	:	The Underwriter will not receive any underwriting commission.

Conditions of the Underwriting Agreement

The obligations of the Underwriter to subscribe for the Underwritten Shares pursuant to the Underwriting Agreement are conditional on the fulfilment of the following conditions:

- (i) the passing by the Independent Shareholders at the EGM of the resolutions to approve the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver;
- (ii) the granting of the Whitewash Waiver by the Executive (and any such grant not having been withdrawn or revoked) and the satisfaction of any condition(s) attached to the Whitewash Waiver;
- (iii) the GEM Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Rights Shares (in their nil-paid and fully-paid forms);
- (iv) the Share Consolidation having become effective;
- (v) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the GEM Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong);

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- (vi) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date and the posting of the Prospectus and a letter to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue within two business days after the Prospectus Posting Date;
- (vii) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;
- (viii) the filing and registration of all relevant documents with the Registrar of Companies in Hong Kong by no later than the Prospectus Posting Date;
- (ix) the Placing Agreement not being terminated on or before the Latest Time for Termination; and
- (x) the Underwriting Agreement is not terminated in accordance with the terms thereof.

None of the above conditions precedent is capable of being waived. If any of the conditions precedent are not satisfied by the Latest Time for Termination (or where appropriate, the times stipulated above or such later time and/or date as the Underwriter may agree with the Company in writing), the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms of the Underwriting Agreement, the Underwriter has agreed to underwrite the Underwritten Shares (being any Rights Shares that are provisionally allotted but not accepted by the Qualifying Shareholders and not placed by the Placing Agent under the Placing Agreement and the entitlements of the Non-Qualifying Shareholders to the Rights Shares which are unsold).

Assuming no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) and no placement made under the Compensatory Arrangements save for the Underwritten Placing Shares, the Underwriter will be required to take up all the Underwritten Shares and would, upon completion of the Rights Issue hold up to approximately 53.52% of the then total issued Shares as enlarged by the allotment and issue of the Rights Shares.

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In the event that the Underwriter taking up all the Underwritten Shares pursuant to its obligations under the Underwriting Agreement upon completion of the Rights Issue would result in the public float of the Shares not being maintained, the Underwriter has undertaken that it shall take steps necessary to ensure the Company's compliance of the minimum public float requirements as set out under Rule 11.23(7) of the GEM Listing Rules upon completion of the Rights Issue.

The terms of the Underwriting Agreement (including the commission) were determined after arm's length negotiations between the Company and the Underwriter by reference to the financial position of the Group, the size of the Rights Issue, the current and expected market conditions and the prevailing market rate of commission. The Directors are of the view that the terms of the Underwriting Agreement are fair and reasonable and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Termination of the Underwriting Agreement

The Underwriter shall be entitled, by notice in writing to the Company served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the sole and absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

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- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Group, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or the destruction of any material asset of any member of the Group; or
- (4) there is any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) there is any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of any of the Underwriter, a material omission in the context of the Rights Issue; or

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- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

If prior to the Latest Time for Termination any such notice as is referred to above is given by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine.

If the Underwriter exercises such right of termination, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter. Upon termination of the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate and cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement save in respect of any antecedent breach of any obligation under it. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

INTENTION OF THE UNDERWRITER

The Underwriter intends for the Group to continue with its existing principal businesses and has no intention to (i) discontinue the employment of any employees of the Group; (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business; or (iii) change the current composition of the Board. The Underwriter and the Company also intend to maintain the listing of the Shares on the Stock Exchange following the completion of the Rights Issue. The Underwriter considers the Rights Issue is favourable to the Group for reasons set out in the below paragraph headed "Reasons for the Rights Issue and use of proceeds".

On the basis of the intentions of the Underwriter set out above, the Directors are of the view that the continuity of the Group's business can be maintained upon the completion of the Rights Issue.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

Save for the Rights Issue, the Company has not conducted other fund-raising activity involving issue of equity securities during the period commencing 12 months immediately preceding the date of the Announcement and up to the Latest Practicable Date.

LETTER FROM THE BOARD

RISK FACTORS

In compliance with the GEM Listing Rules, the Company sets out below the risk factors of the Group for the Shareholders' attention. The Directors believe that there are certain risks involved in the operations of the Group, which includes but are not limited to, the following:

- (i) the mining operations of the Group, like all other mining operations, are subject to various operating risks and hazards. If the Company fails to obtain the expected economic benefits from the mine due to the occurrence of any event that causes it to operate at a lower capacity than anticipated or other significant negative development, the business, prospects, financial condition and results of operations of the Group could be materially and adversely affected;
- (ii) any disruptions or delays in processing may cause us to incur additional expenses in order to produce sufficient final products to meet deadlines, and could consequently impair the ability of the Group to fulfil the customers' demands, leading to cancellation of orders, all of which will have an adverse impact on the Group's reputation and results of operation;
- (iii) if the Group is denied access to its mine due to, among others: (i) violation of the relevant laws; (ii) change in relevant laws and regulations; (iii) a dispute in relation to the use of the collective land; (iv) not being able to renew land use right upon expiry of the existing land use rights; or (v) change in position of the government authorities that initially granted the Group land use right or allowed continued use of the temporary structures, the mining operations of the Group will be severely disrupted, which may in turn materially and adversely affect the Group's business, financial condition and results of operations;
- (iv) the money lending business of the Group is exposed to default from the Group's customers, which involves the risk of loss due to the inability or unwillingness of customers to meet their contractual obligations. If the customers of the money lending business of the Group fail to meet their contractual obligations, the Company may incur additional costs to collect the loan principal and corresponding interests;
- (v) the wealth management business of the Group is subject to the performance of the investments and the market sentiment which are beyond its control and the Group cannot assure that the historical level of income can be sustained. In addition, non-compliance with regulatory requirements could affect the Group's ability to carry on its business activities; and
- (vi) negative publicity or damage to its business reputation may have potential adverse impact on the Group's business.

LETTER FROM THE BOARD

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment holding company and the Group is principally engaged in bentonite mining, production and sales of drilling mud and pelletising clay and financial service business. As at the Latest Practicable Date, the cash and bank balance of the Company in Hong Kong is insufficient to meet the general working capital requirement of the Group, including staff costs, rental costs, professional fees and other overhead expenses in Hong Kong in the next 18 months. As such, the net proceeds of the proposed Rights Issue are intended to be applied primarily for the general working capital of the Group for the next 18 months in Hong Kong. For the remaining proceeds, the Company intends to apply it for financing the existing financial service business of the Group.

A breakdown of the expected funding needs of the Company in Hong Kong for the next 12 months based on the latest estimates of the Board is as follows:

	<i>HK\$</i> <i>(million)</i>
Business operation and expansion	8.0
Directors' remuneration, consultancy fees, and other salaries and allowance	6.2
Audit and other professional fees	3.7
Administrative and other expenses	1.8
Miscellaneous fees including printing fees and listing fees	<u>1.4</u>
Estimated total	<u><u>21.1</u></u>

The above estimates are prepared based on the key assumption that there will be no material change to the number and amount of salary, remuneration and allowance of the directors, officers and staff of the Group in Hong Kong, no additional major engagement of professional parties and no increase to the office and information technology expenses, listing fees and rental payable by the Company, no material change to the administrative needs of the Group and no material change to the current business operation and expansion plans of the Group in Hong Kong. The net proceeds from the Rights Issue together with the internally generated financial resources from the operation of the Group are expected to be sufficient to satisfy the above expected funding needs of the Company in Hong Kong for the next 12 months.

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Assuming that there is no change in the number of issued Shares on or before the Record Date and all Rights Shares to be issued under the Rights Issue have been taken up in full, the gross proceeds from the Rights Issue will be approximately HK\$27.8 million. The net proceeds from the Rights Issue (after deduction of estimated professional fees and other related expenses of approximately HK\$1.5 million) are estimated to be approximately HK\$26.3 million (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), which are intended to be applied in following manner:

- (i) approximately HK\$18.8 million, representing approximately 71.5% of the net proceeds, shall be applied for general working capital of the Company in Hong Kong for the next 18 months, as to approximately (i) 46.3% for directors' remuneration, consultancy fees, and other salaries and allowance; (ii) 34.0% for audit and other professional fees; (iii) 12.8% for administrative and other expenses; and (iv) 6.9% for miscellaneous fees including printing fees and listing fees;
- (ii) approximately HK\$5.6 million, representing approximately 21.3% of the net proceeds, shall be applied for the operation and expansion of the wealth management service business of the Group; and
- (iii) approximately HK\$1.9 million, representing approximately 7.2% of the net proceeds, shall be applied for the operation and expansion of the money lending business of the Group.

The Rights Issue will be conducted on a fully-underwritten basis. The terms of the Underwriting Agreement were determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the market conditions. It is not in the ordinary course of business of the Underwriter to underwrite issues of shares. The Underwriter's role as an underwriter in respect of the Rights Issue, together with the Irrevocable Undertakings, signify strong support from the substantial Shareholder to the Group and its confidence in the development of the Group. Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associate.

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Prior to entering into the Underwriting Agreement, the Company had approached two independent third party underwriters to explore the possibilities of engaging them as underwriters for the proposed Rights Issue. One of these underwriters had proposed an underwriting commission of 4% which was much higher than the expectation of the Board and the other underwriter had not given any response regarding the proposed engagement. In or about mid-May 2021, the Company has also approached Mr. Zhang Qiang, the controlling shareholder of the Company, who had expressed that he was not interested in becoming the underwriter for the proposed Rights Issue, and the Underwriter, who is a substantial shareholder of the Company owned as to 50% by Dr. Chan and 50% by Mr. Pui, who had agreed to be the underwriter for the proposed Rights Issue on the terms that it would not receive any underwriting commission. In view of the size of the proposed Rights Issue of only approximately HK\$27.8 million, the commission fees proposed by the independent third party underwriter was considered higher than is acceptable and considering that the Underwriter would not receive any underwriting commission, the Board had resolved to enter into the Underwriting Agreement with the Underwriter.

The Board has considered other fund-raising alternatives before resolving to the proposed Rights Issue, including but not limited to debt financing, placing and open offer. As debt financing would result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations, the Board does not consider it to be beneficial to the Group. In addition, debt financing may not be achievable on favourable terms in a timely manner. As for placing of new Shares, taking into account that (i) it is relatively smaller in scale as compared to fund raising through rights issue; (ii) the engagement of a placing agent which would incur additional costs and expenses on the part of the Company; (iii) it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company, it was not considered by the Board to be the most suitable fund-raising method for the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market unlike a rights issue, which would allow Shareholders to have more flexibility in dealing with the Shares and the nil paid rights attaching thereto.

LETTER FROM THE BOARD

The Board considers that the Rights Issue, when compared with other forms of equity fund raising, would offer the Qualifying Shareholders the opportunity to subscribe for Rights Shares in proportion to their existing shareholdings in the Company without having their relative shareholdings being diluted and the Board considers that the terms of the Rights Issue are fair and reasonable and in the best interest of the Shareholders as a whole as it allows Qualifying Shareholders to maintain their respective pro rata shareholding interests in the Company and to continue to participate in the future development of the Company and it will improve the capital base and gearing ratio of the Company. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

Having considered the above, the Directors consider that the Underwriter, a substantial Shareholder who is willing to support the continuing growth of the Group, being as the underwriter for the Rights Issue is in the interests of the Company and the Shareholders as a whole, and that the terms of the Underwriting Agreement are fair and reasonable and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

BUSINESS PLANS OF THE GROUP

After completion of the proposed Rights Issue, the Company intends to continue with all of its existing businesses and it does not intend to downsize, dispose of or cease any existing business operations and the existing businesses of bentonite mining, production and sales of drilling mud and pelletising clay would remain as the core businesses of the Group.

Although the COVID-19 pandemic has had a big impact on the businesses of the Group in the past year, as the businesses of bentonite mining, production and sales of drilling mud and pelletising clay are the core businesses of the Group. For details of the business overview and prospect of the Group, please refer to the section headed “Business Trend and Financial and Trading Prospect” in Appendix I to this circular. With the aim to strengthen the market position of the Group in the PRC, the Group intends to continue to adopt the business strategies of broadening customer base and developing product recognition, new production technology and new products, recruiting more talents, acquiring other non-metal mines and improving the existing plant and equipment as its main focus.

LETTER FROM THE BOARD

The bentonite business of the Group is currently performing in a stable manner and has contributed as the main source of income for the Group over the past years. The Group has laid a solid foundation for its market position in bentonite mining, and will continue to explore the opportunity to expand its investment portfolio in mining. While the Group does not have any concrete new business plan and had not executed any formal agreement in respect of the acquisition of non-metal mines, the Group strives to maintain sales volume of pelletising clay by means of, among others, improved product quality and adhere to its “sell more with lower margin” strategy. The key business objectives of the Group in this area will continue to be to expand its customer base and market share by boosting product awareness of its bentonite products, refining its production technology and developing new products with a view to enhance the Group’s overall competitiveness to cope with the risks and uncertainties of the business environment.

Currently, the Group holds the mining rights to Huanghu Bentonite Mine, which is located at Fanchang County, Wuhu City, Anhui Province in the PRC. The Group holds 100% of the equity interest in the Huanghu Bentonite Mine, which has commenced commercial production of pelletising clay in 2004 and drilling mud in 2010. The permitted mining right area of the Huanghu Bentonite Mine is 2.1311 km² and the permitted annual production capacity is 230,000 m³ (equivalent to approximately 400,000 tonnes). Mining exploration permits or licences in the PRC are normally registered and issued to licensees in the form of 3-year leases from the relevant government authorities. The validity of the current mining licence is from 9 March 2019 to 9 March 2022. The Group will proceed to apply for renewal of the mining licence when the renewal application opens 30 days before the expiry date of the current mining licence in order to maintain the operation of its mining business. The renewal process for the mining licence involves the submission of a request for renewal of mining rights to the town government, which would then issue a review opinion. Thereafter, the Group would submit the request for renewal of mining rights to the district government, which would also issue its review opinion. The application would then be reviewed by the District Mining Management Committee and the Natural Resources and Planning Bureau. As at the Latest Practicable Date, the Company is not aware of any event which would impose any negative impact on, nor there is any legal impediment hindering, the renewal application to be made by the Group in respect of the mining licence in 2022.

LETTER FROM THE BOARD

Mr. Su Chun Xiang (“**Mr. Su**”), an executive Director, is the key member on the Board to oversee the mining business of the Group. Since joining the Group in 2018, he has been primarily responsible for formulating corporate strategies and supervising the business, including mining business segment of the Group. In addition to the experience in the financial and asset management industry as disclosed in the section headed “13. Directors of the Company” in Appendix III to this circular, Mr. Su also possesses a wealth of experiences in the handling and overseeing mining businesses in the PRC. Since 2017, he has been a consultant of a company principally engaged lead-zinc exploration, development and mining in the PRC. He has assisted with and was responsible for the setting up the mining company and mining operation, overseeing the overall mining operation, particularly on monitoring the production level and quality of the mines and streamlining the production procedures to enhance production efficiency. Mr. Su was also involved in several merger and acquisition transactions of mines in the PRC in his role as the operation director of an asset management company in Beijing.

Since joining the Group, Mr. Su has been working closely with the senior management of the Group (whose particulars were set out in the prospectus of the Company dated 18 December 2015) who are responsible for handling and overseeing the daily mining businesses and operations of the Group in the PRC and still remain in the employment of the Group, namely, Mr. Xu Chengyin, Mr. Zhang Pingwu, Mr. Qian Shengli and Mr. Chen Jiayang. Mr. Xu Chengyin and Mr. Zhang Pingwu were former executive Directors and have remained in the Group after their respective resignation as executive Directors. Mr. Xu Chengyin is currently the director, chairman and general manager of Wuhu Feishang Non-metal Material Co., Limited* (蕪湖飛尚非金屬材料有限公司), a wholly-owned major operating subsidiary of the Company (the “**Wuhu Subsidiary**”) and Mr. Zhang Pingwu is the director and vice general manager of the Wuhu Subsidiary. Given their former position as executive Directors, Mr. Xu Chengyin and Mr. Zhang Pingwu have been and still remain as key members of the management team of the Group since the initial listing of the Company on the Stock Exchange. They not only have a breadth of experience in the industry but are also well familiarised with the requirements of the Listing Rules and all the internal control procedures and other corporate governance (which were all set up by them) involving the Wuhu Subsidiary.

LETTER FROM THE BOARD

In particular, the Company has implemented various policies, guidelines and internal procedures to govern the business operation of its subsidiaries, including the Wuhu Subsidiary, to ensure that the corporate actions of the subsidiaries of the Company would be in compliance with the Listing Rules. All business plans and forecasts, capital expenditure in excess of a certain amount, the entering into of any contracts not in the ordinary course of business of the Group, for example, all require prior approval of the Company. Regular reports on the business operation and financial performance of the subsidiaries of the Company, including the Wuhu Subsidiary, are required to be provided to the Board for review and consolidation, and for decision making. Further, as disclosed above, the executive Directors and the management teams of the subsidiaries are in close contacts and communicate regularly. Before the travel restrictions were imposed by the PRC government as a result of the COVID-19 pandemic, periodic visits and inspections were also conducted by Mr. Su on the subsidiaries of the Group in the PRC. The Board may also from time to time make enquiries with the management teams of the subsidiaries or request for further documents and information for making assessment and any strategic decision of the subsidiaries.

The current executive Directors have all actively involved themselves in the core businesses of the Group of bentonite mining, production and sales of drilling mud and pelletising clay, where the Board has placed a strong focus and monitors the operation and performance of the business as closely as possible, to ensure and facilitate the smooth running of the subsidiaries. In particular, Mr. Su is stationed in the PRC and attends to the affairs of the Wuhu Subsidiary locally on a regular basis. To strengthen the Company's internal control and to further formalise his role and position in the Wuhu Subsidiary to reflect his responsibilities and involvement in the Wuhu Subsidiary, the Company has resolved to appoint Mr. Su to be the managing director of the Wuhu Subsidiary to participate directly in its daily operation and to oversee its due compliance with the policies, guidelines and internal control procedures set up by the Company.

The Group will continue to collaborate with external institutions in the PRC for the development of new technologies and new bentonite products to cater for high-valued downstream markets other than iron ore pelletising and civil engineering. The Group currently inputs approximately CNY2.7 million per year in the research and design of product development and production technologies. In December 2020, the Group successfully obtained a certificate of high and new technological product for sea cement slurry salt-resistant bentonite.

LETTER FROM THE BOARD

The Group has also attended and participated and intends to continue to attend and participate in industry forums and events-to network with other industry professionals and potential customers. In June 2020, the National Standard of Bentonite – “GB/T 20973-2020” was published and replaced the previous standard “GB/T 20973-2007”. Wuhu Subsidiary was one of the drafting parties of this new Bentonite National Standard. In March 2021, the Company has attended the matchmaking meeting for supply and demand of ceramics (slate/slab) raw materials organised in Guangdong, the PRC. The Group will continue to act as the market leader to provide contribution to the National Standard and the development of bentonite mining as well as product development, and to allocate resources to establish a team to participate more industrial exhibitions to promote the Group’s products and reach potential customers if and when necessary.

The Group will also continue to expand its sales and marketing team to further enhance sales and marketing activities. The Group has 6 employees in the sales department and incurred about CNY445,000 of salaries expenses for sales department and about CNY720,000 marketing fee annually. The Group will adjust the size of its marketing teams and evaluate the efficiency of different marketing channels based on the market condition to ensure optimal use of its resources. The bentonite market in PRC is a competitive market due to the India bentonite producer entering the PRC market in 2021 and the Northern PRC bentonite producer participating in the south PRC market. Maintaining relationship with key customers has become the critical mission for the Company.

The Group will also continue to seek opportunities to recruit more experienced personnel who possess abundant knowledge and rich experience in various aspects of the business, including mine design and construction, mining, processing, sales and marketing and research and development of principal products and to acquire other non-metal mines if any potential suitable targets are identified. Currently, the Group has about 73 (2020: about 81) operating employees in bentonite business. The Group has adopted a strategy to optimise the administration and the production process. After the improvement of the production system, the bentonite production system will rely more on automatic process and reduce the labour intensity. However, the Group is expected to require more experienced personnel to optimise the production system. The costs saved in low-end labour is expected to be offset by the increased cost of experienced personnel.

LETTER FROM THE BOARD

Regarding the acquisition of potential suitable non-metal mines, the Group has been continuously searching for the opportunity to expand its investment portfolio in non-metal mines. As at the Latest Practicable Date, the Company has not yet identified any such acquisition targets given that the global economy continues to be impacted by the COVID-19 pandemic. The acquisition of a raw non-metal mine is usually relatively high risk and requires high/complicated mining process. The Group currently targets to acquire mature business operator as the Group has relatively competitive advantage on financing as a result of its listing status. When assessing potential acquisition targets, the Company would conduct due diligence and valuation (for targets with high potential) consider their enterprise value, financial background, turnover ratio, gross profit margin, return on asset, debt-to-equity ratio, estimated inventory value of the mine, type of mine, location of operation, prospects, mining output levels, mining capacity and utilisation rate, mining and other licence record, regulatory and compliance record...etc. There may be non-metal mining companies lacking sufficient funding and have going concern problem as a result of the COVID-19 pandemic. The Company considers that it may be a suitable time for the Group to acquire the valuable business at a relatively lower cost due to the lack of bargaining power of these companies. The management of the Group will continue to search for the potential acquisition targets. Taking into account the prevalent demand in the market and the production needs of the Group, the Company may also consider upgrading current processing plant by, among others, purchasing new processing equipment such as Raymond mill, modifying the rotary drum dryer and construction of new storage bins for storing pelletising clay.

As at the Latest Practicable Date, the cash reserves of the Group in the PRC and the net profit generated from the business operations in the PRC are sufficient to cover the funding needs of the core businesses of bentonite mining, production and sales of drilling mud and pelletising clay of the Group in the PRC. If required, the financial resources currently allocated for the financial guarantee contracts entered into by the Wuhu Subsidiary may be applied for the mining business of the Group. As such, the net proceeds of the proposed Rights Issue would be applied according to the breakdown set out in the paragraph headed “Reasons for the Rights Issue and use of proceeds” under the section headed “Proposed Rights Issue” in this circular and there is no need to allocate any portion to the mining business of the Group.

LETTER FROM THE BOARD

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there is no other change in the number of Shares in issue save for the Share Consolidation from the Latest Practicable Date up to and including the date of completion of the Rights Issue, the table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective; and (iii) immediately after completion of the Rights Issue:

	As at the Latest Practicable Date		Immediately after the Share Consolidation becoming effective		Assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue		Immediately after completion of the Rights Issue Assuming no Qualifying Shareholders (save for the Underwriter and Dr. Chan) take up their respective entitlements under the Rights Issue and the remaining Unsubscribed Rights Shares and the NQS Unsold Rights Shares are fully placed to the Places under the Compensatory Arrangements		Assuming no Qualifying Shareholders (save for the Underwriter and Dr. Chan) take up their respective entitlements under the Rights Issue and the NQS Unsold Rights Shares (save for the Underwritten Placing Shares) are taken up by the Underwriter	
	No. of Existing Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %
The Underwriter (Note 1, Note 2)	125,000,000	15.71	12,500,000	15.71	25,000,000	15.71	25,000,000	15.71	85,153,400	53.52
Dr. Chan (Note 1)	33,410,000	4.20	3,341,000	4.20	6,682,000	4.20	6,682,000	4.20	6,682,000	4.20
Subtotal of the Underwriter and parties acting in concert with it	158,410,000	19.91	15,841,000	19.91	31,682,000	19.91	31,682,000	19.91	91,835,400	57.72
Zhang Qiang	275,000,000	34.57	27,500,000	34.57	55,000,000	34.57	27,500,000	17.28	27,500,000	17.28
P.B. Capital Advanced Fund SPC- P.B. Capital Advanced Fund 1 Segregated Portfolio (Note 3)	111,762,000	14.05	11,176,200	14.05	22,352,400	14.05	11,176,200	7.02	11,176,200	7.02
Other public Shareholders (Note 4)	250,400,000	31.47	25,040,000	31.47	50,080,000	31.47	88,756,200	55.78	28,602,800	17.98
Subtotal of the Public Shareholders	250,400,000	31.47	25,040,000	31.47	50,080,000	31.47	99,932,400	62.81	39,779,000	25.00
Total	795,572,000	100.00	79,557,200	100.00	159,114,400	100.00	159,114,400	100.00	159,114,400	100.00

Notes:

- As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui, both of whom are executive Directors. Dr. Chan is also beneficially interested in 33,410,000 Existing Shares.
- The Company will take all appropriate steps to ensure that sufficient public float be maintained upon completion of the Rights Issue in compliance with Rule 11.23(7) of the GEM Listing Rules. In the event that the underwritten Rights Shares that the Underwriter has taken up pursuant to its obligations under the Underwriting Agreement upon completion of the Rights Issue would result in public float of the Company not being maintained, the Company and/or the Underwriter will take necessary action to place down the Shares held by the Underwriter such that sufficient public float could be maintained in compliance with Rule 11.23(7) of the GEM Listing Rules.

LETTER FROM THE BOARD

3. P.B. Capital Advanced Fund SPC – P.B. Capital Advanced Fund 1 Segregated Portfolio is a segregated portfolio company incorporated in the Cayman Islands. Save for being the beneficial owner of 111,762,000 Existing Shares, representing approximately 14.05% of the total issued share capital of the Company as at the Latest Practicable Date, it (i) is independent of and not acting in concert or connected with the Company and its connected persons or any of their respective associates; (ii) does not have any relationship with the Underwriter or parties acting in concert with it or any of their respective associates; and (iii) is managed by a third party independent of and not acting in concert or connected with the Company or the Underwriter, or any of their respective connected persons or associates.
4. Other public Shareholders include the placees under the Compensatory Arrangements for the purpose of illustrating the shareholding structure immediately after completion of the Rights Issue assuming no Qualifying Shareholders (save for the Underwriter and Dr. Chan) take up their respective entitlements under the Rights Issue and the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are placed to the placees under the Compensatory Arrangements.
5. Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

LISTING RULES IMPLICATIONS

In accordance with Rule 10.29 of the GEM Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the EGM by a resolution on which any controlling shareholders and their associates shall abstain from voting in favour under Rule 10.29(1) of the GEM Listing Rules. As at the Latest Practicable Date, Mr. Zhang Qiang is a controlling shareholder which owns 275,000,000 Shares, representing approximately 34.57% of the issued share capital of the Company, as such he and his associates shall abstain from voting in favour of the resolutions to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively at the EGM.

As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui, is beneficially interested in 125,000,000 Existing Shares, representing approximately 15.71% of the total issued share capital of the Company and is a substantial shareholder of the Company. As such, the Underwriter is a connected person of the Company under Chapter 20 of the GEM Listing Rules and the transactions contemplated under the Underwriting Agreement constitute connected transactions for the Company under the GEM Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Underwriter complies with Rule 10.24A(2) of the GEM Listing Rules.

LETTER FROM THE BOARD

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it (comprising the Underwriter, Dr. Chan and Mr. Pui), taken together, in aggregate, hold 158,410,000 Shares, representing approximately 19.91% of the issued share capital of the Company. Pursuant to the Irrevocable Undertakings, each of the Underwriter and Dr. Chan has provided irrevocable and unconditional undertakings to the Company that (a) all the above 158,410,000 Existing Shares held by them in aggregate will continue to be beneficially owned by them on the Record Date; and (b) each of them will accept and pay for all the 15,841,000 Rights Shares to be provisionally allotted to them in aggregate under the Rights Issue pursuant to the terms and conditions of the Prospectus Documents.

If there is no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) and no placement is made under the Compensatory Arrangements save for the Underwritten Placing Shares, the Underwriter will be required to take up the Underwritten Shares. In such circumstances and upon completion of the Rights Issue, assuming there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the Underwriter and parties acting in concert with it will, in aggregate, be interested in 91,835,400 Consolidated Shares, representing approximately 57.72% of the issued share capital of the Company as enlarged by the issue of the Rights Shares. Accordingly, the Underwriter and parties acting in concert with it would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it, unless the Whitewash Waiver is granted by the Executive. Neither the Underwriter nor any parties acting in concert with it has dealt in any relevant securities of the Company in the 6-month period preceding the date of the Announcement.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, which, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively. The Underwriter, its associates and parties acting in concert with it, and any Shareholders who are involved in, or interested in the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions at the EGM.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company believes that the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver would not give rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Rights Issue does not comply with other applicable rules and regulations.

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

If the Whitewash Waiver is granted and approvals by the Independent Shareholders are obtained as mentioned above, upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the maximum potential holding of voting rights of the Underwriter in the Company will exceed 50%. The Underwriter may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

EGM

The register of members of the Company will be closed from Thursday, 21 October 2021 to Tuesday, 26 October 2021 (with both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM. Shareholders whose names appear on the Company's register of members on Tuesday, 26 October 2021 will be eligible for attending and voting at the EGM. In order to be eligible for attending and voting at the EGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong Time) on Wednesday, 20 October 2021. A notice convening the EGM to be held at Room 402A, 4/F, Park Commercial Centre, 180 Tung Lo Wan Road, Causeway Bay, Hong Kong at 2:30 p.m. on Tuesday, 26 October 2021 is set out on pages EGM-1 to EGM-6 of this circular.

LETTER FROM THE BOARD

The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the Share Consolidation; (ii) the Rights Issue (iii) the Placing Agreement; (iv) the Underwriting Agreement; and (v) the Whitewash Waiver. As none of the Shareholders or their respective associates would have any interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution relating to the Share Consolidation at the EGM, but only the Independent Shareholders will be allowed to vote on the resolutions to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver at the EGM.

In accordance with the GEM Listing Rules and the Takeovers Code, (i) the Underwriter and its associates; (ii) any parties acting in concert with the Underwriter; (iii) the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates; (iv) Mr. Zhang Qiang and his associates; and (v) Shareholders who are involved in, or interested in, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and/or the Whitewash Waiver, including but not limited to the Underwriter and parties acting in concert with it, will be required to abstain from voting on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver at the EGM.

Save as disclosed above, no other Shareholder is involved or interested in the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver and, hence, is required to abstain from voting on the resolution(s) in relation to the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver at the EGM. Pursuant to the Takeovers Code, the resolutions to approve the Whitewash Waiver must be approved by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at the EGM. As Dr. Chan and Mr. Pui have a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver, they were required to abstain and had abstained from voting on the resolutions approving the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver at the meeting of the Board.

As at the Latest Practicable Date, the Company has not received any irrevocable commitments to accept or reject the Rights Shares or to vote for or against the Rights Issue and/or the Whitewash Waiver.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed with this circular. Whether or not the Shareholders are able to attend the EGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should the Shareholders so wish.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Yip Chong Ho Eric, Mr. Chow Chi Hang Tony and Mr. Zhang Kun, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver, and as to the voting action therefor. Alliance Capital Partners Limited has been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in these regards.

DESPATCH OF THE PROSPECTUS DOCUMENT

Subject to, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver having been approved by the Independent Shareholders at the EGM and upon the Share Consolidation becoming effective, the Company will despatch the Prospectus Documents to the Qualifying Shareholders. The Company will despatch the Prospectus to the Non-Qualifying Shareholders for their information only but the Company will not send the PAL to the Non-Qualifying Shareholders.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the members of the Independent Board Committee whose views in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver after taking into account the advice of the Independent Financial Adviser are further set out in the letter from the Independent Board Committee in this circular) consider that the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, the Whitewash Waiver is fair and reasonable, and the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee whose views in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver after taking into account the advice of the Independent Financial Adviser are further set out in the letter from the Independent Board Committee in this circular) recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the EGM to approve the Share Consolidation, the Rights Issue, the Underwriting Agreement, the Placing Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 64 to 65 of this circular which contain its recommendation to the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash Waiver. Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 66 to 109 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the aforesaid regards.

Your attention is also drawn to the additional information contained in the appendices to this circular.

LETTER FROM THE BOARD

WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among other things, the fulfilment of the conditions contained in the Underwriting Agreement (including the approval by the Independent Shareholders at the EGM of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver) and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the section headed “Termination of the Underwriting Agreement” of this circular). Accordingly, the Rights Issue may or may not proceed.

The Consolidated Shares are expected to be dealt in on an ex-rights basis from Friday, 29 October 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Thursday, 11 November 2021 to Friday, 19 November 2021. Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or the Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Existing Shares, the Consolidated Shares or in the nil-paid Rights Shares until all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, the Consolidated Shares or the nil-paid Rights Shares.

By Order of the Board
P.B. Group Limited
Dr. CHAN Man Fung
Executive Director and Co-chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver, which has been prepared for the purpose of inclusion in this circular.



(incorporated in Cayman Islands with limited liability)
(Stock code: 8331)

Registered office:

71 Fort Street

P.O. Box 500, George Town

Grand Cayman KY1-1106

Cayman Islands

Principal place of

business in Hong Kong:

Room 402A, 4/F

Park Commercial Centre

180 Tung Lo Wan Road

Causeway Bay, Hong Kong

4 October 2021

To the Independent Shareholders

Dear Sir or Madam,

**(I) PROPOSED SHARE CONSOLIDATION;
(II) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY
ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE;
(III) CONNECTED TRANSACTION IN RELATION
TO THE UNDERWRITING AGREEMENT; AND
(IV) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular dated 4 October 2021 of the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used herein shall have the same meaning as those defined in the Circular unless the context otherwise requires.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder are on normal or better commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole, as to whether the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders as a whole and to recommend how the Independent Shareholders should vote at the EGM. The Independent Financial Adviser has been appointed as the independent financial adviser to advise us and the Independent Shareholders in these regards. Details of the advice of the Independent Financial Adviser, together with the principal factors it has taken into consideration on giving its advice, are contained in its letter set out on pages 66 to 109 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having taken into account the advice of the Independent Financial Adviser, we consider that the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement and transactions contemplated thereunder, while not in the ordinary and usual course of business of the Group, are on normal or better commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We also consider that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

Yip Chong Ho Eric
Independent
non-executive Director

Chow Chi Hang Tony
Independent
non-executive Director

Zhang Kun
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser in connection with the Transactions which has been prepared for inclusion in this Circular.



Alliance Capital Partners Limited
同人融資有限公司

4 October 2021

*To: The Independent Board Committee of
P.B. Group Limited*

Dear Sirs and Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to Independent Board Committee and Independent Shareholders with respect to the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively and the Whitewash Waiver (collectively, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 4 October 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

Reference is made to the Announcement in relation to, among other things, the Share Consolidation, the Rights Issue, the Placing Agreement, the Underwriting Agreement and the Whitewash waiver. Conditional on, among other things, the Share Consolidation having become effective, the Board proposes to implement the Rights Issue on the basis of one (1) Rights Share for every one (1) Consolidated Share held on the Record Date at the Subscription Price of HK\$0.35 per Rights Share, to raise gross proceeds of approximately HK\$27.8 million before expenses (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), by way of the Rights Issue of 79,557,200 Rights Shares to the Qualifying Shareholders. The Rights Issue is only available to the Qualifying Shareholders and will not be available to the Non-Qualifying Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As mentioned in the Letter from the Board, pursuant to the Irrevocable Undertakings, the Underwriter, which is beneficially interested in 125,000,000 Existing Shares as at the Latest Practicable Date, and Dr. Chan, who is beneficially interested in 33,410,000 Existing Shares as at the Latest Practicable Date, have provided irrevocable and unconditional undertakings to the Company that (a) all the above Shares held by them will continue to be beneficially owned by each of them on the Record Date; and (b) each of them will accept and pay for all the Rights Shares to be provisionally allotted to each of them under the Rights Issue pursuant to the terms and conditions of the Prospectus Documents.

On 16 July 2021 (after trading hours and supplemented on 30 September 2021), the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Placing Agent has agreed to procure placee(s), to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares. The placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) shall be not less than the Subscription Price. The final price will be determined based on the demand for the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares and market conditions during the process of the Placing.

On 16 July 2021 (after trading hours and supplemented on 30 September 2021), the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue, pursuant to which the Underwriter has conditionally agreed to underwrite 60,153,400 Rights Shares (being all of the Rights Shares under the Rights Issue other than the 15,841,000 Rights Shares that have been undertaken to be subscribed by the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) on the terms and subject to the conditions set out in the Underwriting Agreement.

In accordance with Rule 10.29 of the GEM Listing Rules, as the Rights Issue will increase the issued shares of the Company by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the EGM by a resolution on which any controlling shareholders and their associates shall abstain from voting in favour under Rule 10.29(1) of the GEM Listing Rules. As at the Latest Practicable Date, Mr. Zhang Qiang is a controlling shareholder who owns 275,000,000 Existing Shares, representing approximately 34.57% of the issued share capital of the Company, as such he and his associates shall abstain from voting in favour of the resolutions to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui (both being executive Directors), is beneficially interested in 125,000,000 Existing Shares, representing approximately 15.71% of the total issued share capital of the Company and is a substantial shareholder of the Company. As such, the Underwriter is a connected person of the Company under Chapter 20 of the GEM Listing Rules and the transactions contemplated under the Underwriting Agreement constitute connected transactions for the Company under the GEM Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it (comprising the Underwriter, Dr. Chan and Mr. Pui), taken together, in aggregate, hold 158,410,000 Shares, representing approximately 19.91% of the issued share capital of the Company.

If there is no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) and no placement is made under the Compensatory Arrangements save for the Underwritten Placing Shares, the Underwriter will be required to take up the Underwritten Shares. In such circumstances and upon completion of the Rights Issue, assuming there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the Underwriter and parties acting in concert with it will, in aggregate, be interested in 91,835,400 Consolidated Shares, representing approximately 57.72% of the issued share capital of the Company as enlarged by the issue of the Rights Shares. Accordingly, the Underwriter and parties acting in concert with it would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it, unless the Whitewash Waiver is granted by the Executive.

As mentioned in the Letter from the Board, an application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among others, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder respectively.

The Rights Issue is conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval by the Independent Shareholders at the EGM in respect of the Transactions. If the Whitewash Waiver is not granted and/or approval by the Independent Shareholders are not obtained, the Rights Issue will not proceed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Yip Chong Ho Eric, Mr. Chow Chi Hang Tony and Mr. Zhang Kun, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transactions, and as to the voting at the EGM. We have been appointed by the Company with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

INDEPENDENCE

We are not associated or connected with the Company, the Underwriter, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we consider ourselves eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Underwriter, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, the Underwriter or subsidiaries or associates of any of them, nor have we carried out any independent verification of the information supplied. Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us by the Company in which event this letter shall be amended and updated.

We have not considered the tax implications on the Group or the Independent Shareholders as a result of the Transactions since such investment decisions depend on their individual circumstances. In particular, the Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Transactions, we have considered the following principal factors and reasons:

1. Information on the Group

The Company was incorporated in Cayman Islands with limited liability and the Shares are listed on the GEM of the Stock Exchange. The Group is principally engaged in (i) bentonite mining; (ii) the production and sales of drilling mud and pelletising clay; and (iii) financial service business, including money lending business and wealth management services in Hong Kong as well as generating financial guarantee fee income in the PRC. For money lending business, the Group mainly provides personal loans and corporate loans. For wealth management business, the Group mainly offers brokerage services in respect of long term insurance such as individual life and annuity, MPF schemes, and general insurance such as travel insurance and motor vehicle insurance. The Group is required to have the relevant licence from the Insurance Authority in order to carry out the general and long term insurance business, while the Group is required to register as the principal intermediaries with the Mandatory Provident Fund Schemes Authority in order to carry out the brokerage services in relation to the MPF schemes. Under section 64ZZD of the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) (the “**Insurance Ordinance**”), within 1 month after the date on which a person becomes, or ceases to be, a partner, director or controller of a licensed insurance agency/licensed insurance broker company (as the case may be), the agency/broker company must notify the Insurance Authority in writing of that fact. According to section 64F of the Insurance Ordinance, a controller in relation to a company, means a person who (i) owns or controls, directly or indirectly, including through a trust or bearer share holding, not less than 15% of the issued share capital of the company; (ii) is, directly or indirectly, entitled to exercise or control the exercise of not less than 15% of the voting rights at general meetings of the company; or (iii) exercises ultimate control over the management of the company. As advised by the management of the Company (the “**Management**”), the Group has notified the Insurance Authority of the change in control as a result of the acquisition of subsidiary (i.e. Nikyo as defined below) in November 2020. In the event that after completion of the Rights Issue, assuming no Qualifying Shareholders (save for the Underwriter and Dr. Chan) take up their respective entitlements under the Rights Issue and the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (save for the Underwritten Placing Shares) are taken up by the Underwriter, resulting in (i) the interests of the Underwriter increasing from approximately 15.71% to over 50%; and (ii) the interests of Mr. Zhang Qiang decreasing to approximately 17.28%, no further notification to the Insurance Authority is required as the shareholding interests of the Underwriter and Mr. Zhang Qiang (both being existing controllers as defined in the Insurance Ordinance) would not go below the notifiable threshold under the Insurance Ordinance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are extracts of consolidated statement of profit or loss, and consolidated statement of financial position of the Group for the two years ended 31 December 2020 as extracted from the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”), and for the six months ended 30 June 2020 and 30 June 2021 as extracted from the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”):

Table 1: Extracts of consolidated statement of profit or loss of the Group

	For the year ended 31 December		For the six months ended 30 June	
	2019	2020	2020	2021
	CNY'000	CNY'000	CNY'000	CNY'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
– Bentonite mining				
(i) Drilling mud	20,351	14,281	5,354	9,041
(ii) Pelletising clay	<u>37,748</u>	<u>37,936</u>	<u>15,494</u>	<u>19,669</u>
Subtotal	<u>58,099</u>	<u>52,217</u>	<u>20,848</u>	<u>28,710</u>
– Financial service business				
(i) Wealth management service income	– (note 1)	2,097	– (note 1)	3,157
(ii) Loan interest income	– (note 1)	263	– (note 1)	554
(iii) Guarantee service fee income	– (note 2)	<u>1,150</u>	<u>566</u>	<u>566</u>
Subtotal	<u>–</u>	<u>3,510</u>	<u>566</u>	<u>4,277</u>
Total Revenue	<u>58,099</u>	<u>55,727</u>	<u>21,414</u>	<u>32,987</u>
Gross profit	29,946	29,365	10,710	15,414
Profit/(loss) for the year/period	<u>7,408</u>	<u>7,203</u>	<u>(1,074)</u>	<u>(591)</u>

Notes:

1. No income from wealth management service and loan interest was booked for FY2019 and 1H2020 as the Company only acquired Nikyo and P.B. Investment (as defined below) in November 2020.
2. The guarantee service fee income of approximately CNY1.1 million was recorded as other income for FY2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December		For the six months ended 30 June	
	2019	2020	2020	2021
	%	%	%	%
	(audited)	(audited)	(unaudited)	(unaudited)
Percentage of total Revenue				
– Bentonite mining				
(iii) Drilling mud	35.0	25.6	25.0	27.4
(iv) Pelletising clay	<u>65.0</u>	<u>68.1</u>	<u>72.4</u>	<u>59.6</u>
Subtotal	<u>100.0</u>	<u>93.7</u>	<u>97.4</u>	<u>87.0</u>
– Financial service business				
(iv) Wealth management service income	–	3.8	–	9.6
(v) Loan interest income	–	0.5	–	1.7
(vi) Guarantee service fee income	<u>–</u>	<u>2.0</u>	<u>2.6</u>	<u>1.7</u>
Subtotal	<u>–</u>	<u>6.3</u>	<u>2.6</u>	<u>13.0</u>
Total	<u><u>100.0</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>

Table 2: Extracts of consolidated statement of financial position of the Group

	As at 31 December		As at 30 June
	2019	2020	2021
	CNY'000	CNY'000	CNY'000
	(audited)	(audited)	(unaudited)
Total assets	109,980	129,323	125,851
Property, plant and equipment	15,470	15,422	14,668
Trade, bills and other receivables	14,483	38,997	32,494
Pledged bank deposit	20,000	20,000	20,000
Bank balances and cash	39,158	31,513	33,538
Total liabilities	29,813	36,005	33,141
Trade and other payables	18,922	22,397	21,541
Net assets	80,167	93,318	92,710

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2020

The Group recorded revenue of approximately CNY55.7 million for the year ended 31 December 2020 (“**FY2020**”), representing a slight decrease of approximately 4.1% as compared to that of approximately CNY58.1 million for the year ended 31 December 2019 (“**FY2019**”). The revenue of the Group was comprised of the following segments:

- (a) For bentonite mining, the revenue generated from the sale of drilling mud decreased by approximately 29.8% from approximately CNY20.4 million for FY2019 to approximately CNY14.3 million for FY2020 and the revenue generated from the sale of pelletising clay slightly increased by approximately 0.5% from approximately CNY37.7 million for FY2019 to approximately CNY37.9 million for FY2020. Thus, the Group recorded a decrease in the revenue generated from bentonite mining by approximately 10.1% from approximately CNY58.1 million for FY2019 to approximately CNY52.2 million for FY2020. As disclosed in the 2020 Annual Report, such decrease was mainly due to (i) the decrease in sales volume of drilling mud; and (ii) the decrease in average selling price of pelletising clay, which was partly offset by the increase in sales volume of pelletising clay.
- (b) For financial service business, the Company newly acquired the subsidiaries, Nikyo Insurance Brokers Limited (“**Nikyo**”) and P.B. Investment Limited (“**P.B. Investment**”), in November 2020. Nikyo carries out general insurance and long term (including linked long term) insurance brokerage services and MPF Schemes brokerage services. P.B. Investment engaged in provision of short-term to long-term personal and corporate loans. Accordingly, the Group recorded approximately CNY3.5 million in the revenue generated from the financial service business for FY2020 which comprises of (i) the wealth management service income of approximately CNY2.1 million for FY2020; (ii) the loan interest income of approximately CNY0.3 million for FY2020; and (iii) the guarantee service fee income of approximately CNY1.2 million for FY2020, which remained stable as compared to that of approximately CNY1.1 million for FY2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded a decrease in gross profit of approximately 1.9% from approximately CNY29.9 million for FY2019 to approximately CNY29.4 million for FY2020 but an increase in the gross profit margin from approximately 51.5% for FY2019 to approximately 52.7% for FY2020. As disclosed in the 2020 Annual Report, the overall gross profit of bentonite mining decreased by approximately 8.6% from approximately CNY29.9 million for FY2019 to approximately CNY27.4 million for FY2020, which was mainly due to the decrease in gross profit for the sale of drilling mud as a result of the decrease in sales volume by approximately 30.2%, while the overall gross profit margin of bentonite mining increased from approximately 51.5% for FY2019 to approximately 52.4% for FY2020, which was primarily attributable to the combined effect of a decrease in gross profit margin of drilling mud and an increase in gross profit margin of pelletising clay.

We note that the Group recorded a decrease in the profit and total comprehensive income for the year of approximately 2.8% from approximately CNY7.4 million for FY2019 to approximately CNY7.2 million in FY2020. As disclosed in the 2020 Annual Report, the decline in the profit of the Group for the year was mainly due to (i) the decrease in revenue in bentonite mining of approximately 10.1% or approximately CNY5.9 million for FY2020 as compared to that for FY2019, as the bentonite mining was under the restriction by the Chinese government during the first quarter of FY2020 as a result of the outbreak of the COVID-19; (ii) the legal and professional fees increased by approximately CNY1.4 million as higher professional fees relating to the failure of the suppliers to refund the trade deposits to the Company were incurred; and (iii) gain on bargain purchase of approximately CNY2.0 million as a result of completion of acquisition of subsidiaries (which are principally engaged in money lending business and wealth management business, including long term insurance and general insurance lines of business and MPF Schemes brokerage business) in FY2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the six months ended 30 June 2021

The Group recorded revenue of approximately CNY33.0 million for the six months ended 30 June 2021 (“1H2021”), representing an increase of approximately 54.0% as compared to that of approximately CNY21.4 million for the six months ended 30 June 2020 (“1H2020”). The revenue of the Group was comprised of the following segments:

- (a) For bentonite mining, the revenue generated from the sale of drilling mud increased by approximately 68.9% from approximately CNY5.4 million for 1H2020 to approximately CNY9.0 million for 1H2021 and the revenue generated from the sale of pelletising clay increased by approximately 26.9% from approximately CNY15.5 million for 1H2020 to approximately CNY19.7 million for 1H2021. Thus, the Group recorded an increase in the revenue generated from bentonite mining by approximately 37.7% from approximately CNY20.8 million for 1H2020 to approximately CNY28.7 million for 1H2021. As disclosed in the 2021 Interim Report, such increase was mainly due to the increase in sales volume of both drilling mud and pelletising clay.
- (b) For financial service business, as the subsidiaries, Nikyo and P.B. Investment, were newly acquired by the Company in November 2020, the Group recorded approximately CNY4.3 million in the revenue generated from the financial service business for 1H2021 which comprises of (i) the wealth management service income of approximately CNY3.2 million for 1H2021; (ii) the loan interest income of approximately CNY0.6 million for 1H2021; and (iii) the guarantee service fee income of approximately CNY0.6 million for 1H2021.

The Group recorded an increase in gross profit of approximately 43.9% from approximately CNY10.7 million for 1H2020 to approximately CNY15.4 million for 1H2021 but a decrease in the gross profit margin from approximately 50.0% for 1H2020 to approximately 46.7% for 1H2021. As disclosed in the 2021 Interim Report, the increase in the overall gross profit was mainly due to (i) the contribution of revenue of financial service business and (ii) the increase in sales volume of both pelletising clay and drilling mud. The decrease in overall gross profit margin was mainly caused by the (i) decrease in the average selling price of pelletising clay, (ii) increase in unit cost of sales of pelletising clay and (iii) the lower gross profit margin of financial service business, which were partly offset by the increase in the average selling price of drilling mud. The lower gross profit margin of financial service business for 1H2021 was mainly due to (i) the Group recorded 100% for the gross profit margin in respect of the guarantee service fee income in 1H2020, which was the only source of income for financial service business during the same period; and (ii) the Group incurred relevant commission expense paid to the insurance agents in respect of the insurance brokerage service offered for wealth management services for 1H2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the Group recorded a decrease in the loss and total comprehensive loss for the period of approximately CNY0.5 million from approximately CNY1.1 million for 1H2020 to approximately CNY0.6 million for 1H2021. As disclosed in the 2021 Interim Report, such decrease was mainly due to the increase in revenue and gross profit as discussed above.

Prospects and outlook of the Group and the industry in which the Group operates

(a). Bentonite Mining

Both the production volume of bentonite and the demand for bentonite in China has been relatively stable in recent years. In 2019, the production volume of bentonite and its demand are approximately 5.6 million tons and 5.5 million tons, respectively. Notwithstanding the pelletizing, casting and drilling business has been weakened as influenced by the government policy in relation to environmental protection (e.g. 土地復墾條例 (Regulations on Land Rehabilitation*) and 土地復墾條例實施辦法 (Implementing Measures of Regulations on Land Rehabilitation*)) such as stabilizing the slope of the mine, ensuring the drainage ditch being unblocked, and rehabilitating the land in the mine area, which will increase the cost of operating the mine of the Group, bentonite can be widely used in various sectors, such as construction sector and chemical sector. During the first quarter of 2021, the PRC's gross domestic product ("GDP") grew at a rate of 18.3% year-on-year. This is a major rebound following the historic contraction of the economy caused by the COVID-19. In particular, Bentonite's downstream industries including the iron and steel and energy sectors enjoyed the growth. According to the National Bureau Statistics, the iron sector demonstrated a growth of 2.3% for the first seven months of 2021 as compared to the corresponding period of 2020, while the steel sector experienced a growth of 10.5% for the first seven months of 2021 as compared to the corresponding period of 2020. The energy sector enjoyed a growth of 13.4% for the first seven months of 2021 as compared to the corresponding period of 2020.

We have discussed with the Management and noted that the quantity in respect of the bentonite products for year 2021 set out in the framework agreements that the Group entered into with its customers are at least the same quantity that the Group sold in year 2020. Having considered the above, we are of the view that the Group has maintained its competitiveness in the bentonite business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b). Financial Services

Wealth management business

Based on the provisional statistics published by the Insurance Authority, the total gross premiums for Hong Kong insurance industry increased from approximately HK\$580.2 billion for 2019 to approximately HK\$608.4 billion for 2020, representing a growth of approximately 4.9%.

The total revenue premiums of in-force long term business (i.e., the total amount of revenue received for the active policy in relation to long term insurance segment which mainly includes individual life and annuity business; and retirement scheme business) increased from approximately HK\$524.6 billion for 2019 to approximately HK\$548.1 billion for 2020, representing a growth of 4.5%. The growth was mainly comprised of (i) an increase from approximately HK\$457.1 billion for 2019 to approximately HK\$463.9 billion for 2020 in individual life and annuity (non-investment-linked) business, representing a growth of 1.5%; (ii) a slight increase of 0.1% for individual life and annuity (investment-linked) business, which was approximately HK\$27.7 billion for 2020; and (iii) an increase from approximately HK\$33.8 billion in 2019 to approximately HK\$50.7 billion for 2020 for retirement scheme business, representing a growth of approximately 50.3%.

On the other hand, the total amount for new office premiums (excluding the retirement scheme) of long term business (the “**New Office Premiums**”) (i.e., the total amount of premiums received for the new insurance policy which mainly includes individual life and annuity business) declined from approximately HK\$172.7 billion for 2019 to approximately HK\$133.4 billion for 2020, representing a decrease of approximately 22.8%. The New Office Premiums were made up of (i) a decrease of 25% in individual life and annuity (non-investment-linked) business from approximately HK\$160.4 billion for 2019 to approximately HK\$120.2 billion for 2020; and (ii) an increase of 8.5% for investment-linked business from approximately HK\$11.8 billion for 2019 to approximately HK\$12.8 billion for 2020. We noted that there is a significant decrease in the total amount of New Office Premiums bought by Mainland visitors in 2020, from approximately HK\$43.4 billion in 2019 to approximately HK\$6.8 billion in 2020, representing approximately 84.3% decrease.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The total revenue premiums of in-force long term business decreased from approximately HK\$146.7 billion for the first quarter of 2020 (“Q1 2020”) to approximately HK\$139.1 billion for the first quarter of 2021 (“Q1 2021”), representing a decrease of 5.2%. The decline was mainly comprised of (i) a decrease from approximately HK\$124.4 billion for Q1 2020 to approximately HK\$113.3 billion for Q1 2021 in individual life and annuity (non-linked) business, representing a decline of 8.9%; (ii) a significant increase of 48.4% for individual life and annuity (linked) business from approximately HK\$6.4 billion for Q1 2020 to approximately HK\$9.5 billion for Q1 2021; and (iii) a slight increase from approximately HK\$13.9 billion for Q1 2020 to approximately HK\$14.4 billion for Q1 2021 for retirement scheme business, representing a growth of 3.6%.

Notwithstanding the decrease in the total revenue premiums of in-force long term business for Q1 2021, there is a rebound for the total amount of New Office Premiums for Q1 2021 of approximately HK\$40.7 billion as compared to that of Q1 2020 of approximately HK\$35.1 billion, which represents a growth of approximately 16.1%. This growth was mainly comprised of (i) an increase of approximately 5.7% for individual and life and annuity (non-linked) business from approximately HK\$32.5 billion for Q1 2020 to approximately HK\$34.3 billion for Q1 2021; and (ii) a substantial increase of approximately 153.2% for linked business from approximately HK\$2.5 billion for Q1 2020 to approximately HK\$6.3 billion for Q1 2021.

As advised by the Management, the long term insurance business of the Group underperformed the market with a decline of approximately 35.8% from 2019 to 2020. The decrease was mainly attributable to the reduction in the New Office Premiums bought by Mainland visitors due to the travel restriction between Hong Kong and the PRC as a result of COVID-19 pandemic as certain of the Group’s significant customers for the long term business were resided in Mainland or from the PRC. The Company has then put more focus on Hong Kong clients for the long term insurance business.

The general business of Hong Kong insurance business demonstrated a growth of 8.3% for the gross premiums from approximately HK\$55.7 billion for 2019 to approximately HK\$60.3 billion for 2020. The total amount for the gross premium remained stable at approximately HK\$18.3 billion for both Q1 2020 and Q1 2021. Overall, the general business is relatively stable for Q1 2021 as compared to that of Q1 2020.

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Set out below is the summary of the number of accounts with respect to mandatory provident fund scheme (the “MPF”) which was published by Mandatory Provident Fund Schemes Authority:

Types of accounts	As at			As at		
	31 December	31 December	% change	31 March	31 March	% change
	2019	2020		2020	2021	
	('000)	('000)	%	('000)	('000)	%
Contribution accounts	4,242	4,365	2.9	4,177	4,341	3.9
Personal accounts	5,834	5,916	1.4	5,872	5,939	1.1
Tax-deductible voluntary contribution accounts (“TDVCA”)	24	44	83.3	38	53	39.5

As shown in the above table, the total number of contribution accounts, the personal accounts and the TDVCA demonstrated a growth of approximately 2.9%, 1.4% and 83.3%, respectively, at the end of 2020 as compared to that of the end of 2019. Furthermore, the total number of contribution accounts, the personal accounts and the TDVCA demonstrated a growth of approximately 3.9%, 1.1% and 39.5%, respectively, at the end of the first quarter of 2021 as compared to that of the end of first quarter of 2020.

Money lending business

According to the results of the survey on the small and medium-sized enterprises (the “SMEs”)’ credit conditions for the first quarter of 2021 which was published by Hong Kong Monetary Authority, the number of respondents reporting a tighter banks’ stance on existing credit lines increases to 7% for the first quarter of 2021 as compared to 5% of that for the previous quarter. Besides, it is reported that among the new bank credit applications from SMEs, the number of unsuccessful applications increased from 7% for the fourth quarter of 2020 to 8% for the first quarter of 2021.

Both the further tightening banks’ stance on existing credit lines and the increase in difficulties in obtaining new bank credit may provide a business opportunity for other money lending institutions such as the Company as the unsuccessful applicants may switch to these money lending institutions to obtain financing.

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As disclosed in section headed “Business Trend and Financial and Trading Prospect” in Appendix I of the Circular, with the expectation of increasing awareness in wealth management in recent years, the Group remains cautiously optimistic in the medium and long-term development of financial service business in Hong Kong. Given that (i) the insurance business has demonstrated an overall growth with a rebound for the long term business couples with the relatively stable general business; and (ii) the further tightening banks’ stance on existing credit lines and the increase in difficulties in obtaining new bank credit may provide a business opportunity for other money lending institutions, the future prospect of the Group on the financial service business would depend on the Group’s ability to capture the growth in wealth management business and the opportunities in money lending business. As advised by the Management, the financial service business was able to demonstrate growth as evidenced by the increase in revenue of approximately 4.2% for 1H2021 as compared to that for 1H2020.

2. Information on the Underwriter

With reference to the Letter from the Board, the Underwriter is a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding. As at the Latest Practicable Date, the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui (both being executive Directors), is beneficially interested in 125,000,000 Existing Shares, representing approximately 15.71% of the total issued share capital of the Company and is a substantial shareholder of the Company. As such, the Underwriter is a connected person of the Company under Chapter 20 of the GEM Listing Rules.

3. Reasons for the Rights Issue and use of proceeds

As stated in the Letter from the Board, the cash and bank balance of the Company in Hong Kong as at Latest Practicable Date is insufficient to meet the general working capital requirement of the Group, including staff costs, rental costs, professional fees and other overhead expenses in Hong Kong in the next 18 months. As such, the net proceeds of the proposed Rights Issue are intended to be applied primarily for the general working capital of the Group in Hong Kong for the next 18 months. For the remaining proceeds, the Company intends to apply it for financing the existing financial service business of the Group. The Company has tapped into other business segments (i.e., financial service) in late 2020 in order to diversify the income source of the Group.

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Assuming that there is no change in the number of issued Shares on or before the Record Date and all Rights Shares to be issued under the Rights Issue have been taken up in full, the gross proceeds from the Rights Issue will be approximately HK\$27.8 million. The net proceeds from the Rights Issue (after deduction of estimated professional fees and other related expenses of approximately HK\$1.5 million) are estimated to be approximately HK\$26.3 million (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), which are intended to be applied in the following manner:

- (i) approximately HK\$18.8 million, representing approximately 71.5% of the net proceeds, shall be applied for general working capital of the Company in Hong Kong for the next 18 months, as to approximately (i) 46.3% for directors' remuneration, consultancy fees, and other salaries and allowance; (ii) 34.0% for audit and other professional fees; (iii) 12.8% for administrative and other expenses; and (iv) 6.9% for miscellaneous fees including printing fees and listing fees;
- (ii) approximately HK\$5.6 million, representing approximately 21.3% of the net proceeds, shall be applied for the operation and expansion of the wealth management service business of the Group; and
- (iii) approximately HK\$1.9 million, representing approximately 7.2% of the net proceeds, shall be applied for the operation and expansion of the money lending business of the Group.

As mentioned in the paragraph headed "Prospects and outlook of the Group and the industry in which the Group operates" in this letter, even amid the outbreak of the COVID-19 pandemic in 2020, the total gross premiums for Hong Kong insurance industry still recorded a growth of approximately 4.9%, from approximately HK\$580.2 billion in 2019 to \$608.4 billion in 2020. Besides, the MPF business demonstrated a steady growth. Despite of the economic recession brought by the COVID-19 pandemic, the Hong Kong insurance industry could still demonstrate an overall growth.

We also noted that the Insurance Authority had implemented a new regime in 2019 raising the minimum paid-up share capital and net assets of an insurance broker company from \$100,000 to \$500,000 in two phases within a transitional period of slightly more than four years (i.e. the required minimum amounts of paid-up share capital and net assets will be increased to \$300,000 for the period starting from 1 January 2022 to 31 December 2023, and further increased to \$500,000 from 1 January 2024 onwards). In order to meet such requirement, the Company may require additional fund for the operation of the wealth management service business.

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As mentioned in the paragraph headed “Prospects and outlook of the Group and the industry in which the Group operates” in this letter, (i) the further tightening banks’ stance on existing credit lines; and (ii) the increase in difficulties in obtaining new bank credit, may provide favourable opportunities to the money lending institutions like the Group, as the SMEs and individuals may turn to these money lending institutions to obtain financing.

As such, we consider that it is justifiable for the Group to apply the net proceeds from the Rights Issue to finance the financial service business of the Group.

As mentioned in the Letter from the Board, the Group has been continuously searching for the opportunity to expand its investment portfolio in non-metal mines. The Company has not yet identified any such acquisition targets given that the global economy continues to be impacted by the COVID-19 pandemic. The acquisition of a raw non-metal mine is usually relatively high risk and requires high/complicated mining process. The Group currently targets to acquire mature business operator as the Group has relatively competitive advantage on financing as a result of its listing status. When assessing potential acquisition targets, the Company would conduct due diligence and valuation (for targets with high potential) consider their enterprise value, financial background, turnover ratio, gross profit margin, return on asset, debt-to-equity ratio, estimated inventory value of the mine, type of mine, location of operation, prospects, mining output levels, mining capacity and utilisation rate, mining and other licence record, regulatory and compliance record etc. There may be non-metal mining companies lacking sufficient funding and have going concern problem as a result of the COVID-19 pandemic. The Company considers that it may be a suitable time for the Group to acquire the valuable business at a relatively lower cost due to the lack of bargaining power of these companies. The Management will continue to search for the potential acquisition targets. Taking into account the prevalent demand in the market and the production needs of the Group, the Company may also consider upgrading current processing plant by, among others, purchasing new processing equipment such as Raymond mill, modifying the rotary drum dryer and construction of new storage bins for storing pelletising clay.

As advised by the Management, the bentonite mining business (including the upgrade of the processing plant and equipment and the acquisition of potential suitable non-metal mines as mentioned above) could be supported by the internal financial resources of the Group.

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In view of the insufficient general working capital of the Company in Hong Kong, we have also reviewed the estimation of the required general working capital of the Company in Hong Kong per month provided by the Company, the relevant expenses would be approximately HK\$1.1 million per month. Given the need to maintain sufficient level of general working capital in Hong Kong for the operation of the Group, we consider that it is reasonable to allocate part of the net proceeds from the Rights Issue into the general working capital of the Group for the next 18 months.

Fund raising activities in the past and fund raising alternatives

As stated in the Letter from the Board, save for the Rights Issue, the Company has not conducted other fund-raising activity involving issue of equity securities during the period commencing 12 months immediately preceding the date of the Announcement and up to the Latest Practicable Date.

As set out in the Letter from the Board, the Company has considered other fund-raising alternatives before resolving to the proposed Rights Issue, including but not limited to debt financing, placing and open offer.

As for debt financing, it would result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations, the Company does not consider it to be beneficial to the Group. In addition, debt financing may not be achievable on favourable terms in a timely manner.

As for placing of new Shares, taking into account that (i) it is relatively smaller in scale as compared to fund raising through rights issue; (ii) the engagement of a placing agent which would incur additional costs and expenses on the part of the Company; (iii) it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company, it was not considered by the Company to be the most suitable fund-raising method for the Company.

As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of nil-paid rights entitlements in the open market unlike a rights issue, which would allow Shareholders to have more flexibility in dealing with the Shares and the nil paid rights attaching thereto.

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With reference to the Letter from the Board, the Company considers that the Rights Issue, when compared with other forms of equity fund raising, would offer the Qualifying Shareholders the opportunity to subscribe for Rights Shares in proportion to their existing shareholdings in the Company without having their relative shareholdings being diluted and the Board considers that the terms of the Rights Issue are fair and reasonable and in the best interest of the Shareholders as a whole as it allows Qualifying Shareholders to maintain their respective pro rata shareholding interests in the Company and to continue to participate in the future development of the Company and it will improve the capital base and gearing ratio of the Company. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

Having considered that (i) the debt financing will incur interest burden on the Group and adversely affect the gearing of the Group, (ii) the placing will dilute the interests of the existing Shareholders without offering them the opportunity to take part in the exercise, (iii) the open offer does not offer flexibility to the existing Shareholders in dealing with the nil-paid rights attaching to the Rights Shares while the Rights Issue offers flexibility to the Qualifying Shareholders to dispose of their entitled nil-paid rights in the open market if they do not wish to take up the entitlements, we concur with the view of the Directors that Rights Issue is in the interests of the Company and the Shareholders as a whole.

4. Principle terms of the Rights Issue

The Board proposes, subject to, amongst others, the Share Consolidation becoming effective, to implement the Rights Issue on the basis of one (1) Rights Share for every one (1) Consolidated Share held on the Record Date at the Subscription Price of HK\$0.35 per Rights Share, to raise gross proceeds of approximately HK\$27.8 million before expenses (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), by way of the Rights Issue of 79,557,200 Rights Shares to the Qualifying Shareholders.

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According to the Letter from the Board, set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.35 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$0.33 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	795,572,000 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	79,557,200 Consolidated Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	79,557,200 Rights Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	HK\$7,955,720 (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	159,114,400 Consolidated Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)
Gross proceeds from the Rights Issue	:	Approximately HK\$27.8 million before expenses (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date)

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Assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date, the 79,557,200 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 100% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and 50% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares.

According to the Letter from the Board, pursuant to the Irrevocable Undertakings, the Underwriter, which is beneficially interested in 125,000,000 Existing Shares as at the Latest Practicable Date, and Dr. Chan, who is beneficially interested in 33,410,000 Existing Shares as at the Latest Practicable Date, has provided irrevocable and unconditional undertakings to the Company that (a) all the above Existing Shares held by them will continue to be beneficially owned by each of them on the Record Date; and (b) each of them will accept and pay for all the Rights Shares to be provisionally allotted to each of them under the Rights Issue pursuant to the terms and conditions of the Prospectus Documents. The Irrevocable Undertakings shall automatically lapse and be of no further force and effect in the event the Underwriting Agreement is terminated in accordance with its terms at or before the Latest Time for Termination.

As confirmed by the Directors, save for the Irrevocable Undertakings, the Company has not received any information or irrevocable undertaking from any substantial shareholder of their intention in relation to the Rights Shares to be provisionally allotted to them under the Rights Issue as at the Latest Practicable Date.

For details of the terms and conditions of the Rights Issue, please refer to the paragraph headed “Proposed Rights Issue” under the section headed “Letter from the Board” contained in the Circular.

4.1. The Subscription Price

The Subscription Price of HK\$0.35 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue or when a transferee of the nil-paid rights subscribes for the Rights Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Subscription Price represents:

- (i) a discount of approximately 36.4% to the theoretical closing price of HK\$0.55 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.055 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 31.4% to the theoretical closing price of HK\$0.51 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.051 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 31.4% to the average theoretical closing price of approximately HK\$0.51 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.051 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 22.2% to the theoretical ex-rights price of approximately HK\$0.45 per Consolidated Share (taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.055 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (v) a discount of approximately 74.8% to the net asset value of the Company of approximately HK\$1.39 per Consolidated Share based on the audited consolidated net asset value per Share of HK\$0.139 as at 31 December 2020 and the 795,572,000 Shares in issue as at the Latest Practicable Date; and
- (vi) a discount of approximately 75.0% to the net asset value of the Company of approximately HK\$1.40 per Consolidated Share based on the unaudited consolidated net asset value per Share of HK\$0.14 as at 30 June 2021 and the 795,572,000 Shares in issue as at the Latest Practicable Date.

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The Rights Issue would result in a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules and taking into account the Share Consolidation) of approximately 18.2%, representing a discount of the theoretical diluted price of approximately HK\$0.45 per Consolidated Share (after taking into account the effect of the Share Consolidation) to the benchmarked price of HK\$0.55 per Consolidated Share (after taking into account the effect of the Share Consolidation). The aforesaid benchmarked price is based on the higher of the closing price on the date of the Announcement of HK\$0.055 per Existing Share and the average of the closing prices of the Existing Shares as quoted on the Stock Exchange in the five consecutive trading days immediately prior to the date of the Announcement of HK\$0.051 per Existing Share. The aforesaid theoretical diluted price has taken into account the sum of (i) the product of the said benchmarked price and the 79,557,200 Consolidated Shares in issue immediately before the Rights Issue; and (ii) the gross proceeds from the Rights Issue of approximately HK\$27.8 million, and divided by the 159,114,400 Consolidated Shares in issue upon completion of the Rights Issue, assuming there is no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date.

As mentioned in the Letter from the Board, the discount to the recent closing prices of the Shares as well as the net asset value of the Company serves to lower the investment cost of the Shareholders who wish to participate in the Rights Issue so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising any possible dilution impact to their shareholding interests. The terms of the Rights Issue, including, the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter, taking into account, among others, (i) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (ii) the comparison between the prevailing market prices of the Shares prior to the Last Trading Day and discounts to subscription price of recently completed rights issue exercises in the market, and (iii) the imminent funding and capital needs of the Company in Hong Kong more particularly disclosed in the paragraph headed "Reasons for the Rights Issue and use of proceeds" in the Letter from the Board. As advised by the Management, the Company is not able to find independent underwriter to underwrite the Rights Issue at an acceptable commission fee. However, there is imminent funding and capital needs of the Company in Hong Kong. The Company has also approached Mr. Zhang Qiang, the controlling shareholder of the Company, who had expressed that he was not interested in becoming the underwriter for the proposed Rights Issue. Against such background, the Underwriter, who is a substantial shareholder of the Company owned as to 50% by Dr. Chan and 50% by Mr. Pui, has agreed to be the underwriter of the Rights Issue to support the Company. In order to attract and encourage Independent Shareholders to take up their entitlements to maintain their shareholdings in the Company, the Subscription Price is set at discount to the recent closing prices of the Shares, serving to lower the investment cost of the Shareholders who wish to participate in the Rights Issue, thereby minimising any possible dilution impact to their shareholding interests.

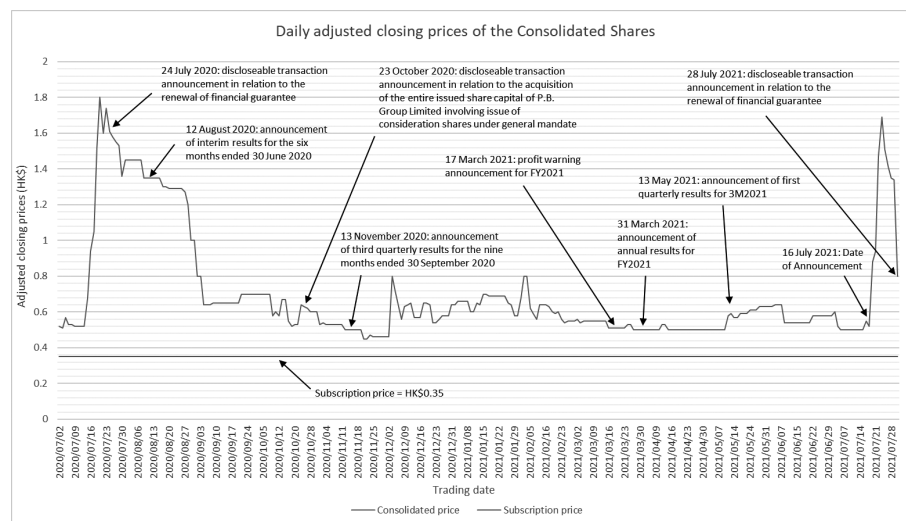
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In particular, the Subscription Price was determined with reference to the average closing price of HK\$0.51 (taking into account the effect of the Share Consolidation) per Consolidated Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the Last Trading Day, the financial conditions of the Company, current market conditions and the reasons and benefits of Rights Issue as discussed in the Letter from the Board.

Adjusted historical share price of the Consolidated Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily adjusted closing prices of the Consolidated Shares covering a period from 2 July 2020 to the Last Trading Day (the “**Review Period**”) (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider that a 12-month coverage is reasonably long enough to illustrate the historical trend and level of movement of the adjusted closing prices of the Consolidated Shares and the Review Period is fair to reflect the market assessment on the financial performance of the Group and the general market sentiment under prolonged COVID-19 pandemic.

Set out below is a chart showing the daily adjusted closing prices of the Consolidated Shares as quoted on the Stock Exchange during the Review Period:



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As illustrated in the above chart, the adjusted closing prices of the Consolidated Shares during the Review Period ranged from HK\$0.45 to HK\$1.80 per Consolidated Share, with an average of approximately HK\$0.69 per Consolidated Share. The Subscription Price of HK\$0.35 (i) represents a discount of approximately 22.2% over the lowest adjusted closing price of the Consolidated Shares during the Review Period; and (ii) represents a discount of approximately 80.6% to the adjusted highest closing price of the Consolidated Shares during the Review Period.

We note that the substantial fluctuation in the adjusted closing prices of the Consolidated Shares which raised from HK\$0.52 per Consolidated Shares on 14 July 2020 to HK\$1.8 per Consolidated Shares on 21 July 2020. After reaching its peak on 21 July 2020, the adjusted closing price of the Consolidated Shares followed a downward trend and hit a low at HK\$0.64 per Consolidated Shares on 4 September 2020. The reason for this substantial fluctuation in the adjusted closing prices of the Consolidated Shares was unknown to us since: (i) the Directors were not aware of any reason for such fluctuation in the adjusted closing prices of the Consolidated Shares; and (ii) we have reviewed all the announcements disclosed during the aforementioned period, and we are not aware of any information which would lead to abrupt change of the Share prices. During the period from 7 September 2020 to 2 December 2020, the adjusted closing price fluctuated between HK\$0.45 per Consolidated Shares and HK\$0.7 per Consolidated Shares, and then rose to HK\$0.8 per Consolidated Shares on 3 December 2020. Subsequently, the adjusted closing price fluctuated between HK\$0.50 per Consolidated Shares and HK\$0.80 per Consolidated Shares during the period from 4 December 2020 to the Last Trading Day.

Furthermore, we have reviewed the price to net asset value of the Shares since last year and up to the Last Trading Day. The Shares were traded at a discount to net asset value for the majority of last year (i.e. 220 trading days out of 248 trading days) and up to the Last Trading Day.

Comparison with comparable companies

According to the 2020 Annual Report and the 2021 Interim Report, more than 80% of the revenue were generated from the mining business of the Group in the PRC. To further assess the fairness and reasonableness of the Subscription Price, we have reviewed the price to earnings ratio(s) (the “**P/E Ratio(s)**”) and the price to book ratio(s) (the “**P/B Ratio(s)**”) of the listed companies in Hong Kong which are engaged in similar line of business as the Group. We searched for the companies which (i) are listed on the Main Board or GEM; (ii) are engaged in mining and sales of industrial minerals, (iii) derived more than 50% of their revenue from their mining businesses based on their respective latest annual results; and (iv) trading of shares of such listed companies were not halted or suspended for more than three months as at the Last Trading Day for cross-checking and general reference purpose. Based on the abovementioned criteria, we have identified, on a best effort basis, an exhaustive list of 3 companies (the “**Comparable Companies**”).

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Set out below are the details of the Comparable Companies computed based on their closing prices as at the Last Trading Day and their latest annual results:

Company name	Stock Code	Principal business activities	Market capitalisation HK\$ (Note 1)	P/E Ratio (times) (Note 6)	P/B Ratio (times) (Note 2)
China Kingstone Mining Holdings Limited	1380	Engaged in mining, processing and trading of the marble stones and marble-related products	90,626,649	N/A (Note 6)	0.24
Future Bright Mining Holdings Limited	2212	Engaged in excavation and sale of marble blocks; production and sale of marble related products; and trading of mineral commodities.	92,160,180	N/A (Note 6)	1.25
ArtGo Holdings Limited	3313	Engaged in mining, processing, trading and sales of marble stones; trading of commodities; and cargo handling	283,969,888	N/A (Note 6)	0.14
			Average	N/A	0.55
			Median	N/A	0.24
			Minimum	N/A	0.14
			Maximum	N/A	1.25
		The Company (based on the Subscription Price)	27,845,020 (Note 3)	3.2 (Note 4)	0.25 (Note 5)

Source: Stock Exchange website

Notes:

1. The market capitalisations of the Comparable Companies are calculated based on their respective closing share prices and number of issued shares as at the Last Trading Day sourced from the website of the Stock Exchange.
2. The P/B Ratios of the Comparable Companies are calculated based on their respective market capitalisation as at the Last Trading Day and the net asset value attributable to owners of the Comparable Companies extracted from their respective latest published annual results prior to the Last Trading Day, and translated into HK\$ at an exchange rate of RMB0.8333 = HK\$1, being the median exchange rate on the Last Trading Day as announced by the Hong Kong Association of Banks, where applicable.
3. The implied market capitalization of the Company is calculated based on the Subscription Price and the number of Consolidated Shares in issue upon the Share Consolidation becoming effective.

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4. *The implied P/E Ratio of the Company is calculated based on the Subscription Price and the audited profit attributable to the Shareholders for FY2020.*
5. *The implied P/B Ratio of the Company is calculated based on the Subscription Price and the net assets value of the Group as at 31 December 2020.*
6. *The subject company recorded net loss attributable to shareholders according to the latest published annual results.*

As illustrated in the table above, we noted that all of the Comparable Companies recorded net losses as disclosed in their respective latest published annual results. Thus, no P/E Ratios of the Comparable Companies are available for comparison.

Furthermore, we have reviewed P/B Ratio. The P/B Ratios of the Comparable Companies ranged from approximately 0.14 times to 1.25 times, with an average of approximately 0.55 times and a median of approximately 0.24 times. It is noted that 2 out of 3 Comparable companies have share prices trading below the net asset value as at the Last Trading Day. The implied P/B Ratio of the Company based on the Subscription Price is 0.25 times, which is within the said range of the P/B Ratios of the Comparable Companies and slightly higher than the median.

Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have conducted a search of the rights issue transactions (excluding those lapsed or terminated) and with Whitewash Waiver application announced by companies listed on the Stock Exchange since 1 January 2021 up to and including the Last Trading Day (the “**Comparable Review Period**”). Based on such search criteria, we have identified a list of 4 rights issue transactions (the “**Rights Issue Comparables**”). To the best of our endeavour we believe that the list of Rights Issue Comparables is an exhaustive list of rights issue transactions meeting the aforementioned criteria and is a fair and representative sample to be taken for the Shareholders’ reference.

While the Rights Issue Comparables may be different from the Group in terms of the principal business, market capitalisations, financial performance, funding needs and deal structures, the Rights Issue Comparables serve as a reference as to the recent market trends on similar rights issue transactions conducted by other issuers listed on the Stock Exchange.

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Details of the Rights Issue Comparables are set out as follows:

Date of announcement	Name of company	Stock code	Basis of entitlement	Premium/ (discount) of subscription price over/to the closing price on the last trading day (%)	Premium/ (discount) of subscription price over/to the theoretical ex-rights price on the last trading day (%)	Premium/ (discount) of subscription price over/to the then net assets value per share/ adjusted share (%) (Note 1)	Maximum dilution effect (%) (Note 2)	Placing commission (%)	Underwriting commission (%)	Excess application	Application for Whitewash Waiver
6 Jan 2021	Sinolink Worldwide Holdings Limited	1168	4 for 5	(42.86)	(31.37)	(84.99)	44.44	N/A (Note 4)	N/A (Note 3)	Y	Y
17 Feb 2021	China Lotsynergy Holdings Ltd.	1371	2 for 1	(30.07)	(15.97)	(37.11)	66.67	N/A (Note 4)	N/A (Note 3)	Y	Y
29 Mar 2021	China Demeter Financial Investments Ltd.	8120	3 for 1	(17.36)	(4.99)	(86.11)	75.00	2	0 (Note 6)	N	Y
8 Apr 2021	State Energy Group International Assets Holdings Ltd.	918	3 for 1	(22.20)	(6.67)	77.70	75.00	1	1 (Note 6)	N	Y
			Average	(28.12)	(14.75)	(32.63)	65.28	1.50	0.50		
			Median	(26.14)	(11.32)	(61.05)	70.84	1.50	0.50		
			Minimum	(42.86)	(31.37)	(86.11)	44.44	1.00	0.00		
			Maximum	(17.36)	(4.99)	77.70	75.00	2.00	1.00		
			The Company	(36.4)	(22.2)	(74.80) (Note 5)	50.00	1.00	0	N	Y

Source: Stock Exchange website

Notes:

- The net asset value per share were extracted from the relevant announcement or circular of the Rights Issue Comparables. Where such information is not available from the published announcement and circular, the net asset per share was computed based on the reported net asset value as shown in the relevant announcements, interim results or annual results of the subject companies and the number of issued shares as at the date of the relevant announcement of the Rights Issue Comparables.
- The potential maximum dilution effect of the Rights Issue Comparables are calculated as the number of rights shares issued or to be issued under the rights issues dividend by the total number of shares as enlarged by the rights issue according to their respective basis of entitlements (assuming all rights shares have been/will be allotted and issued) times 100%.
- The respective fundraising exercise did not involve underwriters.
- The respective fundraising exercise did not involve placing agents.
- The net asset value per share is calculated based on the net asset value as disclosed in the 2020 Annual Report and the number of Consolidated Shares in issue upon the Share Consolidation becoming effective.
- The respective fundraising exercise involved underwriting by substantial shareholders.

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Since the comparison between the prevailing market prices of the Shares prior to the Last Trading Day and discounts to subscription price of recently completed rights issue exercises in the market is one of the factors considered by the Directors when determining the Subscription Price, we have reviewed the discount of the subscription prices over/to the prevailing market price on the last trading day of the Rights Issue Comparables, and noted that:

- (i) the discounts of the subscription prices over/to the closing price on the last trading day of the Rights Issue Comparables ranged from approximately 17.4% to approximately 42.9%, with an average discount of 28.1%. The discount of approximately 36.4% to the closing price on the Last Trading Day as represented by the Subscription Price is within the range; and
- (ii) the discounts of the subscription prices to the theoretical ex-rights price on the last trading day of the Rights Issue Comparables ranged from approximately 5.0% to approximately 31.4%, with an average discount of 14.8%. The discount of approximately 22.2% to the theoretical ex-rights price on the Last Trading Day as represented by the Subscription Price is within the range.

In determining whether the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the following factors:

- (i) the discount to the recent closing prices of the Shares as well as the net asset value of the Company serves to lower the investment cost of the Shareholders who wish to participate in the Rights Issue so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising any possible dilution impact to their shareholding interests;
- (ii) the Shares had been traded at a discount to the audited/unaudited consolidated net asset value per Share for the majority of last year (i.e. 220 trading days out of 248 trading days) and up to the Last Trading Day;

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- (iii) the Rights Issue is designed to target the existing Shareholders and serves to give them a first right to participate in the exercise, the placing arrangement is in place only to deal with the unsubscribed shares in the event that the Rights Shares are not subscribed in full by the existing Shareholders. Therefore, even with a subscription price at a discount, the existing Shareholders are given the opportunity to participate in the Rights Issue to enjoy the benefit of the lower price. The discount therefore provides an incentive to existing Shareholders to participate in maintaining their shareholding stake in the Company, or even increasing their shareholding via acquiring the nil-paid rights in the market and subscribing the Rights Shares at an attractive price;
- (iv) when determining the subscription price, investors often place a stronger focus on the recent trading prices of the shares as the trading price trend reflect the prices which would be attractive to the investors to participate in trading of the shares, whether as new investment in the shares or for existing shareholders to increase their shareholding in a company. Therefore, the Company has placed a stronger focus on the recent trading prices when determining the Subscription Price in order to incentivise Shareholders' participation in the Rights Issue;
- (v) the comparison between the prevailing market prices of the Shares prior to the Last Trading Day and discounts to subscription price of recently completed rights issue exercises in the market is one of the factors considered by the Directors when determining the Subscription Price. The discount of the subscription prices to the closing price on the last trading day of the Rights Issue Comparables ranged from approximately 17.4% to approximately 42.9%, with an average discount of 28.1%. The discount of approximately 36.4% to the closing price on the Last Trading Days as represented by the Subscription Price is within the range;
- (vi) the reasons for the Rights Issue, including the imminent funding and capital needs of the Company in Hong Kong, and the significant part of the proceeds from the Rights Issue would be applied as general working capital to support the operation of the Group in Hong Kong in the next 18 months;
- (vii) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue; and
- (viii) the Rights Issue is considered to be a better financing alternative over debt financing, placing or open offer as mentioned above.

In light of the above, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

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4.2. No excess application

As mentioned in the Letter from the Board, there will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 10.31(1)(a) of the GEM Listing Rules. We have reviewed the Rights Issue Comparables and noted that 2 out of 4 Rights Issue Comparables, representing 50.0%, did not offer excess application to their respective shareholders. Therefore, we consider that the absence of excess application arrangement is not rare in the market.

We also understand that pursuant to Rule 10.31(2) of the GEM Listing Rules, as the Underwriter is a substantial shareholder of the Company, the Company must make arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees (including the Qualifying Shareholders who wish to take up more of these shares in addition to their entitlements under the Rights Shares) for the benefit of the Shareholders to whom they were offered by way of the rights issue.

Although there is absence of excess application arrangement, after having considered that (i) the Rights Issue gives the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company; (ii) the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full can maintain their respective existing shareholdings in the Company after completion of the Rights Issue; (iii) the absence of excess application arrangement is not rare in the market; and (iv) for the Qualifying Shareholders who wish to subscribe more shares, they can subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares in addition to their entitlements under the Rights Issue through the Compensatory Arrangements, and/or they can purchase the nil-paid Rights Shares to take up the rights to subscribe Rights Shares from other Qualifying Shareholders who sell their nil-paid Rights Shares on the Stock Exchange, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

4.3. The Compensatory Arrangements and the Placing

Pursuant to Rule 10.31(2) of the GEM Listing Rules, as the Underwriter, which is owned as to 50% by Dr. Chan and 50% by Mr. Pui, is beneficially interested in 125,000,000 Existing Shares as at Latest Practicable Date, representing approximately 15.71% of the total issued share capital of the Company and is a substantial shareholder of the Company, the Company must make arrangements described in Rule 10.31(1)(b) of the GEM Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the Rights Issue.

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As stated in the Letter from the Board, the Company has appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the Latest Time for Acceptance to independent placees, pursuant to the terms of the Placing Agreement. Any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related expenses and fees), that is realised from the Placing will be paid to the No Action Shareholders. The Placing Agent will, pursuant to the terms of the Placing Agreement, procure, by not later than 5:00 p.m. on Tuesday, 30 November 2021, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares at a price not less than the Subscription Price. Any unsold Unsubscribed Rights Shares and the NQS Unsold Rights Shares under the Compensatory Arrangements will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

As mentioned in the Letter from the Board, on 16 July 2021 (after trading hours and supplemented on 30 September 2021), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has agreed to first procure Placee(s), on a best effort basis, to subscribe for the a maximum of 60,153,400 Unsubscribed Rights Shares and the NQS Unsold Rights Shares on a best effort basis, then a maximum of 3,562,800 Underwritten Placing Shares on a fully underwritten basis. Set out below are the principal terms of the Placing Agreement:

Date	:	16 July 2021 (after trading hours and supplemented on 30 September 2021)
Placing Agent	:	CIS Securities Asset Management Limited was appointed as the Placing Agent to procure placees to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares.
Number of shares to be placed and underwritten	:	The Placing Agent has agreed to first procure Placee(s), on a best effort basis, to subscribe for a maximum of 60,153,400 Unsubscribed Rights Shares and the NQS Unsold Rights Shares on a best effort basis, then a maximum of 3,562,800 Underwritten Placing Shares on a fully underwritten basis.
Placing fee and expenses	:	1% of the aggregate placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares successfully placed by or on behalf of the Placing Agent.

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- Placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) : The final price determination will be dependent on the demand for and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares. The placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) shall not be less than the Subscription Price.
- Placees : The Unsubscribed Rights Shares and the NQS Unsold Rights Shares are expected to be placed to the placees who and whose ultimate beneficial owner(s) are Independent Third Parties, and not a party acting in concert with the Underwriter, Dr. Chan, Mr. Pui or any of their respective associates.
- Ranking of Unsubscribed Rights Shares and the NQS Unsold Rights Shares : The Unsubscribed Rights Shares and the NQS Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the Shares then in issue.
- Conditions precedent : The obligations of the Placing Agent under the Placing Agreement are conditional upon the Underwriting Agreement becoming unconditional and not terminated in accordance with the Underwriting Agreement.
- Completion date : The second Business Day after the Latest Placing Date or such other date as the Company and the Placing Agent may agree in writing.

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Termination : The Placing Agent may terminate the Placing Agreement without any liability to the Company, by giving notice in writing to the Company at any time prior to 4:00 p.m. one day before the completion date of the Placing upon the occurrence of the following events which, in the absolute opinion of the Placing Agent, has or may have an adverse material effect on the business or financial conditions of the Group taken as a whole or the success of the Placing or otherwise makes it inappropriate to proceed with the Placing on the terms and in the manner contemplated in the Placing Agreement:

(a). there develops, occurs or comes into force:

- i. any material adverse event, development or change and including an event or change in relation to or a material adverse development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a change in, or which may result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions in Hong Kong; or
- ii. the imposition of any moratorium, suspension (for more than seven (7) trading days) or restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
- iii. any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group; or

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- iv. a change or development occurs involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong; or
- (b). any breach of any of the representations and warranties set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date of the Placing Agreement and prior to the completion date of the Placing which if it had occurred or arisen before the date of the Placing Agreement would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or
- (c). the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are not approved by the relevant regulatory bodies and/or regulatory authorities to be placed to any placees as contemplated in the Placing Agreement.

As mentioned in the Letter from the Board, the terms of the Placing Agreement (including the placing fee) were determined after arm's length negotiation between the Placing Agent and the Company and are on normal commercial terms. We understand from the Directors that, after discussing with other potential placing agent candidates, they consider that the placing fee charged by the Placing Agent is no less favourable to the Company than the market rate in recent placing transactions and are therefore of the view that the terms of the Placing Agreement are on normal commercial terms.

To assess the fairness and reasonableness of the terms of the Placing Agreement, we have reviewed the placing commissions of the Rights Issue Comparables, if any, and noted that their placing commissions ranged from 1.0% to 2.0%, with an average of 1.5%. As such, having considered the placing commission of the Rights Issue of 1.0% falls within the range of the Rights Issue Comparables, we concur with the Directors' view that the placing commission under the Placing Agreement is fair and reasonable.

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4.4. The Underwriting Agreement

With reference to the Letter from the Board, the Rights Shares (other than those that have been undertaken to be subscribed by the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) will be fully underwritten by Underwriter in accordance with the terms of the Underwriting Agreement and subject to the conditions set out in the Underwriting Agreement.

As mentioned in the Letter from the Board, the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue on 16 July 2021 (after trading hours and supplemented on 30 September 2021). Set out below are the principal terms of the Underwriting Agreement:

Date	:	16 July 2021 (after trading hours and supplemented on 30 September 2021)
Underwriter	:	P.B. Asia Holdings Limited
Total number of Underwritten Shares	:	Up to 60,153,400 Rights Shares (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), representing all the Rights Shares under the Rights Issue other than the 15,841,000 Rights Shares that have been undertaken to be subscribed by the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings.
Underwriting commission	:	The Underwriter will not receive any underwriting commission.

For details of the terms and conditions of the Underwriting Agreement, please refer to the paragraph headed “The Underwriting Agreement” under the section headed “Letter from the Board” contained in the Circular.

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As stated in the Letter from the Board, the terms of the Underwriting Agreement were determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the market conditions. It is not in the ordinary course of business of the Underwriter to underwrite issues of shares. The commitment of the Underwriter towards the Company, together with the Irrevocable Undertakings, signifies strong support from the substantial Shareholder to the Group and his confidence in the development of the Group. Independent Shareholders should note that the Underwriter may acquire a maximum of approximately 37.81% of shares of the Company for approximately HK\$27.8 million if there are no Qualifying Shareholders take up their respective entitlements under the Rights Issue and 100% of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares are taken up by the Underwriter as there is no excess application. However, Qualifying Shareholders who would like to subscribe for the additional Right Shares other than his/her/its entitlement under the Rights Issue can purchase the nil-paid Rights Shares that are sold in the market and/or can indicate their interests to the Placing Agent and subscribe the Unsubscribed Right Shares and the NQS Unsold Rights Shares through the Compensatory Arrangement.

To assess the fairness and reasonableness of the terms of the Underwriting Agreement, we have reviewed the underwriting commissions of the Rights Issue Comparables, if any, and noted that their underwriting commissions ranged from nil to 1.0%, with an average of 0.5%. Pursuant to the Underwriting Agreement entered into between the Company and the Underwriter, the Underwriter will not receive any underwriting commission. Given that there is no underwriting commission charged by the Underwriter which is favourable to the Group, and that the Underwriter, its associates and parties acting in concert with it have abstained from voting on the resolutions approving the Transactions at the EGM, we concur with the Directors that the Underwriting Agreement is on normal commercial terms and is fair and reasonable so far as the Shareholders are concerned.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms of the Underwriting Agreement, the Underwriter has agreed to underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) and no placement made under the Compensatory Arrangements save for the Underwritten Placing Shares, the Underwriter will be required to take up the Underwritten Shares and would, upon completion of the Rights Issue hold up to approximately 53.52% of the then total issued Shares as enlarged by the allotment and issue of the Rights Shares.

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In the event that the taking up of the Underwritten Shares by the Underwriter pursuant to the Underwriting Agreement would result in public float of the Company not being maintained upon completion of the Rights Issue, the Underwriter has undertaken that it shall take steps necessary to ensure the Company's compliance of the minimum public float requirements as set out under Rule 11.23(7) of the GEM Listing Rules upon completion of the Rights Issue.

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

The Rights Issue will allow all Qualifying Shareholders to subscribe for their respective pro-rata provisional entitlement of Rights Shares. Those Qualifying Shareholders who take up their provisional allotments in full under the Rights Issue will not experience any dilution in their shareholdings in the Company. Qualifying Shareholders who do not wish to take up their provisional allotments can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Share in the market. The proportionate shareholding of the Qualifying Shareholders, who do not take up their entitlements in full under the Rights Issue, and the Non-Qualifying Shareholders will be diluted upon completion of the Rights Issue.

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As at the Latest Practicable Date, the Company has 795,572,000 Shares in issue. With reference to the Letter from the Board, assuming there is no other change in the number of Shares in issue save for the Share Consolidation from the Latest Practicable Date up to and including the date of completion of the Rights Issue, the table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective; and (iii) immediately after completion of the Rights Issue:

	As at the Latest Practicable Date		Immediately after the Share Consolidation becoming effective		Assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue		Immediately after completion of the Rights Issue			
							Assuming no Qualifying Shareholders (save for the Underwriter and Dr. Chan take up their respective entitlements under the Rights Issue and the remaining Unsubscribed Rights Shares and the NQS Unsold Rights Shares are fully placed to the Places under the Compensatory Arrangements		Assuming no Qualifying Shareholders (save for the Underwriter and Dr. Chan) take up their respective entitlements under the Rights Issue and the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (save for the Underwritten Placing Shares) are taken up by the Underwriter	
	No. of Existing Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %
The Underwriter	125,000,000	15.71	12,500,000	15.71	25,000,000	15.71	25,000,000	15.71	85,153,400	53.52
Dr. Chan	33,410,000	4.20	3,341,000	4.20	6,682,000	4.20	6,682,000	4.20	6,682,000	4.20
Subtotal of the Underwriter and parties acting in concert with it	158,410,000	19.91	15,841,000	19.91	31,682,000	19.91	31,682,000	19.91	91,835,400	57.72
Zhang Qiang	275,000,000	34.57	27,500,000	34.57	55,000,000	34.57	27,500,000	17.28	27,500,000	17.28
P.B. Capital Advanced Fund SPC – P.B. Capital Advanced Fund 1 Segregated Portfolio	111,762,000	14.05	11,176,200	14.05	22,352,400	14.05	11,176,200	7.02	11,176,200	7.02
Other public Shareholders	250,400,000	31.47	25,040,000	31.47	50,080,000	31.47	88,756,200	55.78	28,602,800	17.98
Subtotal of the Public Shareholders	250,400,000	31.47	25,040,000	31.47	50,080,000	31.47	99,932,400	62.81	39,779,000	25.00
Total	795,572,000	100.00	79,557,200	100.00	159,114,400	100.00	159,114,400	100.00	159,114,400	100.00

Assuming (i) there is no change in the issued share capital of the Company, (ii) no subscription by the Qualifying Shareholders (other than the Underwriter) under the Rights Issue, and (iii) all the Rights Shares are subscribed for by the Underwriter, the shareholding interests in the Company held by existing Independent Shareholders would be reduced from approximately 45.52% as at the Latest Practicable Date to approximately 25.00% immediately upon the completion of the Right Issue.

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Having taken into consideration the followings:

- (i) the terms of the Rights Issue, the Placing Agreement and the Underwriting Agreement are fair and reasonable;
- (ii) the reasons for the Rights Issue, including the imminent funding and capital needs of the Company in Hong Kong, and the significant part of the net proceeds from the Rights Issue would be applied to support the operation of the Group in Hong Kong in the next 18 months and to develop the wealth management and money lending business;
- (iii) the shareholding interests of the Qualifying Shareholders who take up their provisional allotments in full under the Rights Issue will not be diluted;
- (iv) the Qualifying Shareholders are given an equal opportunity to subscribe for the Rights Issue for maintaining their proportionate interests in the Company;
- (v) the Rights Issue offers flexibility to the Qualifying Shareholders in dealing with the nil-paid rights attaching to the Rights Shares in the open market;
- (vi) the Independent Shareholders are offered with an opportunity to express their views on the Rights Issue by attending and voting for or against the relevant resolutions in relation to the Rights Issue at the EGM; and
- (vii) the Rights Issue is considered to be a better financing alternative over debt financing, placing or open offer as mentioned above;

we are of the view that the potential dilution effect of the Rights Issue is acceptable.

6. Possible financial effects of the Rights Issue

The following analysis of financial effects of the Rights Issue is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the completion of the Rights Issue:

6.1. Gearing ratio and liquidity

As set out in the Letter from the Board, approximately 71.5% of the net proceeds from the Rights Issue or approximately HK\$18.8 million will be applied for general working capital of the Company in Hong Kong. Thus, the liquidity position of the Group would be improved upon completion of the Rights Issue. The gearing ratio of the Group was approximately 0.4% as at 30 June 2021 and it is expected the gearing ratio of the Group would be close to zero upon completion of the Rights Issue.

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6.2. Net tangible assets

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group were approximately HK\$1.309 per Consolidated Share as at 30 June 2021. The unaudited pro forma adjusted consolidated net tangible assets of the Group as if the Share Consolidation had become effective and the Rights Issue had taken place on 30 June 2021 would be approximately HK\$0.820 per Consolidated Share (based on the 159,114,400 Consolidated Shares which represents the total of 79,557,200 Consolidated Shares and 79,557,200 Rights Shares).

The unaudited consolidated net tangible assets of the Group per Consolidated Share upon completion of the Rights Issue would decrease because the Rights Shares are to be issued at a discount to the consolidated net tangible assets of the Group per Consolidated Share. However, having taken into consideration the reasons for the Rights Issue as discussed above and that all Qualifying Shareholders are offered the same opportunities to enjoy the benefit of subscribing the Rights Shares at the Subscription Price, we consider the dilution in the unaudited consolidated net tangible assets per Consolidated Share to be acceptable.

7. Whitewash Waiver

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it (comprising the Underwriter, Dr. Chan and Mr. Pui), taken together, in aggregate, hold 158,410,000 Shares, representing approximately 19.91% of the issued share capital of the Company.

If there is no acceptance by the Qualifying Shareholders under the Rights Issue (other than the acceptance of the Underwriter and Dr. Chan pursuant to the Irrevocable Undertakings) and no placement is made under the Compensatory Arrangements save for the Underwritten Placing Shares, the Underwriter will be required to take up the Underwritten Shares. In such circumstances and upon completion of the Rights Issue, assuming there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the Underwriter and parties acting in concert with it will, in aggregate, be interested in 91,835,400 Consolidated Shares, representing approximately 57.72% of the issued share capital of the Company as enlarged by the issue of the Rights Shares. Accordingly, the Underwriter and parties acting in concert with it would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it, unless the Whitewash Waiver is granted by the Executive. Neither the Underwriter nor any parties acting in concert with it has dealt in any relevant securities of the Company in the 6-month period preceding the date of the Announcement.

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An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, which, if granted by the Executive, would be subject to, among others, (i) the approval by at least 75% of the Independent Shareholders at the EGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the EGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder.

In view of (i) the abovementioned reasons for the Rights Issue and the use of proceeds, (ii) that the Rights Issue is currently the most appropriate and equitable fund raising method available to the Company, and (iii) that the terms of the Rights Issue, the Placing Agreement and the Underwriting Agreement, including the Subscription Price, the placing commission and underwriting commission, are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Rights Issue, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned for the purpose of proceeding with the Rights Issue.

OPINION AND RECOMMENDATION

Having considered the following factors and reasons as set out in this letter,

- (i) the reasons for the Rights Issue, including the imminent funding and capital needs of the Company in Hong Kong, and the significant part of proceeds would be applied as general working capital to support the operation of the Group in Hong Kong in the next 18 months and to develop the wealth management and money lending business;
- (ii) the Rights Issue is on the basis that all Qualifying Shareholders have been offered an equal and fair opportunity to (a) maintain their respective pro rata shareholding interests in the Company; and (b) Shareholders may increase their respective shareholding in the Company by subscribing for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares in addition to their entitlements under the Rights Issue through the Compensatory Arrangements or subscribing for the nil-paid Rights Shares from other Qualifying Shareholders who sell their nil-paid Rights Shares on the Stock Exchange;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the discount to the recent closing prices of the Shares as well as the net asset value of the Company serves to lower the investment cost of the Shareholders who wish to participate in the Rights Issue so as to encourage them to take up their entitlements to maintain their shareholdings in the Company, thereby minimising any possible dilution impact to their shareholding interests, or even increasing their shareholding via acquiring the nil-paid rights in the market and subscribing the Rights Shares at an attractive price;
- (iv) the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned given that, among others, the comparison between the prevailing market prices of the Shares prior to the Last Trading Day and discounts to subscription price of recently completed rights issue exercises in the market is one of the factors considered by the Directors when determining the Subscription Price;
- (v) the discounts of the subscription prices to the closing price on the last trading day of the Rights Issue Comparables ranged from a discount of approximately 17.4% to approximately 42.9%, with an average discount of 28.1%; and the discount of approximately 36.4% to the closing price on the Last Trading Day as represented by the Subscription Price is within the range;
- (vi) the absence of excess application arrangement is not rare in the market;
- (vii) the commitment of the Underwriter towards the Company, together with the Irrevocable Undertakings, signifies strong support from the substantial Shareholder to the Group and his confidence in the development of the Group;
- (viii) the placing commission under the Placing Agreement of 1.0% is within the range of that of the Rights Issue Comparables;
- (ix) the zero-commission arrangement under the Underwriting Agreement is more favourable to the Group than that of the Rights Issue Comparables which charged underwriting commissions;
- (x) the potential dilution effect of the Rights Issue is acceptable given that, among others, (a) the shareholding interests of the Qualifying Shareholders who take up their provisional allotments in full under the Rights Issue will not be diluted; (b) all Qualifying Shareholders are given an equal opportunity to subscribe for the Rights Shares for maintaining their proportionate interests in the Company; (c) the Rights Issue offers flexibility to the Qualifying Shareholders in dealing with the nil-paid rights attaching to the Rights Shares in the open market; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (xi) the Rights Issue is considered to be a better financing alternative over debt financing, placing or open offer as mentioned above;

we are of the opinion that (i) the terms of the Rights Issue, the Placing Agreement and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole, despite the entering into of the Underwriting Agreement not being in the ordinary and usual course of business of the Company. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions approving the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the EGM and we also recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,

For and on behalf of

Alliance Capital Partners Limited

Alyssa Ng

Managing Director

Ms. Alyssa Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Alliance Capital Partners Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

1. FINANCIAL INFORMATION SUMMARY OF THE GROUP

The financial information of the Group for the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.thepbg.com):

- (i) the audited financial information of the Group for the year ended 31 December 2020 is disclosed in the annual report of the Company for the year ended 31 December 2020 published on 31 March 2021, from pages 91 to 159 (<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0331/2021033103014.pdf>);
- (ii) the audited financial information of the Group for the year ended 31 December 2019 is disclosed in the annual report of the Company for the year ended 31 December 2019 published on 29 April 2020, from pages 71 to 139 (<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0429/2020042900001.pdf>);
- (iii) the audited financial information of the Group for the year ended 31 December 2018 is disclosed in the annual report of the Company for the year ended 31 December 2018 published on 29 March 2019, from pages 71 to 143 (<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329001.pdf>); and
- (iv) the unaudited financial information of the Group for the six months ended 30 June 2021 is disclosed in the interim report of the Company for the six months ended 30 June 2021 published on 13 August 2021, from pages 29 to 47 (<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0813/2021081302101.pdf>).

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The following summary of financial information for each of the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 is extracted from the consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 and the interim report of the Company for the six months ended 30 June 2020 and 2021 respectively:

Summary consolidated statement of profit or loss and other comprehensive income

	For the year ended 31 December			For the six months ended	
	2018	2019	2020	30 June 2020	2021
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
REVENUE	51,204	58,099	55,727	21,414	32,987
Cost of sales	(29,257)	(28,153)	(26,362)	(10,704)	(17,573)
Gross profit	21,947	29,946	29,365	10,710	15,414
Other income, gains and losses	1,474	2,337	4,092	536	676
Selling and distribution expenses	(6,740)	(7,308)	(7,041)	(4,529)	(5,122)
Administrative and other expenses	(72,723)	(15,907)	(16,737)	(7,515)	(10,760)
Finance costs	(1,283)	(451)	(502)	(223)	(288)
Gain on disposal of subsidiaries	874	—	—	—	—
PROFIT/(LOSS) BEFORE TAX	(56,451)	8,617	9,177	(1,021)	(80)
Income tax expense	(1,134)	(1,209)	(1,974)	(53)	(511)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	<u>(57,585)</u>	<u>7,408</u>	<u>7,203</u>	<u>(1,074)</u>	<u>(591)</u>
Total comprehensive income/(expense)					
for the year attributable to:					
– owners of the Company	(57,585)	7,408	7,203	(1,074)	(608)
– non-controlling interests	—	—	—	—	—
Earnings/(loss) per share					
Basic and diluted (CNY)	<u>(10.05) cents</u>	<u>1.10 cents</u>	<u>1.04 cents</u>	<u>(0.16) cents</u>	<u>(0.07) cents</u>

For each of the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, no final or interim dividend was declared or paid.

Save as disclosed above, the Group had no other material income or expense for the years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2020 and 2021.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Summary consolidated statement of financial position**

	For the year ended 31 December			For the six months ended	
				30 June	
	2018	2019	2020	2020	2021
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Current assets	68,225	76,799	94,198	70,617	89,861
Non-current assets	28,159	33,181	35,125	36,945	35,990
Current liabilities	(15,420)	(21,285)	(26,120)	(20,073)	(24,087)
Non-current liabilities	<u>(8,205)</u>	<u>(8,528)</u>	<u>(9,885)</u>	<u>(8,698)</u>	<u>(9,054)</u>
	<u>72,759</u>	<u>80,167</u>	<u>93,318</u>	<u>78,791</u>	<u>92,710</u>
Equity attributable to owners of the Company					
Share capital	5,688	5,688	6,753	5,688	6,753
Share premium and reserves	<u>67,071</u>	<u>74,479</u>	<u>86,565</u>	<u>73,103</u>	<u>85,957</u>
	<u>72,759</u>	<u>80,167</u>	<u>93,318</u>	<u>78,791</u>	<u>92,710</u>

Summary consolidated statement of cash flows

	For the year ended 31 December			For the six months ended	
				30 June	
	2018	2019	2020	2020	2021
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	CNY'000	CNY'000	CNY'000	CNY'000	CNY'000
Net cash (used in)/generated from operating activities	(1,149)	13,823	(8,827)	(8,632)	1,885
Net cash used in investing activities	(4,410)	(4,373)	(177)	(282)	(282)
Net cash generated from/(used in) financing activities	18,585	(323)	891	–	416
Net increase/(decrease) in cash and cash equivalents	13,026	9,127	(8,113)	(8,914)	2,019

No modified opinion, emphasis of matter or material uncertainty related to going concern was contained in the auditor's reports of the Company issued by BDO Limited, the current auditors of the Company for the year ended 31 December 2020, but the opinion of Elite Partners CPA Limited, the then auditors of the Company in respect of each of the two financial years ended 31 December 2018 and 2019 contained qualified opinions, the details of which are extracted from the annual reports of the Company for the years ended 31 December 2018 and 2019 and set out as follows:

For the year ended 31 December 2018

“BASIS FOR QUALIFIED OPINION

Opening balances and corresponding figures

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2017 (“2017 Financial Statements”) contained qualification on the limitation of audit scope of (i) de-consolidation of certain subsidiaries; (ii) prepayment to suppliers; and (iii) inventories (“Qualifications”). Details of which has been set out in the auditor's report for 2017 Financial Statements dated 31 May 2018. As the 2017 Financial Statements formed the basis for the corresponding figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the Qualification would have an effect on (i) the opening balances on the consolidated financial position of the Group as at 31 December 2018; (ii) corresponding figures in the consolidated financial statements for the year ended 31 December 2018; and (iii) the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2018.”

For the year ended 31 December 2019

“BASIS FOR QUALIFIED OPINION

Corresponding figures

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2018 (“2018 Financial Statements”) contained qualification on the opening balances and corresponding figures (“Qualifications”). Details of which has been set out in the auditor's report for 2018 Financial Statements dated 7 March 2019. As the 2018 Financial Statements formed the basis for the corresponding figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the Qualifications would have an effect on (i) the opening balance of the corresponding figures in the consolidated financial statements for the year ended 31 December 2019; and (ii) the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2019.”

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2021, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

Borrowings and debts

As at the close of business on 31 August 2021, being the latest practicable date for the purpose of this statement of indebtedness, the Group has outstanding borrowings and debts of approximately CNY415,350 details of which are set out as follows:

31 August 2021

unaudited

CNY

Unsecured and unguaranteed shareholder's loan <i>(Note)</i>	415,350
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Note: The Shareholder's loan is amounted at HK\$500,000 as at 31 August 2021. The exchange rate accepted on that date is HK\$1: CNY0.8307.

Contingent liabilities

As at the close of business on 31 August 2021, the Group's financial guarantee contracts were as follows:

CNY

Financial guarantees provided to third party	1,144,840
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The maximum amount that the Group has guaranteed under the respective contracts was CNY20,000,000 as at 31 August 2021. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12 months of expected credit loss. An amount of CNY1,144,840 has been estimated as a loss allowance as at 31 August 2021 in accordance with IFRS 9, however, no loss allowance was recognised in the profit or loss because the premium received less cumulative amount recognised in profit or loss was higher than expected amount of loss allowance.

During the period ended 31 August 2021, the Group entered into a back-to-back guarantee agreement, pursuant to which the Wuhu Subsidiary has agreed to provide financial guarantee to the Wuhu Haiyuan Copper Industrial Co., Limited (蕪湖市海源銅業

有限責任公司), a company established in the PRC and an independent third party (the “**Borrower**”), by means of pledging its deposit in the sum of CNY20 million for procuring the Borrower to obtain the loan of CNY19 million provided by the bank. In return, the Wuhu Subsidiary would receive a guarantee fee of 6% of the amount of deposit pledged by the Wuhu Subsidiary. The fair value of the financial guarantee issued at initial recognition was immaterial.

Pledged bank deposit

Pledged bank deposit represented deposit pledged to bank to secure general banking facilities granted to an independent third party. As at 31 August 2021, the bank deposit of CNY20,000,000 has been pledged to secure short-term bank borrowing of the independent third party and was therefore classified as current asset. The pledged bank deposit carry interest rates at 1.95% per annum and will be released upon the expiry of the relevant banking facilities.

Save as disclosed above, the Group did not have any outstanding bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees, debt securities, term loans, hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, other borrowings or indebtedness in the nature of borrowings or other material contingent liabilities as at the close of business on 31 August 2021.

3. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Group, including internally generated funds, available facilities and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its requirements for at least the next twelve months from the date of this circular.

4. MATERIAL CHANGE

Save that the Company proposed to conduct the Rights Issue to raise estimated net proceeds of approximately HK\$26.3 million for general working capital of the Group and save as disclosed in the interim report of the Company for the six months ended 30 June 2021 that the Group recorded a loss attributable to owners of the Company of approximately CNY0.6 million for the six months ended 30 June 2021 as compared to a loss attributable to owners of the Company of approximately CNY1.1 million for the six months ended 30 June 2020, the Directors confirmed that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

5. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECT

The Company is an investment holding company and the Group is principally engaged in bentonite mining, production and sales of drilling mud and pelletising clay and financial service business. While the outbreak of the novel coronavirus (“**COVID-19**”) continued to escalate in some countries and regions and cause disruptions in business operations and to the economy in 2021, the PRC has continued to keep COVID-19 under control and achieved strong economic growth as compared to the corresponding period in 2020. During the first quarter of 2021, the PRC’s gross domestic product (“**GDP**”) grew at a rate of 18.3% year-on-year. This is a major rebound following the historic contraction of the economy caused by the COVID-19. The PRC’s economy shrank 6.8% in the first quarter of 2020 following lockdowns to curb the spread of COVID-19. Industrial production, consumption and investment in fixed assets, real estate and infrastructure construction all enjoyed steady recovery, lending support to bentonite demand from downstream industries including the iron and steel and energy sectors. As a result of the steady recovery of the economy and the downstream industries, the Group recorded an increase in revenue as compared to the corresponding period in 2020 despite a drop in gross profit margin. However, there remains uncertainty as to how the evolving COVID-19 pandemic will impact the global economy and the Group’s business in the near future. Any widespread resurgence of COVID-19 could cause further disruptions to production and demand and fluctuations in prices, which will negatively impact the Group’s results of operations.

Apart from the production and sale of bentonite products in the PRC, the Group has also carried out business on financial service business, including money lending business and wealth management services in Hong Kong as well as generating financial guarantee fee income in the PRC. During the first quarter of 2021, the business and operation environments of financial services remain challenging in Hong Kong as the pandemic has yet to be brought under control, and economic activities and confidence have not fully recovered. The performance of this business segment remained stable during the first quarter of 2021.

The Chinese government has implemented strong fiscal and monetary stabilizing policies to further boost the PRC’s GDP growth by building a strong domestic market and supporting the domestic and international “dual circulation” strategy. Investment in fixed assets, real estate and infrastructure construction is expected to maintain solid growth, which will then support bentonite demand from downstream industries including the iron and steel and the energy sectors. Nevertheless, it would be difficult to gauge the longer term impact of such events as the situation is dynamically revolving. The Group has been proactive in closely monitoring the market conditions and taking appropriate measures to respond to the challenges. The Group will also continue to strengthen its cost control and resources management as well as to actively participate in project tenders, in order to maintain its competitiveness in the market.

Within the bentonite industry, uncertainties due to COVID-19 and international trade conflicts will cause market competition to further intensify and prices to fluctuate. Meanwhile, the new series of real estate market regulation and control policies and the PRC's ambitious target to achieve carbon neutrality by 2060 are expected to adversely affect the iron and steel and the traditional energy industries in the long term, which will negatively impact the Group's business by imposing pressures on demand for pelletising clay and drilling mud. The Group strives to maintain the sales volume of its bentonite products by improving product quality and adhering to the "selling more with lower margin" strategy, and yet the Group may not be able to maintain the current level of gross profit margin in the coming months. The Group intends to continue expanding its customer base and market share by boosting product awareness of its bentonite products, refining its production technology and developing new products with a view to enhance the Group's overall competitiveness to cope with the risks and uncertainties of the business environment.

In view of the COVID-19 pandemic situation in Hong Kong, the Group expects the business environment in financial services, including wealth management and money lending business would be challenging in the year 2021. However, with the expectation of increasing awareness in wealth management in recent years, the Group remains cautiously optimistic in the medium and long-term development of this business segment in Hong Kong. Meanwhile, the Group will cautiously monitor market change and impose robust control measures to improve cost efficiency and risk management in order to provide a solid foundation for sustainable growth in the future.

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

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

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors in accordance with Rule 7.31 of the GEM Listing Rules to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as if the Rights Issue had taken place on 30 June 2021.

The Unaudited Pro Forma Financial Information is prepared for illustrative purpose only and based on the judgements, estimates and assumptions of the Directors, and because of the hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company as at the date to which it is made up or at any future date.

The Unaudited Pro Forma Financial Information of the Group as at 30 June 2021 is prepared by the Directors based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2021, extracted from the published interim report of the Company for the six months ended 30 June 2021, with adjustments described below.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2021 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Rights Issue <i>HK\$'000</i>	Unaudited consolidated net tangible assets per Share attributable to the owners of the Company as at 30 June 2021 <i>HK\$'000</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the owners of the Company after completion of the Rights Issue <i>HK\$'000</i> <i>(Note 4)</i>
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Based on 79,557,200 Rights Shares to be issued at a Subscription Price of HK\$0.35 per Rights Share

104,143	26,363	130,506	1.309	0.820
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Notes:

- The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2021 is extracted from the interim report of the Company for the six months ended 30 June 2021, which is equal to the unaudited consolidated net assets attributable to owners as at 30 June 2021 of CNY87,515,000 (equivalent to approximately HK\$104,142,850 at the exchange rate of CNY1.00 to HK\$1.19). The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, may be exchanged at this or any other rate or at all.
- The estimated net proceeds from the Rights Issue are based on 79,557,200 Rights Shares to be issued at the Subscription Price of HK\$0.35 each per Rights Share, after deduction of the related expenses including, among others, placing commission and other professional fees. The estimated net proceeds are approximately HK\$26,363,000.
- The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 30 June 2021 was HK\$1.309 which was based on the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2021 of approximately HK\$104,142,850, divided by 79,557,200 Consolidated Shares immediately after the Share Consolidation having become effective.
- The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 30 June 2021 immediately after completion of the Rights Issue is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after completion of Rights Issue of approximately HK\$130,506,000, divided by 159,114,400 Consolidated Shares, being the total of 79,557,200 Consolidated Shares (which represents 795,572,000 Existing Shares in issue as at the Latest Practicable Date) and 79,557,200 Rights Shares, assuming the Share Consolidation has become effective and the Rights Issue has been completed on 30 June 2021.
- No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 30 June 2021.

The following is the text of a report, prepared for the purpose of incorporation in this circular and received from the independent reporting accountants, BDO Limited, Certified Public Accountants, in respect of the Unaudited Pro Forma Financial Information.

B. ACCOUNTANT’S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of P.B. Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of P.B. Group Limited (the “**Company**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Company as at 30 June 2021, and related notes as set out on Section A of Appendix II of the Company’s circular dated 4 October 2021 (the “**Circular**”) in connection with the proposed rights issue on the basis of one right share for every one existing share of the Company (the “**Rights Issue**”). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on Section A of Appendix II of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of Right Issue on the Company’s condensed consolidated financial position as at 30 June 2021 as if Right Issue had taken place at 30 June 2021. As part of this process, information about the Company’s condensed consolidated financial position and, condensed consolidated financial performance and, condensed consolidated cash flows has been extracted by the directors of the Company from the Company’s financial information for the six months ended 30 June 2021, of which no audit or review has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of Right Issue at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Group on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(7) of the GEM Rules.

BDO Limited

Certified Public Accountants

Hong Kong

4 October 2021

1. RESPONSIBILITY STATEMENT

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Underwriter and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the directors of the Underwriter) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the Underwriter jointly and severally accept full responsibility for the accuracy of the information in relation to the Underwriter contained in this circular, and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the Underwriter in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after the Share Consolidation becoming effective and following completion of the Rights Issue (assuming no further issue or repurchase of Shares on or before the completion of the Rights Issue) will be as follows:

- (i) As at the Latest Practicable Date

Authorised share capital: HK\$

<u>10,000,000,000</u>	Existing Shares of HK\$0.01 each	<u>100,000,000.00</u>
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Issued and paid-up share capital:

<u>795,572,000</u>	Existing Shares of HK\$0.01 each	<u>7,955,720.00</u>
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- (ii) Immediately after the Share Consolidation becoming effective (assuming no further issue or repurchase of Shares on or before the effective date of the Share Consolidation)

Authorised share capital: HK\$

<u>1,000,000,000</u>	Consolidated Shares of HK\$0.1 each	<u>100,000,000.00</u>
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Issued and paid-up share capital:

<u>79,557,200</u>	Consolidated Shares of HK\$0.1 each	<u>7,955,720.00</u>
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- (iii) Immediately after the Share Consolidation becoming effective and following the completion of the Rights Issue (assuming no other change in the number of Shares in issue up to completion of the Rights Issue save for the issue of the Rights Shares)

Authorised share capital: HK\$

<u>1,000,000,000</u>	Consolidated Shares of HK\$0.1 each	<u>100,000,000.00</u>
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Issued and paid-up share capital:

	Consolidated Shares of HK\$0.1 each immediately after the Share	
79,557,200	Consolidation becoming effective	7,955,720.00
	Rights Shares to be issued pursuant to the	
<u>79,557,200</u>	Rights Issue	<u>7,955,720.00</u>

	Consolidated Shares of HK\$0.1 each immediately following the completion	
<u>159,114,400</u>	of the Rights Issue	<u>15,911,440.00</u>

All the Existing Shares rank *pari passu* with each other in all respects including the rights as to dividends, voting and return of capital. The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* with each other and the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares in all respects including rights to dividends, voting and return of capital. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of issue of the fully-paid Rights Shares.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective, and the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there were no arrangements under which future dividends are waived or agreed to be waived.

The Company had not issued any Shares since 31 December 2020, being the end of the last financial year of the Company, and up to the Latest Practicable Date. As at the Latest Practicable Date, the Company had no outstanding warrants, options or convertible securities in issue which confer any right to subscribe for, convert or exchange into Shares.

As at the Latest Practicable Date, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option.

3. MARKET PRICES

The table below shows the closing prices of the Shares as quoted on the Stock Exchange (i) on the last trading day in the Shares took place at the end of each of the calendar months during the Relevant Period, (ii) the last business day immediately preceding the date of the Announcement; and (iii) on the Latest Practicable Date:

	Closing price per Share HK\$
29 January 2021	0.058
26 February 2021	0.055
31 March 2021	0.050
30 April 2021	0.050
31 May 2021	0.063
30 June 2021	0.058
15 July 2021 (being the last business day immediately preceding the date of the Announcement)	0.050
30 July 2021	0.080
31 August 2021	0.077
30 September 2021 (being the Latest Practicable Date)	0.059

The lowest and highest closing prices per Share as quoted on the Stock Exchange during the Relevant Period and ending on the Latest Practicable Date were HK\$0.050 on 26 and 29 to 31 March 2021, 1, 7 to 9, 12, 15, 16, 19 to 23 and 26 to 30 April 2021, 3 to 7, 10 and 11 May and 6 to 9 and 12 to 15 July 2021, and HK\$0.169 on 23 July 2021, respectively.

4. DISCLOSURE OF INTERESTS

(i) Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) were required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard of Dealings**”), to be notified to the Company and the Stock Exchange; or (iv) were required to be disclosed under the Takeovers Code were as follows:

Long position in the Shares

Name of Directors or chief executives	Capacity	Number of Shares	Approximate percentage of the issued shares
Dr. Chan	Interests of a controlled corporation (<i>Note 1</i>)	726,534,000	45.66
	Beneficial owner (<i>Note 2</i>)	66,820,000	4.20
Mr. Pui	Interests of a controlled corporation (<i>Note 1</i>)	726,534,000	45.66

Notes:

- The Underwriter is owned as to 50% by Dr. Chan and 50% by Mr. Pui. By virtue of the SFO, Dr. Chan and Mr. Pui are deemed to be interested in the Shares in which the Underwriter is interested. These 726,534,000 Shares consist of the 125,000,000 Shares beneficially owned by the Underwriter and the maximum number of 601,534,000 Underwritten Shares agreed to be underwritten by the Underwriter pursuant to the Underwriting Agreement. The number of Shares has not taken into account the effect of the Share Consolidation and the approximate percentage reflects the issued share capital as enlarged by the allotment and issue of Rights Shares on a fully diluted basis.
- These Shares consist of the 33,410,000 Shares beneficially owned by Dr. Chan and the 33,410,000 Shares agreed to be subscribed by Dr. Chan pursuant to the Irrevocable Undertakings. The number of Shares has not taken into account the effect of the Share Consolidation and the approximate percentage reflects the issued share capital as enlarged by the allotment and issue of Rights Shares on a fully diluted basis.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested in or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have such provisions of the SFO); or (ii) were required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Required Standard of Dealings, to be notified to the Company and the Stock Exchange; or (iv) were required to be disclosed under the Takeovers Code.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following person, other than a Director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in the Shares

Name of Shareholders	Capacity	Number of Shares	Approximate percentage of the issued shares
Mr. Zhang Qiang	Beneficial owner	275,000,000	34.57
Ms. Wang Jie (<i>Note 1</i>)	Interest of spouse	275,000,000	34.57
The Underwriter (<i>Note 2</i>)	Beneficial owner	726,534,000	45.66
P.B. Capital Advanced Fund SPC – P.B. Capital Advance Fund 1 Segregated Portfolio	Beneficial owner	111,762,000	14.05

Notes:

- Ms. Wang Jie is the spouse of Mr. Zhang Qiang. Therefore, Ms. Wang Jie is deemed to be interested in the Shares in which Mr. Zhang Qiang is interested.

2. These 726,534,000 Shares consist of the 125,000,000 Shares beneficially owned by the Underwriter and the maximum number of 601,534,000 Underwritten Shares agreed to be underwritten by the Underwriter pursuant to the Underwriting Agreement. The number of Shares has not taken into account the effect of the Share Consolidation and the approximate percentage reflects the issued share capital as enlarged by the allotment and issue of Rights Shares on a fully diluted basis.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had, or was taken or deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. DIRECTORS' SERVICES CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including continuous and fixed term contracts) had been entered into or amended during the Relevant Period; (b) were continuous contracts with a notice period of 12 months or more; or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTEREST IN ASSETS, CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which, since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, had been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Apart from the Underwriting Agreement and the Irrevocable Undertakings, there were no contracts or arrangements subsisting as at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group.

8. ADDITIONAL DISCLOSURE

As at the Latest Practicable Date,

- (i) there was no agreement, arrangement or understanding pursuant to which the Rights Shares to be acquired by the Underwriter under the Rights Issue will be transferred, charged or pledged to other persons;
- (ii) save as disclosed in the shareholding structure table as set out in the section headed “Effects on the shareholding structure of the Company” in the “Letter from the Board” of this circular, none of the Directors, the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them own, control or have control or direction over any voting rights and right over Shares, convertible securities, warrants, options or derivatives of the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) (the “**Relevant Securities**”) of the Company;
- (iii) none of the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them have received any irrevocable commitment from any Shareholders to vote for or against the proposed resolutions relating to the Rights Issue, the Placing Agreement, the Underwriting Agreement and/or the Whitewash Waiver at the EGM;
- (iv) save for the Irrevocable Undertaking given by the Underwriter and Dr. Chan, none of the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them have received any irrevocable commitment from any Shareholders to accept or reject the relevant Rights Shares to be provisionally allotted to the relevant party under the Rights Issue;
- (v) save for the Placing Agreement, the Underwriting Agreement and the Irrevocable Undertakings, none of the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them have any arrangements referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise), with any other persons in relation to the Relevant Securities of the Company, which might be material to the Rights Issue and/or the Underwriting Agreement and/or the Whitewash Waiver;
- (vi) the Independent Financial Adviser does not own or control or have control or direction over any Relevant Securities of the Company and had not dealt for value in any such securities of the Company during the Relevant Period;

- (vii) none of the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them or the Company or any of the Directors have borrowed or lent any Relevant Securities of the Company;
- (viii) no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver;
- (ix) save for the Underwriting Agreement and the Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) existed among the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue, the Underwriting Agreement and the Whitewash Waiver;
- (x) save that the Rights Issue and the Underwriting Agreement are conditional upon, among other things, obtaining of the Whitewash Waiver by the Underwriter as set out in the paragraph headed “Conditions of the Underwriting Agreement” under the section headed “The Underwriting Agreement” in the “Letter from the Board” contained in this circular, there is no agreement or arrangement to which the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any of them is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Rights Issue and/or the Underwriting Agreement and/or the Whitewash Waiver;
- (xi) save that the Underwriter is owned as to 50% by Dr. Chan and 50% by Mr. Pui, the Company and the Directors do not own, control or have control or direction in any Relevant Securities of the Underwriter and the Company and the Directors had not dealt for value in such securities of the Underwriter during the Relevant Period;
- (xii) no subsidiaries of the Company, pension funds of the Company or of any subsidiaries of the Company or person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code own, control or have control or direction over any Relevant Securities of the Company and there were no such aforesaid parties who had dealt for value in any such securities of the Company during the Relevant Period;
- (xiii) save for the Placing Agreement, the Underwriting Agreement and the Irrevocable Undertakings, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any of them on one part and any other person;

- (xiv) save for the Placing Agreement entered between the Company and the Placing Agent, the Underwriting Agreement entered into among the Company, the Underwriter and Dr. Chan, and the Irrevocable Undertakings given by the Underwriter and Dr. Chan to the Company and the Underwriter, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code and none of the aforesaid parties had dealt for value in any Relevant Securities of the Company during the Relevant Period;
- (xv) no Relevant Securities of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and the aforesaid parties had not dealt for value in any Relevant Securities of the Company during the Relevant Period;
- (xvi) pursuant to the Irrevocable Undertakings, each of the Underwriter and Dr. Chan has provided irrevocable and unconditional undertakings to the Company that (a) all the above 158,410,000 Existing Shares held by them in aggregate will continue to be beneficially owned by them on the Record Date; and (b) each of them will accept and pay for all the 15,841,000 Rights Shares to be provisionally allotted to them in aggregate under the Rights Issue pursuant to the terms and conditions of the Prospectus Documents. In accordance with the Listing Rules and the Takeovers Code, the Underwriter and Dr. Chan and any parties acting in concert with either of them shall abstain from voting in favour of the resolutions to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the EGM;
- (xvii) save for the Underwriting Agreement and the Irrevocable Undertakings, there was no agreement or arrangement between any of the Directors and any other person which was conditional or dependent on the outcome of the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver or otherwise connected with the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver;
- (xviii) save for the Underwriting Agreement and the Irrevocable Undertakings, there was no material contract entered into by the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them in which any Director had a material personal interest;

- (xix) apart from the Rights Shares to be subscribed and underwritten by the Underwriter, the Company has not paid and will not pay any consideration, compensation or benefit in whatever form to the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them in connection with the Rights Issue and the Underwriting Agreement;
- (xx) apart from the Underwriting Agreement and the Irrevocable Undertakings, there is no other understanding, arrangement or special deal between the Company on the one hand, and the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them on the other hand; and
- (xxi) there was no understanding, arrangement or agreement or special deal between (a) any Shareholder (excluding the Underwriter, Dr. Chan, Mr. Pui and parties acting in concert with any one of them who are Shareholders); and (b) the Underwriter, Dr. Chan, Mr. Pui or any parties acting in concert with any one of them.

9. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by members of the Group from 16 July 2019 (being the date falling two years immediately preceding 16 July 2021 (being the date of the Announcement)) up to and including the Latest Practicable Date:

- (a) a back-to-back guarantee renewal agreement dated 29 July 2019 and entered into between the Wuhu Subsidiary and the Borrower in relation to the renewal of a financial guarantee to the Borrower for procuring it to obtain the loan provided by the lending bank with principal amount of CNY19 million (equivalent to approximately HK\$21.85 million) by means of the Wuhu Subsidiary entering into a guarantee contract for the pledge of its deposit in the sum of CNY20 million (equivalent to approximately HK\$23 million) with the lending bank (the “**Guarantee**”);
- (b) a back-to-back guarantee renewal agreement dated 24 July 2020 and entered into between the Wuhu Subsidiary and the Borrower in relation to the renewal of the Guarantee;
- (c) a back-to-back guarantee renewal agreement dated 28 July 2021 and entered into between the Wuhu Subsidiary and the Borrower in relation to the renewal of the Guarantee;
- (d) a sale and purchase agreement dated 23 October 2020 entered into among the Underwriter as vendor, the Company as purchaser, and Dr. Chan and Mr. Pui as guarantors in relation to the acquisition of the entire issued share capital of P.B. Group Limited by the Company from the Underwriter at the consideration of HK\$9,000,000;

- (e) the Placing Agreement; and
- (f) the Underwriting Agreement.

10. LITIGATION

As disclosed in the interim report of the Company for the six months ended 30 June 2021, the Company has:

- (i) instituted legal proceedings against Lituo Enterprise (HK) Limited (“**Lituo**”) on 18 October 2018 to recover outstanding deposits amounted to HK\$10,930,000 under High Court Action No. 2449 of 2018. As at the Latest Practicable Date, the parties have yet to agree the usual order of directions for fixing timeline for the parties to make discovery of documents and exchange of statements of witnesses and the case is currently in progress;
- (ii) instituted legal proceedings against, Lituo and another company (“the **2nd Defendant**”) which was the payee designated by Lituo under the underlying contract, to recover outstanding deposits amounted to HK\$35,000,000 under High Court Action No. 2450 of 2018. Lituo filed its defence on 28 November 2018 whereas the 2nd Defendant, which is incorporated in British Virgin Islands never responded to the case and on 15 May 2020, the court granted final judgment against the 2nd Defendant upon the Company’s application. Pursuant to an Order dated 19 April 2021 in the Eastern Caribbean Supreme Court in the High Court of Justice Virgin Islands under Claim No. BVIHC (COM) 0029 of 2021, it was ordered, *inter alia*, that Mr. John David Ayres of FTI Consulting (BVI) Limited and Mr. Chow Wai Shing Daniel of FTI Consulting (BVI) Limited be appointed as joint and several liquidators of the 2nd Defendant. As at the Latest Practicable Date, the joint and several liquidators have commenced their work and issued a notice of liquidation to the 2nd Defendant but have not yet received a reply. The case is in progress;
- (iii) issued demand letter to Trade Rosy Global Limited (“**Trade Rosy**”) requesting the refund of deposits amounted HK\$14,500,000 on 1 November 2018 and as at the Latest Practicable Date, the Company is assessing the case and seeking other meaningful remedial actions to recover the deposit and has not taken any further action against Trade Rosy; and
- (iv) instituted legal proceedings against Tong Chung Ming trading as Kai Muk Company to recover the remaining balance of a deposit amounted HK\$8,530,000 under High Court Action No. 1767 of 2018. By a Judgment dated 20 January 2021, it was adjudged that there be judgment entered for the Company in the sum of HK\$8,530,000 with interest at HSBC Prime + 1% from 31st March 2018 to the date of judgment, and at the judgment rate thereafter and there is a costs order nisi that Tong Chung Ming trading as Kai Muk Company is to pay the Company’s costs to be taxed if not agreed. As at the Latest Practicable Date, the Company is in the process of locating the defendant in order to enforce the judgment.

For details on the above proceedings, please refer to the interim report of the Company for the six months ended 30 June 2021 published on 13 August 2021.

As at the Latest Practicable Date, save as disclosed above, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

11. EXPERTS AND CONSENTS

The qualifications of the experts who have given opinions, letters or advice contained in this circular are set out below:

Name	Qualification
Alliance Capital Partners Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified public accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter, advice, report and/or references to its names, in the form and context in which they are respectively included.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

12. EXPENSES

The expenses payable by the Company in connection with the Rights Issue and the Whitewash Waiver, including printing, registration, translation, legal, financial advisory, accounting and other professional fees, are estimated to be approximately HK\$1.5 million.

13. DIRECTORS OF THE COMPANY

Name	Address
<i>Executive Directors</i>	
Dr. Chan Man Fung (Co-Chairman)	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
Mr. Pui Wai Lun (Co-Chairman)	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
Mr. Su Chun Xiang	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
Mr. Pang Ho Yin	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
<i>Independent non-executive Directors</i>	
Mr. Yip Chong Ho Eric	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
Mr. Chow Chi Hang Tony	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
Mr. Zhang Kun	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong

Executive Directors**Dr. Chan Man Fung**

Dr. Chan, aged 34, was appointed as an executive Director, Co-chairman and the authorized representative on 1 December 2020. Dr. Chan received his Postgraduate Diploma in Business Administration from the Society of Business Practitioners of Cheshire, England in 2017, obtained his doctorate degree in Business Administration from Warnborough College, Ireland in 2016 and received his Postgraduate Diploma in Legal Practice from the University of Oxford, England in 2011. He was graduated from the University of London with a bachelor degree of Laws in 2007 and from The Hong Kong Polytechnic University with a bachelor degree of Arts with a major in Business Studies in 2006. Dr. Chan also is a fellow member of Society of Business Practitioners of Cheshire, England and a practicing chartered legal executive lawyer in England. Dr. Chan was a licensed person for types 1, 2, 4 and 9 regulated activities under the SFO and currently is the director and the substantial shareholder of a corporation licensed by the SFC to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Dr. Chan is a merchant having businesses and investments in Hong Kong and the PRC. Dr. Chan has extensive experience in corporate finance and the legal and financial services fields both in the PRC and Hong Kong and was involved in several merger and acquisition transactions and initial public offerings.

Mr. Pui Wai Lun

Mr. Pui, aged 43, was appointed as an executive Director and Co-chairman on 1 December 2020. Mr. Pui obtained a Master degree of Business Administration in The Trinity College and University, the United States of America in 2018. Mr. Pui awarded an Executive Diploma in Financial Planning by The Hong Kong Management Association in 2011 and is a Registered Financial Adviser (Financial Planning) of International Association of Financial Advisers operated by PAMA International since 2011. Mr. Pui is a merchant having businesses and investments in Hong Kong and the PRC. Mr. Pui has over 20 years of experience in insurance and wealth management, general business practices and corporate financial transactions, such as merger and acquisitions and corporate restructuring. Mr. Pui currently is the director and the substantial shareholder of a corporation licensed by the SFC to carry out type 1 (dealing in securities) regulated activities under the SFO.

Mr. Su Chun Xiang (“Mr. Su”)

Mr. Su, aged 33, was appointed as an executive Director on 9 January 2018, the compliance officer of the Company on 9 February 2018. Mr. Su obtained a degree of Master of Engineering in Software Engineering from Xiamen University in the PRC in 2012. Mr. Su has extensive experience in finance and investment fund management. He was the founder and the general manager of the risk control department of Kunming Precious Metal Exchange* (昆明貴金屬交易所) in the PRC and was the marketing director of the trading department of the COFCO Futures Co., Ltd. in the PRC. Mr. Su is currently the chairman of the board of an assets management company located in Beijing, the PRC, responsible for the overall investment management thereof. Mr. Su has also obtained the qualifications of 基金從業人員 (Fund Practitioner*) and 期貨從業人員 (Futures Practitioner*) respectively in the PRC. Mr. Su is currently an executive director of DT Capital Limited (Stock code: 356), whose shares are listed on the Main Board of the Stock Exchange.

Mr. Pang Ho Yin (“Mr. Pang”)

Mr. Pang, aged 46, was appointed as an executive Director on 15 May 2019. Mr. Pang was appointed as the Chief Executive officer of the Company on 11 November 2020. Mr. Pang obtained a bachelor degree of Business Management in the University of Sunderland in Hong Kong. Mr. Pang is currently the general manager of an insurance broker company, responsible for the overall operational and business management of the company. He has over 20 years of experience in insurance and wealth management industry. Mr. Pang also has extensive experience particularly in insurance field and has held positions as senior managers in Manulife (International) Limited and New York Life Insurance Worldwide Limited.

Independent non-executive Directors**Mr. Yip Chong Ho Eric (“Mr. Yip”)**

Mr. Yip, aged 31, was appointed as an independent non-executive Director of the Company, the chairman of each of the audit committee and remuneration committee and the member of the nomination committee of the Company on 23 April 2021. Mr. Yip holds a degree of Bachelor of Business Administration in Professional Accounting from The Open University of Hong Kong. Mr. Yip is a member of Hong Kong Institute of Certified Public Accountants. He has over 6 years of working experience in the field of accounting and finance. He is currently the audit manager of a professional accountants firm. Prior to that, Mr. Yip worked for several professional accountants firm for 4 years and the accounting department of a securities firm for about 2 years.

Mr. Chow Chi Hang Tony (“Mr. Chow”)

Mr. Chow, aged 29, was appointed as an independent non-executive Director on 9 January 2018. He is the chairman of nomination committee and the member of each of the audit committee and remuneration committee of the Company. Mr. Chow obtained a degree of Bachelor of Laws and a Postgraduate Certificate in Laws from The Chinese University of Hong Kong in 2014 and 2015 respectively. Mr. Chow is currently a practicing Barrister-At-Law in Hong Kong practicing in both civil and criminal litigation. Mr. Chow is currently an independent non-executive director of Bonny International Holding Limited (Stock code: 1906), whose shares are listed on the Main Board of the Stock Exchange.

Mr. Zhang Kun (“Mr. Zhang”)

Mr. Zhang, aged 34, was appointed as an independent non-executive Director on 8 April 2020. He is the member of audit committee, nomination committee and remuneration committee of the Company. Mr. Zhang holds a Bachelor Degree in Business Administration from Kemi-Tornio University of Applied Sciences, Finland, and Master Degree in Business Management and Master Degree of Science in Audit and Management Control from Edhec Business School, France. Mr. Zhang is well versed in banking and financial services factors. He had held various positions in banks in the PRC, including as a project manager in investment banking, and was an operation director of an asset management company in Shenzhen. Mr. Zhang has been a supervisor of Shenzhen Credit-reed Investment Management Company Limited since July 2017. Mr. Zhang was a non-executive director of China Investment Development Limited (stock code: 204), a company whose shares are listed on the main board of the Stock Exchange, from March 2018 to January 2019.

14. CORPORATE INFORMATION AND PARTIES TO THE RIGHTS ISSUE

Registered office	71 Fort Street P.O. Box 500, George Town Grand Cayman KY1-1106 Cayman Islands
Head office and principal place of business in Hong Kong	Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong
Principal share registrar and transfer office	Appleby Global Services (Cayman) Limited 71 Fort Street P.O. Box 500, George Town Grand Cayman KY1-1106 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company secretary	Ms. Chik Wai Chun
Authorised representatives	Dr. Chan Man Fung Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong Ms. Chik Wai Chun Room 402A, 4/F Park Commercial Centre 180 Tung Lo Wan Road Causeway Bay, Hong Kong

Principal bankers**Bank of China Limited (Wuhu branch)**

No. 2 Jin'e Road
Fanyang Town
Fanchang County
Wuhu, Anhui
People's Republic of China

**Industrial and Commercial Bank of China
(Fanchang branch)**

No. 128 Jin'e Road
Fanyang Town
Fanchang County
Wuhu, Anhui
People's Republic of China

Reporting accountants**BDO Limited**

Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

**Legal adviser to the Company as to
Hong Kong laws****Michael Li & Co.**

19/F, Prosperity Tower
39 Queen's Road Central
Hong Kong

**Legal adviser to the Company as to
Cayman Islands laws****Appleby**

Suites 4201-03 & 12
42/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

**Independent financial adviser to the
Independent Board Committee and
the Independent Shareholders****Alliance Capital Partners Limited**

Room 1502-03A, 15/F
Wing On House
71 Des Voeux Road
Central, Hong Kong

Placing Agent**CIS Securities Asset Management Limited**

21/F Centre Point
181-185 Gloucester Road
Wan Chai, Hong Kong

The Underwriter**P.B. Asia Holdings Limited***Registered address:*

Vistra Corporate Services Centre
Wickhams Cay II, Road Town
Tortola, VG1110
British Virgin Island

Correspondence address:

Unit 1506, 15/F.
Austin Plaza
83 Austin Road
Kowloon, Hong Kong

15. GENERAL

- (i) As at the Latest Practicable Date, the Underwriter is owned as to 50% by Dr. Chan and 50% by Mr. Pui. The directors of the Underwriter are Dr. Chan and Mr. Pui.
- (ii) The company secretary of the Company is Ms. Chik Wai Chun, who is a chartered company secretary.
- (iii) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong. Save and except for Renminbi, the Group has no exposure to foreign exchange liabilities.
- (iv) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.
- (v) Translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purpose only and should not be regarded as the official English translation of the Chinese names.

16. DOCUMENTS AVAILABLE FOR INSPECTION AND DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection (i) at Room 402A, 4/F, Park Commercial Centre, 180 Tung Lo Wan Road, Causeway Bay, Hong Kong during normal business hours on any Business Day; (ii) on the websites of the Company (www.thepbg.com) and the SFC (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the memorandum and articles of association of the Underwriter;
- (iii) the annual reports of the Company for each of the two financial years ended 31 December 2019 and 2020 and the interim report of the Company for the six months ended 30 June 2021;
- (iv) the letter from the Board, the text of which is set out on pages 19 to 63 of this circular;
- (v) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 64 to 65 of this circular;
- (vi) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 66 to 109 of this circular;
- (vii) the report from BDO Limited on the unaudited pro forma financial information of the Group in respect of the Rights Issue, the text of which is set out in Appendix II to this circular;
- (viii) the written consents referred to in the paragraph headed “Experts and Consents” in this appendix;
- (ix) the material contracts referred to in the paragraph headed “Material contracts” in this appendix; and
- (x) this circular.

NOTICE OF EGM



(incorporated in Cayman Islands with limited liability)

(Stock code: 8331)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of P. B. Group Limited (the “**Company**”) will be held at Room 402A, 4/F, Park Commercial Centre, 180 Tung Lo Wan Road, Causeway Bay, Hong Kong at 2:30 p.m. on Tuesday, 26 October 2021 for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon (i) the compliance with all relevant procedures and requirements under the laws of the Cayman Islands (where applicable) and the GEM Listing Rules to effect the Share Consolidation (as defined below), and (ii) the GEM Listing Committee of the Stock Exchange (as defined below) granting the listing of, and permission to deal in, the Consolidated Shares (as defined below) arising from the Share Consolidation, with effect from the second business day immediately following the day of passing of this resolution, being a day on which the shares of the Company are traded on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”):
 - (a) every ten (10) issued and unissued shares of par value HK\$0.01 each in the share capital of the Company be consolidated into one (1) share of par value HK\$0.1 (each a “**Consolidated Share**”), and such Consolidated Share(s) shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company (the “**Share Consolidation**”)
 - (b) all fractional Consolidated Shares resulting from the Share Consolidation will be disregarded and will not be issued to holders of the same but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company in such manner and on such terms as the board of directors (the “**Directors**”) of the Company may think fit; and
 - (c) any one or more Directors be and is/are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as he/they may, in his/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Share Consolidation.”

NOTICE OF EGM

2. “**THAT** conditional upon (i) all other resolutions set out in this notice being passed by the shareholders of the Company (the “**Shareholders**”); (ii) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the Rights Shares (as defined below) (in their nil-paid and fully-paid forms); (iii) the fulfilment or waiver of the conditions set out in the Underwriting Agreement (as defined below); and (iv) the filing and registration of all documents relating to the Rights Issue (as defined below) required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) and the Underwriting Agreement not being terminated in accordance with its terms:
- (a) the issue by way of rights (the “**Rights Issue**”) of 79,557,200 new Consolidated Shares (the “**Rights Shares**”) at a subscription price of HK\$0.35 per Rights Share (the “**Subscription Price**”) on the basis of one (1) Rights Share for every one (1) Consolidated Share held by the Shareholders whose names shall appear on the register of members of the Company at 5:00 p.m. on Monday, 8 November 2021 (the “**Qualifying Shareholders**”), or such other date as the Company and the Underwriter (as defined below) may agree to be the record date for determination of the entitlements of the Shareholders to the Rights Issue (the “**Record Date**”) (excluding those Shareholders (the “**Non-Qualifying Shareholders**”) whose addresses on the register of members of the Company are outside Hong Kong on the Record Date in respect of whom the Director(s), after making relevant enquiries, consider it necessary or expedient to exclude from the Rights Issue on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant statutory body or stock exchange in that (those) place(s)), and substantially on the terms and conditions set out in the circular of the Company dated 4 October 2021 (the “**Circular**”) (a copy of which marked “A” is produced to the meeting and initialled by the chairman of the meeting for the purpose of identification) and such other terms and conditions as may be determined by the Directors, be and is hereby approved and the Directors be and are hereby authorised to issue and allot such Rights Shares by way of rights and otherwise on the terms set out in such document, and the placing agreement dated 16 July 2021 (and supplemented on 30 September 2021) entered into between the Company and CIS Securities Asset Management Limited (the “**Placing Agreement**”) in relation to the placing of a maximum of 60,153,400 Rights Shares that are not subscribed by the Qualifying Shareholders (the “**Unsubscribed Rights Shares**”) and the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form that have not been sold by the Company (the “**NQS Unsold Rights Shares**”), at the placing price of not less than the Subscription Price per Unsubscribed Rights Share or NQS Unsold Rights Share (as the case may be) on a best effort basis first, then a maximum of 3,562,800

NOTICE OF EGM

Unsubscribed Rights Shares and NQS Unsold Rights Shares on a fully underwritten basis (a copy of the Placing Agreement marked “B” is produced to the meeting and initialled by the chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

- (b) the board of Directors (the “**Board**”) or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro-rata to the Qualifying Shareholders and, in particular, the Board may make such exclusions or other arrangements in relation to the Non-Qualifying Shareholders as it may deem necessary or expedient having regard to the legal restrictions under the laws of, or the requirements of the relevant regulatory body or stock exchange in, any territory outside Hong Kong; and
- (c) any one or more Directors be and is/are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as he/they may, in his/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Rights Issue, the Placing Agreement, and the transactions contemplated thereunder.”

3. “**THAT:**

- (a) the entering into of the underwriting agreement dated 16 July 2021 (and supplemented on 30 September 2021) among the Company, P.B. Asia Holdings Limited (the “**Underwriter**”) and Dr. Chan Man Fung in relation to the Rights Issue (the “**Underwriting Agreement**”) and the transactions contemplated thereunder (a copy of the Underwriting Agreement marked “C” is produced to the meeting and initialled by the chairman of the meeting for the purpose of identification) be and is hereby approved, confirmed and ratified in all respects and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Rights Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified; and
- (b) any one or more Directors be and is/are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as he/they may, in his/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Underwriting Agreement and the transactions contemplated thereunder.”

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4. “**THAT:**

- (a) Subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s) and any conditions that may be imposed thereon, the granting of a waiver pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) to the Underwriter of any obligation to make a general offer under the Takeovers Code for all the issued shares of the Company (other than those owned or agreed to be acquired by the Underwriter and parties acting in concert with the Underwriter) as a result of the taking up of up to 60,153,400 Rights Shares by the Underwriter pursuant to the Underwriting Agreement (the “**Whitewash Waiver**”) be and is hereby approved; and
- (b) any one or more Directors be and is/are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as he/they may, in his/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Whitewash Waiver and the transactions contemplated thereunder.”

By Order of the Board
P.B. Group Limited
Dr. CHAN Man Fung
Executive Director and Co-chairman

Hong Kong, 4 October 2021

Notes:

1. A form of proxy for use at the meeting is enclosed with the circular of the Company dated 4 October 2021. Such form is also available at the website of the GEM and the website of the Company.
2. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him in accordance with the Company’s articles of association. A proxy need not be a member of the Company but must be present in person to represent the member.
3. To be valid, a form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

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4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should they so wish, and in such event, the instrument appointing a proxy shall be revoked.
5. Pursuant to the Takeovers Code, resolution numbered 4 must be approved by at least three-fourths of the votes cast on a poll by the Independent Shareholders (as defined in the Circular) present in person or by proxy at the EGM.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
7. The register of members of the Company will be closed from Thursday, 21 October 2021 to Tuesday, 26 October 2021 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM. Shareholders whose names appear on the Company's register of members on Tuesday, 26 October 2021 will be eligible for attending and voting at the EGM. In order to be eligible for attending and voting at the EGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong Time) on Wednesday, 20 October 2021.
8. As at the date hereof, the Board comprises (i) four executive Directors, namely Dr. Chan Man Fung (Co-chairman), Mr. Pui Wai Lun (Co-chairman), Mr. Su Chun Xiang and Mr. Pang Ho Yin; and (ii) three independent non-executive Directors, namely Mr. Yip Chong Ho Eric, Mr. Chow Chi Hang Tony and Mr. Zhang Kun.

NOTICE OF EGM

PRECAUTIONARY MEASURES FOR THE EGM

At the time of publishing this notice, the coronavirus (COVID-19) situation in Hong Kong is still developing and the situation at the time of the EGM is difficult to predict. The Company will closely monitor the development of the COVID-19 pandemic and any regulations or measures introduced or to be introduced by the Hong Kong Government in relation to COVID-19 pandemic. The Company will ensure that the EGM will be conducted in compliance with the regulations or measures of the Hong Kong Government and Shareholders will not be deprived of their right of voting on the resolutions to be proposed at the EGM. The Company reminds attendees that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. Furthermore, the Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly recommends Shareholders to appoint the chairman of the EGM as their proxy and submit their form of proxy as early as possible.

Should the COVID-19 pandemic continue to affect Hong Kong at or around the time of the EGM, the Company will implement precautionary measures at the EGM in the interests of the health and safety of the attendees of the EGM which include without limitation:

1. All attendees will be required to wear surgical face masks before they are permitted to attend, and during their attendance of, the EGM. Attendees are advised to observe good personal hygiene and maintain appropriate social distance with each other at all times when attending the EGM.
2. There will be compulsory body temperature screening for all persons before entering the EGM venue. Should anyone seeking to attend the EGM decline to submit to temperature testing or be found to be suffering from a fever with a body temperature of 37.3 degrees Celsius or above or otherwise unwell, the Company will request such persons to stay in an isolated place for completing the voting procedures.
3. Attendees may be asked if (i) he/she has travelled outside of Hong Kong within 14 days immediately before the EGM; (ii) he/she is subject to any Government of Hong Kong prescribed quarantine requirement; and (iii) he/she has any flu-like symptoms or close contact with any person under quarantine or with recent travel history. Any person who responds positively to any of these questions will be requested to stay in an isolated place for completing the voting procedures.
4. Appropriate distancing and spacing in line with the guidance from the Government of Hong Kong will be maintained and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding.
5. Each attendee will be assigned a designated seat to facilitate contact tracing and to ensure appropriate social distancing.
6. No gifts, food or beverages will be provided at the EGM.
7. Company staff and representatives at the EGM venue will assist with crowd control and queue management to ensure appropriate social distancing.
8. Due to the constantly evolving COVID-19 pandemic situation, the Company may implement further changes and precautionary measures in relation to the EGM arrangements at short notice. Shareholders should check the Company's website.