

**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 dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Ban Loong Holdings Limited (the "Company"), you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

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**萬隆控股集團有限公司**  
**Ban Loong Holdings Limited**  
*(incorporated in Bermuda with limited liability)*  
**(Stock Code: 30)**

**CONNECTED TRANSACTION**  
**IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE BONDS**  
**BY YUNNAN BAIYAO GROUP CO., LTD. UNDER SPECIFIC MANDATE**  
**AND**  
**NOTICE OF SPECIAL GENERAL MEETING**

**Financial Adviser to the Company**



**INCUC Corporate Finance Limited**

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



**紅日資本有限公司**  
**RED SUN CAPITAL LIMITED**

A notice of special general meeting (the "SGM") of the Company to be held at Boardroom 5, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 28 September 2020 at 11:30 a.m. is set out on pages 94 to 96 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Such form of proxy is also published on the web site of The Stock Exchange of Hong Kong Limited.

Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

**PRECAUTIONARY MEASURES AT THE SGM**

Please see page ii of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the SGM, including:

- body temperature check
- health declaration
- wearing surgical face mask
- access restriction for quarantine participants according to the Department of Health of Hong Kong
- no refreshment and corporate gifts

Any shareholder of the Company (the "Shareholder(s)") who refuses to co-operate with the precautionary measures will not be admitted to the venue. For the health and well-being of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the SGM by appointing the chairman of the SGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the SGM in person.

11 September 2020

## FORWARD-LOOKING STATEMENTS

All statements in this circular other than statements of historical fact are forward-looking statements. In some cases, forward-looking statements may be identified by the use of words such as “might”, “may”, “could”, “would”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue”, “illustration”, “projection” or similar expressions and the negative thereof. Forward-looking statements in this circular include, without limitation, statements in respect of the Group’s business strategies, service offerings, market position, competition, financial prospects, performance, liquidity and capital resources, as well as statements regarding trends in the relevant industries and markets in which the Group operates, technological advances, financial and economic developments, legal and regulatory changes and their interpretation and enforcement.

The forward-looking statements in this circular are based on management’s present expectations about future events. Management’s present expectations reflect numerous assumptions regarding the Group’s strategy, operations, industry, developments in the credit and other financial markets and trading environment. By their nature, they are subject to known and unknown risks and uncertainties, which could cause actual results and future events to differ materially from those implied or expressed by forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any assumptions underlying forward-looking statements prove to be incorrect, the Group’s actual results could differ materially from those expressed or implied by forward-looking statements. Additional risks not known to the Group or that the Group does not currently consider material could also cause the events and trends discussed in this circular not to occur, and the estimates, illustrations and projections of financial performance not to be realized.

Prospective investors are cautioned that forward-looking statements speak only as at the date of publication of this circular. Except as required by applicable law, the Group does not undertake, and expressly disclaims, any duty to revise any forward-looking statement in this circular, be it as a result of new information, future events or otherwise.

## PRECAUTIONARY MEASURES AT THE SGM

In view of the ongoing Novel Coronavirus (COVID-19) epidemic, the Company will implement the following preventive measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the SGM venue or be required to leave the SGM venue.
- (ii) All attendees may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the SGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.
- (iii) The Company encourages attendees to wear surgical face masks inside the SGM venue at all times, and to maintain a safe distance between seats.
- (iv) No refreshments will be served and there will be no corporate gifts.

To the extent permitted under law, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines issued by the Government of Hong Kong (available at [www.chp.gov.hk/en/features/102742.html](http://www.chp.gov.hk/en/features/102742.html)), the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using forms of proxy with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

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## DEFINITIONS

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

“Announcements”	the Company’s announcements dated 14 October 2019, 4 November 2019, 18 November 2019, 2 December 2019, 16 December 2019, 31 December 2019, 31 January 2020, 14 February 2020, 28 February 2020, 31 March 2020, 3 May 2020, 31 July 2020, 31 August 2020 and 10 September 2020 in relation to the Subscription
“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Ban Loong Hemp Technology”	Ban Loong Hemp Technology Limited (萬隆漢麻科技有限公司), a company incorporated in Hong Kong with limited liability, a direct wholly-owned subsidiary of the Company and a member of the Group
“Board”	the board of Directors
“Business Day(s)”	any day(s) (other than a Saturday or Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“CBD”	cannabidiol
“Company”	Ban Loong Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange with stock code: 30
“Completion”	the completion of the Subscription
“Conditions”	the conditions precedent to Completion, as more particularly set out in the paragraph headed “Conditions” of this circular
“connected person(s)”	having the meaning ascribed thereto under the Listing Rules
“Conversion Shares”	the Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Convertible Bonds

## DEFINITIONS

“Convertible Bonds”	the convertible bonds to be issued by the Company to Yunnan Baiyao Group in the aggregate principal amount of HK\$500,000,000 pursuant to the Subscription
“Director(s)”	the director(s) of the Company
“F&S” or “Frost & Sullivan”	Frost & Sullivan International Limited, a market research consultant who is an Independent Third Party
“F&S Report”	the industry report prepared by F&S titled “Global Cannabidiol Market Study” dated 11 September 2020, on (i) the Global CBD market and (ii) the CBD markets in the PRC, Japan and the United States
“Group”	collectively, the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely, Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Wong Chui San, Susan, which was established to make a recommendation regarding the terms of the Subscription
“Independent Financial Adviser” or “Red Sun Capital”	Red Sun Capital Limited, a corporation licensed 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 to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription
“Independent Shareholders”	Shareholders other than (a) Yunnan Baiyao Group and its associates, and (b) any other Shareholders who are required by the Listing Rules to abstain from voting in respect of the resolution(s) relating to the Subscription and the Specific Mandate at the SGM

## DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Latest Practicable Date”	9 September 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	a special general meeting of the Company to be convened and held at Boardroom 5, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 28 September 2020 at 11:30 a.m. for the purpose of approving, amongst other things, the Subscription and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the Conversion Shares under the Specific Mandate
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specialist Consultancy”	a consultancy firm headquartered in California, the United States specialized in hemp cultivation and extraction and the distribution channels in North America, which was engaged by the Company in February 2019 to advise the Company on the CBD project
“Specific Mandate”	the authority to be sought from the Independent Shareholders at the SGM to authorize the Directors to issue the Convertible Bonds under the Subscription and to allot and issue the Conversion Shares upon the exercise of the conversion rights attaching thereto

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Convertible Bonds by Yunnan Baiyao Group on the terms and subject to the conditions of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements)
“Subscription Agreement”	the conditional subscription agreement entered into on 14 October 2019 (after trading hours) between the Company and Yunnan Baiyao Group, as amended and supplemented by the Supplemental Subscription Agreements, in relation to the Subscription
“Subscription Price”	HK\$500,000,000, being the subscription price for the Convertible Bonds
“substantial shareholders”	having the meaning ascribed thereto under the Listing Rules
“Supplemental Subscription Agreement I”	the supplemental agreement to the Subscription Agreement entered into on 31 December 2019 (after trading hours) between the Company and Yunnan Baiyao Group in relation to the Subscription, pursuant to which the Long Stop Date was extended to 28 February 2020 (or such later date as the Company and Yunnan Baiyao Group may agree)
“Supplemental Subscription Agreement II”	the supplemental agreement to the Subscription Agreement entered into on 28 February 2020 (after trading hours) between the Company and Yunnan Baiyao Group in relation to the Subscription, pursuant to which the Long Stop Date was extended to 30 April 2020 (or such later date as the Company and Yunnan Baiyao Group may agree)
“Supplemental Subscription Agreement III”	the supplemental agreement to the Subscription Agreement entered into on 30 April 2020 (after trading hours) between the Company and Yunnan Baiyao Group in relation to the Subscription, pursuant to which the Long Stop Date was extended to 31 July 2020 (or such later date as the Company and Yunnan Baiyao Group may agree)

## DEFINITIONS

“Supplemental Subscription Agreement IV”	the supplemental agreement to the Subscription Agreement entered into on 31 July 2020 (after trading hours) between the Company and Yunnan Baiyao Group in relation to the Subscription, pursuant to which the Long Stop Date was extended to 31 October 2020 (or such later date as the Company and Yunnan Baiyao Group may agree)
“Supplemental Subscription Agreement V”	the supplemental agreement to the Subscription Agreement entered into on 10 September 2020 (after trading hours) between the Company and Yunnan Baiyao Group in relation to the Subscription, pursuant to which, among others, the aggregate principal amount and the Subscription Price was lowered from HK\$730,000,000 to HK\$500,000,000
“Supplemental Subscription Agreements”	Supplemental Subscription Agreement I, Supplemental Subscription Agreement II, Supplemental Subscription Agreement III, Supplemental Subscription Agreement IV and Supplemental Subscription Agreement V
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“THC”	tetrahydrocannabinol
“United States”	the United States of America
“Yunnan Baiyao Group”	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司), a joint stock company established in the PRC with limited liability and the subscriber under the Subscription
“%”	per cent

LETTER FROM THE BOARD



萬隆控股集團有限公司  
Ban Loong Holdings Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 30)**

*Executive Directors:*

Mr. Wang Minghui (*Chairman*)

Mr. Chow Wang (*Deputy Chairman & Chief Executive Officer*)

Mr. Yin Pinyao

Mr. Chu Ka Wa (*Chief Financial Officer*)

Mr. Wang Zhaoqing (*Chief Operating Officer*)

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Non-executive Director:*

Mr. Fong For

*Principal place of business in*

*Hong Kong:*

Unit 2709-10, 27/F.

China Resources Building

26 Harbour Road, Wanchai

Hong Kong

*Independent non-executive Directors:*

Mr. Jiang Zhi

Mr. Leung Ka Kui, Johnny

Ms. Wong Chui San, Susan

11 September 2020

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE BONDS  
BY YUNNAN BAIYAO GROUP CO., LTD. UNDER SPECIFIC MANDATE**

**INTRODUCTION**

Reference is made to the Company's Announcements dated 14 October 2019, 4 November 2019, 18 November 2019, 2 December 2019, 16 December 2019, 31 December 2019, 31 January 2020, 14 February 2020, 28 February 2020, 31 March 2020, 3 May 2020, 31 July 2020, 31 August 2020 and 10 September 2020 in relation to the Subscription by Yunnan Baiyao Group, pursuant to which the Company has conditionally agreed to issue, and Yunnan Baiyao Group has conditionally agreed to subscribe for, the Convertible Bonds in the principal amount of HK\$500,000,000 at the Subscription Price.

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Subscription and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the Conversion Shares under the Specific Mandate; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms of the Subscription and the Specific Mandate; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Specific Mandate; (iv) other information prescribed by the Listing Rules; and (v) the notice of the SGM.

### THE SUBSCRIPTION

The principal terms of the Subscription are set out below:

#### **Dates of the Subscription Agreement (as supplemented by the Supplemental Agreements)**

14 October 2019 (after trading hours), 31 December 2019 (after trading hours), 28 February 2020 (after trading hours), 30 April 2020 (after trading hours), 31 July 2020 (after trading hours) and 10 September 2020 (after trading hours)

#### **Parties**

1. The Company (as the issuer)
2. Yunnan Baiyao Group (as the subscriber)

#### **Conditions**

Completion of the Subscription is conditional upon:

- (a) the obtaining by Yunnan Baiyao Group of all (where applicable) required approvals in relation to the Subscription in accordance with laws and regulations in the PRC (including those regarding offshore investment) and the rules governing the listing of shares on Shenzhen Stock Exchange;
- (b) the obtaining by the Company of the approval from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and such approval not having been revoked or cancelled prior to the Completion of the Subscription;
- (c) the obtaining by the Company of the approval of the Independent Shareholders at the SGM in respect of the Subscription and the Specific Mandate; and
- (d) the issue of the Convertible Bonds not triggering any mandatory general offer obligations under the Takeovers Code.

## LETTER FROM THE BOARD

Yunnan Baiyao Group shall use its reasonable endeavours to procure that Condition (a) above is satisfied on or before 31 October 2020 (the “**Long Stop Date**”). The Company shall use its reasonable endeavours to procure that Conditions (b) and (c) above are satisfied by on or before the Long Stop Date. None of the Conditions above may be waived by any party in any event.

If any of the Conditions is not fulfilled on or before the Long Stop Date, then unless the Company and Yunnan Baiyao Group mutually agree to further extend the Long Stop Date to such later time and date, the Subscription shall lapse and become null and void and the parties shall be released from all obligations thereunder save for liabilities for any antecedent breaches thereof.

As at the Latest Practicable Date, none of the Conditions has been satisfied yet.

### Completion

Completion of the Subscription shall take place within five Business Days after the day on which the last Condition is fulfilled or such other date as the parties may agree in writing. The aggregate Subscription Price shall be remitted by Yunnan Baiyao Group to the account designated by the Company at Completion. In any event, Completion of the Subscription shall take place within eight weeks after the date of obtaining of the Independent Shareholders’ approval on the Subscription and the Specific Mandate at the SGM.

### PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Issuer	:	The Company
Principal amount	:	HK\$500,000,000
Interest	:	Three per cent. (3%) per annum, payable on the anniversary of the date of issue
Maturity Date	:	The day falling on the second anniversary of the date of issue (or if such date is not a Business Day, the next Business Day)
Conversion Period	:	The period commencing on the date of issue and ending on the Maturity Date

## LETTER FROM THE BOARD

- Conversion Rights : The holders of the Convertible Bonds shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares at the initial Conversion Price of HK\$0.258 per Conversion Share at any time during the Conversion Period. Unless the Convertible Bonds are previously redeemed or converted pursuant to their terms, all outstanding principal of the Convertible Bonds are automatically converted into Conversion Shares on the Maturity Date.
- Conversion Restrictions : If the conversion by the holders of the Convertible Bonds would trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the exercising bond holders or parties acting in concert with them, or reduce the public float of the Company to less than 25% as prescribed by Rule 8.08(1)(a) of the Listing Rules, then the conversion by the relevant bond holders shall be restricted until and unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with.
- Conversion Shares : Based on the initial Conversion Price of HK\$0.258 per Conversion Share and assuming there is no other change in the issued share capital of the Company between now and the full conversion of the Convertible Bonds, 1,937,984,496 Conversion Shares will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing: (a) approximately 30.05% of the existing issued share capital of the Company; and (b) approximately 23.11% of the issued share capital of the Company as enlarged by the issue of the 1,937,984,496 Conversion Shares. The aggregate nominal value of the 1,937,984,496 Conversion Shares is HK\$19,379,844.96.

## LETTER FROM THE BOARD

Conversion Price : The initial Conversion Price of HK\$0.258: (i) represents a discount of approximately 0.77% to the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on the date of signing of the Subscription Agreement; and (ii) is equivalent to the average closing price of HK\$0.258 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of signing of the Subscription Agreement. The initial Conversion Price is subject to adjustments upon occurrence of share consolidation or subdivision, share issuance through the capitalization of profits or reserves or capital distribution (collectively referred to as the “**Adjustment Events**”).

The theoretical diluted price, the benchmarked price and the theoretical dilution effect (as those terms are defined under Rule 7.27B of the Listing Rules) for the Subscription under the Specific Mandate are HK\$0.260 per Share, HK\$0.260 per Share and nil, respectively.

Transferability : The Convertible Bonds are freely transferable, but prior written consent from the Company will be required unless the Convertible Bonds are transferred to any wholly-owned subsidiary of the holder of the Convertible Bonds.

For any proposed transfer of the Convertible Bonds, the transferor or its authorised representative would be required to sign a transfer form, containing details such as the amount of transfer and the identity of the transferee. The Company would ascertain the background of the proposed transferee to ascertain whether such transferee would be a connected person, and the Group would also request the transferor to provide further details such as shareholding structure and board composition in order to be ascertained whether the proposed transferee is a connected person.

## LETTER FROM THE BOARD

- Redemption : The Convertible Bonds may not be redeemed by the holder before the Maturity Date, but may be redeemed in whole or part by the Company before the Maturity Date at the redemption price which is equivalent to the principal amount of the Convertible Bonds to be redeemed, plus interest of 3% per annum calculated from the date of issue up to and including the date of redemption.
- Voting : The Convertible Bonds shall not confer on the holders the right to vote at any general meetings of the Company.
- Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds.
- Ranking of the Conversion Shares : The Conversion Shares will, when issued and allotted, rank pari passu in all respects among themselves and with all other fully paid Shares in issue.

### Specific Mandate

The Conversion Shares will be issued under the Specific Mandate which is subject to Independent Shareholders' approval at the SGM.

### REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF THE PROCEEDS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in money lending and trading operations.

The Group has been exploring opportunities to diversify its existing businesses by diversifying its product portfolio. Since as early as 2017 and 2018, the Group has already diversified the product range of its trading business from edible oil and sugar to include also cosmetics and personal care products, under which the Group procures products from cosmetics and personal care product brands and supplies them to e-commerce platforms and other traders of cosmetics and personal care products. In order to enhance the (i) earnings and profits of the Group, (ii) the sustainability and viability of the Group's business and (iii) add value in the value chain of the trading and money lending operations, the Directors intend to apply the net proceeds from the Subscription to strengthen its existing business in (i) trading operations in China, Hong Kong and internationally and (ii) money lending operations in Hong Kong through the following means:

## LETTER FROM THE BOARD

- (1) **Strengthen the Group's market position in Hong Kong through continued expansion of the Group's cosmetics and personal care products and brand portfolio and explore new suppliers and expand the sales network in China**

As the trading of cosmetics and personal care products has yielded a higher profit margin historically compared to the trading of food raw materials such as edible oil and sugar for the Group, the Directors are of the view that it would be in the interest of the Group and the Shareholders as a whole to further expand the operation of this segment by increasing the sales of cosmetics and personal care products through expanding its product portfolio and presence on e-commerce platform. By doing so, it is expected that the overall revenue and profit of the Group would also be elevated.

To implement this strategy, in addition to looking for opportunities to obtain exclusive distributorship of products with track record and growth potentials, the Group intends to (i) expand the scale of trading of cosmetics and personal care products by expanding its product portfolio and presence on e-commerce platform; and (ii) diversify its product portfolio to include cosmetics and personal care products incorporated with CBD content.

- (a) Expansion of the scale of trading of cosmetics and personal care products by expanding its product portfolio and presence on e-commerce platform*

Leveraged on the Group's accumulated experience and expertise in trading cosmetics and personal care products by procuring products from cosmetics and personal care product brands and supplying them to e-commerce platforms and other traders of cosmetics and personal care products, the Group has been looking out for opportunities to expand its product portfolio. As at the Latest Practicable Date, the Group has identified several overseas brands in cosmetics and personal care products, and intends to obtain their distributorship rights for sales in China. On 3 April 2020, the Company was appointed as the authorised distributor of products from a Thai brand of natural body care, skin care and home spa products on an e-commerce platform (the "**E-commerce Platform**"), which is operated by a Singapore subsidiary of an enterprise established under the laws of the PRC which is (i) principally engaged in the business of e-commerce, retail, internet and technology services and (ii) is listed on the New York Stock Exchange and the Stock Exchange ("**Customer A**"), for a period until 2 April 2021. Going forward as part of its business strategies, the Company intends to continue (i) to enhance the cosmetics and personal care products brand portfolio of the Group; and (ii) to intensify its efforts in expanding the suppliers network, in terms of nature of products, origins of import, and securing additional customers and sales network. Customer A is principally engaged in the business of e-commerce, retail, internet and technology services, and the E-Commerce Platform it operates is a high-end e-commerce platform which is a cross-border marketplace for foreign brands and merchants to mainly sell directly to Chinese consumers.

## LETTER FROM THE BOARD

Since 2017, the Group has been one of the authorised suppliers of Customer A, supplying cosmetics and personal care products for the E-commerce Platform. On 31 March 2020, the Company has entered into a master product purchase agreement with Customer A, under which the Company was again appointed as one of Customer A's authorised suppliers of cosmetics and personal care products for the E-commerce Platform for a term of one year, which is automatically renewed for successive terms of one year unless notice of termination is provided by either party. Being an authorised supplier enables the Group to submit for tenders listed by Customer A. Upon award of the tenders, the Group (as supplier) enters into product purchase agreements with Customer A (as purchaser) for the Group's direct supply of goods to them, which are subsequently sold on the E-commerce Platform.

The Group intends to increase the sales of current cosmetics and personal care products to the E-commerce Platform, by continuing to bid for the tenders listed by Customer A from time to time and increasing its volume of goods sold to the E-commerce Platform. The Company considers the status of being an authorised supplier as a competitive advantage due to entry barriers to be qualified on list such as requirements on a supplier's financial resources (e.g. size of operation or listing status), reputation, sourcing capabilities, quality and authenticity of products, track record and past business relationship with Customer A.

## LETTER FROM THE BOARD

The Group intends to apply approximately HK\$100 million out of the net proceeds from the Subscription of HK\$498 million to expand product portfolio and its presence on e-commerce platform, as elaborated in the following:

	<i>HK\$'million</i>
Procurement of cosmetics and personal care products for fulfilment of existing customer orders	40
Maintaining inventory of cosmetics and personal care products	50
Hiring of additional sales personnel <sup>(Note)</sup>	10
	100
<b>Total</b>	<b>100</b>

*Note:* The hiring of additional personnel involves the hiring of (i) four sales managers (with a monthly salary of HK\$50,000) and (ii) eight salespersons (with a monthly salary of HK\$25,000) for around two years.

In order to expand the Group's operation and elevate its market position in the cosmetics and personal care products industry, the Directors are of the view that it is vital for the Group to (i) satisfy the purchase orders of its existing customers on a timely basis and (ii) maintain a steady supply of cosmetics and personal care products, in particular, it would be essential to maintain an ample amount of inventory for such products in order to meet orders of larger quantities. With the expansion of the operation scale of the Group's trading business, increased orders are also expected from existing customers and therefore additional funds would also be allocated to procure goods to meet such demand. In addition, as part of the Group's strategy to elevate the market position, the Group has also introduced brands of higher tier, which usually bear a higher unit price range, a higher profit margin and a longer lead time for delivery, and suppliers of these products usually require us to prepay approximately 50% to 100% of the total purchase amount, and thus this would further add to the need for additional fund to support the expansion of its trading business. Higher-tier brands generally have a higher unit price and profit margin and better reputation among end users of cosmetics and personal care products than mid-to-high-tier counterparts. In terms of unit price, products of higher-tier brands usually range from over HK\$1,000 to HK\$4,000, while mid-to-high tier brands would be up to around HK\$500. In terms of reputation, higher tier brands are usually established and have a strong reputation with luxurious packaging, with extravagant and expensive luxurious celebrity status. Synergies are usually created between different lines of the products under the same brands, e.g. apparel, jewellery, which would in turn create a recognizable brand style and boost the stickiness of the customers. As such, a stronger sense of brand loyalty are usually found in higher-tier brands instead of mid-to-high-tier brands. By maintaining a certain level of cosmetics and personal care products, the Company will be able to shorten the processing time for satisfying some urgent orders and enhance customer satisfaction and thus promote customer loyalty.

## LETTER FROM THE BOARD

- (b) *Diversify the product portfolio to include cosmetics and personal care products incorporated with CBD content*

Through the business network of our suppliers and customers of cosmetics and personal care products, the Group became aware of the worldwide trend of the legalization and the consumer use in commercialized scale of cannabidiol (CBD), one of the naturally occurring non-psychoactive cannabinoids found in hemp. In contrast to tetrahydrocannabinol (THC) which is the key psychoactive cannabinoids in cannabis plants, CBD exhibits no effects indicative of abuse or dependence potential and no evidence of public health-related problems according to the Cannabidiol (CBD) Critical Review Report published by the Expert Committee on Drug Dependence of the World Health Organization (“WHO”) in 2018 (“WHO Report”). In Western developed countries such as Canada, the United States, part of Europe and the United Kingdom, CBD is used in cosmetics and skincare products such as anti-inflammatory masks.

As a natural progression and part of the expansion plan of the Group as an authorised supplier on the E-commerce Platform, the Group intends to operate an online retail shop on the E-commerce Platform to sell cosmetics and personal care products to end consumers, which include products with and without CBD content for customers in the PRC. The Group has also implemented a policy for the sales arrangement on the E-Commerce Platform which restricts delivery of the sales orders to destinations within the PRC only. The Group has also confirmed with the E-Commerce Platform that such restriction was allowed on the E-Commerce Platform. The Group has further confirmed the legality of such arrangement with its PRC legal advisers in respect of the legality of sale of cosmetics and personal care products with CBD content on the E-commerce Platform and it was confirmed that as long as the destinations of delivery of the relevant products with CBD content was in the PRC, such operation was legal and in compliance with the relevant laws and regulations in the PRC.

In view of the increase of global demand in cosmetics and personal care products incorporated with CBD content, the Directors are of the view that there is potential in the PRC market for cosmetics and personal care products incorporated with CBD content and the expansion of the Group into such market will be beneficial to its business operations and financial performance in the long run. According to the F&S Report, there have been researches showing that CBD is recognised as a non-psychoactive compound that has positive effects on health. CBD has also demonstrated its medical value for treating various health issues such as seizures associated with Lennox-Gastaut syndrome (LGX) and Dravet Syndrome. There have also been findings that the use of CBD in cosmetics products would bring benefits such as hydration and enhancement of skin quality. Moreover, CBD may have certain therapeutic benefits that can be added in skin care and cosmetics products, including anti-inflammatory, antioxidant and soothing properties. For example, anti-inflammatory feature of CBD can reduce inflammation of skin and suitable for acne-prone skin while antioxidants in CBD can help in skin firming and reduce appearance of wrinkles. As there has been a growing appeal over the use of

## LETTER FROM THE BOARD

CBD and other natural ingredients in recent years, and customers in general are concerned about the artificial ingredients in the traditional cosmetics products, there has been a spike in the demand for organic beauty products. The emergence of CBD as natural ingredients in various products is therefore set to capture the future trend of products with natural ingredients with proven health benefits.

As at the Latest Practicable Date, (i) the Group has conducted feasibility study for operation of an online retail shop on the E-commerce Platform for sales of cosmetics and personal care products incorporated with CBD content, and obtained PRC legal opinions for the carrying out of such business; (ii) commenced discussions with the E-commerce Platform in relation to the establishment of the online retail shop on the E-commerce Platform and understood that the Group has qualified as such given the prior working relationship with Customer A as an authorised supplier; (iii) engaged a PRC service provider which is specialised in the operation and management of online shops on e-commerce platforms, which includes carrying out promotional campaigns such as hiring key opinion leaders (“KOLs”) to promote European branded cosmetics and personal care products incorporated with CBD content, to operate its online retail shop on the E-commerce Platform; and (iv) commenced negotiations with potential suppliers of European branded cosmetics and personal care products incorporated with CBD content.

According to the F&S Report, the market size of CBD cosmetics and personal care product in the PRC is expected to experience a rapid growth with the CAGR of 39.3% from 2020 to 2024. The rapid growth of CBD cosmetics and personal care product market in the PRC is primarily supported by the increasing total healthcare expenditure, ageing population, coupled with a growing preference towards cosmetics and personal care products with natural, organic and herbal ingredients. Specifically, the growing proportion of high-aged population from approximately 11.5% in 2019 to 13.5% in 2024 will lead to enlarged customer bases for cosmetics and personal care products with natural ingredients and exceptional effects for relieving skin conditions. As such, the emergence of imported CBD cosmetics and personal care products is expected to demonstrate a huge potential to capture the untapped demand from customers in the PRC.

## LETTER FROM THE BOARD

The Group intends to apply approximately HK\$90 million from the net proceeds of the Subscription of HK\$498 million to expand into the CBD-based cosmetics and personal care product trading business in the PRC, as elaborated in the following:

	<i>HK\$'million</i>
Maintaining inventory of cosmetics and personal care products with CBD content	35
Budget for marketing, selling and distribution <sup>(1)</sup>	45
General and administrative expenses for operation of online retail shop on the E-commerce Platform <sup>(2)</sup>	10
<b>Total</b>	<b>90</b>

*Notes:*

- (1) The budget for marketing, selling and distribution expenses involve (i) advertisements on television (HK\$12.0 million per annum); (ii) distribution to shops operated by KOLs (HK\$1.0 million per annum); (iii) brand representation by KOLs (HK\$2.0 million per annum); (iv) social media advertising (HK\$2.5 million per annum); (v) participation in exhibitions (HK\$4.0 million per annum) and (vi) distribution expenses (HK\$1.0 million per annum) for two years.
  
- (2) The general and administrative expenses involve (i) staff cost (HK\$5.0 million per annum); (ii) service charge on the E-Commerce Platform (HK\$2.0 million per annum); and (iii) other miscellaneous expenses such as legal and professional, traveling, entertainment and insurance expenses (HK\$3.0 million per annum) for one year and set up costs of HK\$180,000 for the online retail shop on the E-commerce Platform.

The expected amount required in the expansion of cosmetics and personal care products (i.e. HK\$50 million) and that of products with CBD content (i.e. HK\$35 million) have primarily been based on two factors, market data and past record. In respect of market data, the Group has conducted a number of feasibility studies, including market research data as to the price of the cosmetics and personal care products and products with CBD content. The Group has also considered the growth rate of these products in the PRC as shown in the market data reviewed by the Group and reinforced according to the F&S Report, which states that (i) the overall CBD market has been undergoing rapid growth globally since 2016. From 2016 to 2019, the growth of CBD market in the PRC has recorded 19.9%; (ii) it is forecasted that the growth in the PRC CBD market would amount to 32.6% from 2020 to 2024; and (iii) the growth drivers of the CBD market has been driven by the growing awareness towards the health benefits and increasing penetration of CBD in consumer products, as well as increasing degree of acceptance by both regulatory authorities and consumers of CBD products in various countries. In respect of past record, the Group has forecasted that the revenue will increase at a rate not more than the overall growth rate of the relevant market in the PRC.

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Due to the lack of funding, the Group has not been able to expand the operation scale in the past, and the Group has forgone opportunities to expand its business. It is therefore expected that with the net proceeds from the Subscription, the Group would be able to expand its scale of business, both in terms of market outreach and the proportion of higher-tier products in its product portfolio compared to mid-to-high-tier brands. The nature of the products would also expand from products of more affordable prices such as lipstick and sunscreen to products of higher prices such as perfume and serum. The Directors have also considered the payment terms, such as the requirement for prepayment as well as the price list of the products when determining the amount required for such expansion. They have also analyzed sales performance of various brands and products and identified the brands which are popular and fast-moving.

With reference to customers' order size and variety of popular products, the Directors consider that keeping cosmetics and personal care products inventory level of approximately HK\$50 million will enable the Company to meet customers' order for approximately one to two months. In addition, this can speed up cash conversion cycle as the Company can replenish inventories after sales to customers, which would eliminate the lead time needed between placing purchase order and delivery to customers. In view of the high potential in CBD-related cosmetics and personal care market, the Directors consider a similar approach would enable the Company to gain market share by fast response to customer orders. On the other hand, since CBD-related cosmetics and personal care market is relatively new, the Company takes a prudent approach to keep a lower inventory level. As at the Latest Practicable Date, except for the exclusive distributorship of an anti-ageing beauty device of a reputable Israeli cosmetics brand which the Group has entered into an agreement in July 2020, the Group has not entered into any legally binding agreements and was still in the process of negotiating with the potential suppliers regarding the supply of these higher-tier brands.

### **(2) Continue to engage in the international trading of the raw material of CBD and vertical expansion into hemp cultivation and extraction**

The Group has been exploring opportunities to diversify its product portfolio and service offerings. Leveraged on the Group's strength and experience in the trading business, since 2019, the Group has expanded its trading products portfolio to include the raw material of CBD and intends to engage in vertical expansion into hemp cultivation and extraction to naturally progress along the supply chain to enjoy the economics of scale of hemp cultivation and extraction.

## LETTER FROM THE BOARD

Mr. Chow has been closely following the latest trend in the global cosmetics and personal care products market, including reviewing the relevant market reports and attendance at various trade fairs. Since 2018, Mr. Chow has noted that there has been emergence and rising popularity of the cosmetics and personal care products containing CBD content, in particular the U.S. and Japan. As such, Mr. Chow has looked into the possibility of diversifying the product portfolio of the Group to cosmetics and personal care products containing CBD content into the PRC. Based on (a) the public knowledge that Yunnan possesses ideal geographical environment for cultivation and that it is a major cultivation province in the PRC for different types of vegetation such as tea leaves, flowers, coffee beans, etc. while Heilongjiang is located more up north and less mature in hemp cultivation than Yunnan due to the absence of bright-line license requirements and procedures for obtaining hemp plantation and processing permits; (b) the deregulation of industrial hemp cultivation and extraction in both Yunnan and Heilongjiang, the PRC at the time; and (c) Mr. Chow is more familiar with Yunnan as he is a frequent traveller to Yunnan, both for leisure and business, Mr. Chow believes that there is huge potential for CBD cultivation in Yunnan. With the aforesaid ideas in mind, Mr. Chow proceeded to initiate the feasibility study which include preliminary research and preparatory work for looking into the potential of CBD business. He also enriched his knowledge in the field by attending industry exhibitions and seminars overseas, and formulated the timetable and direction for developing business. In order to provide a more systematic analysis, summary and presentation of the market data obtained by the Group, in July 2020, the Company engaged Frost & Sullivan as an independent industry consultant to analyse, summarise and present the market data, which were relied on by the Group in studying the feasibility of the CBD market in general. Frost & Sullivan has also provided more specific data on certain market information such as specific data on certain CBD products in certain regions, and the market norm of the industry in general.

Realising the market potential of CBD and the wider usage of CBD isolate in medical and healthcare products as a result of the anticipated global gradual deregulation, the Group first established a CBD project team in November 2018. Through the internal research conducted by the Group's CBD project team since November 2018, the Group acquired knowledge on the utilization and development, supply and demand, market trend and price range of CBD products.

In February 2019, the Group engaged the Specialist Consultancy which is a consultancy firm headquartered in California, the United States specialized in hemp cultivation and extraction and the distribution channels in North America. Leveraging on the expertise of the Specialist Consultancy, the Group acquired knowledge on hemp cultivation and explored the possibility of establishing hemp farming and production centres in Asian countries where hemp farming is legalized with the obtaining of license, including China. In March 2019, with the help of the Specialist Consultancy, the Group's CBD project team started to run experimental greenhouse and extraction laboratory in California to build up the management and technology expertise of the Group in hemp cultivation and extraction. The services provided by the Specialist Consultancy to the Group include (1) offering advice and suggestions regarding hemp cultivation and extraction based on the Specialist Consultancy's deep hemp industry knowledge and experience; (2) providing services including, but are not limited to, traveling to proposed location(s) of farm in Yunnan to assess its suitability and climate for CBD cultivation; (3) providing business advice on (i) utilizing regulated hemp industry best practices and in compliance with pertinent regulations; and (ii) designing a functional, scalable layout for hemp production based on greenhouse footprint; (4) offering advice and

## LETTER FROM THE BOARD

recommendations on strain selection, feeding schedule for optimal CBD production; (5) cloning and transplanting for optimal growth success, pre-planting bed preparations, planting of seeds, harvesting of CBD rich industrial hemp and timing of harvest; (6) selection of suitable certified industrial hemp varieties for specific utilization; and (7) attending CBD-related conferences and providing advice on the U.S. market status and market entry strategy to the Group.

Based on the experience and knowledge accumulated from the preparatory work and assistance and guidance provided by the Specialist Consultancy as explained above, the Directors are of the view that CBD-related products is a desirable option to diversify the Group's existing product portfolio and service offerings as it is a market which is yet developed by other suppliers yet, where a lot of business opportunities are expected to be unleashed as the industry develops. In addition, it would take time to develop and accumulate knowledge and experience in the industry, as such this poses entry barriers to other potential competitors to the industry. In contrast, the Group's preparatory works and experience in the industry would put the Group in an advantageous position in expanding into such business; CBD industry is a new industry with unleashed growth potentials, which provides ample room for growth of the Group's trading business. Based on the experience and knowledge acquired from the preparatory work and information obtained from the Specialist Consultancy, which are reinforced by the F&S Report, the use of CBD in various products is expected to increase the demand for CBD. These products include medicine, cosmetics products, food and drinks and daily supplements. There has been a constant pipeline in CBD products globally and the recent launch of CBD products globally, including food and beverages such as chocolates and tinctures, gummy, sparkling water, personal care and cosmetics products such as facial oil, moisturizers, eye cream, body cream, lip oil and soap bar. Other types of products in the pipeline include CBD oil which is formulated with CBD and sugar cane derived squalene to hydrate and promote radiance for healthier skin. Thus, according to the F&S Report, the diversified application of CBD in various products indicate there is a large potential for the growth of CBD-related products market globally. Furthermore, according to the F&S Report, there are currently less than 50 suppliers for CBD isolate, and approximately less than 300 suppliers of CBD cosmetics and personal care products in the PRC. Leveraging on the preparatory work conducted by the Group in respect of its trading business of CBD-related products, the Directors are of the view that the Group has the requisite knowledge and experience in establishing its market position in the CBD-related products market in the PRC. As the market has just started accepting CBD as an ingredient in a variety of products, it is expected that there would be huge potential for expansion in the CBD-related products, with the deregulation of the CBD-products, it is also expected that there would be growing market demand for different types of products incorporated with CBD content.

According to the F&S Report, both Chinese herbs and hemp planting share some cultivation and processing techniques, including the skills (i) to select high quality seeds to plant to increase the production of medical substances or CBD from plants, (ii) to monitor and control the growing environment to increase the yields, such as soil, temperature, humidity, fertilization and lighting, and (iii) for laboratory testing skills and extraction techniques.

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In order to further strengthen the Group's expertise in CBD cultivation, Ban Loong Hemp Technology, a member of the Group, has employed 4 additional staff who are experienced in plant cultivation and phytopharmaceutical industry to advise the Group on hemp cultivation and extraction and run the Group's future CBD cultivation and extraction operations, including 2 experts for hemp cultivation, and 2 experts for hemp extraction.

Based on the market research conducted by the Group, there is a bottleneck in the supply of high-purity CBD isolate at affordable price, which represents a market opportunity to the Group if it can manage to secure substantial funding to finance its business plans quickly and complete the construction of its greenhouse and extraction facilities by early to mid-2021 to capture the opportunity of a booming market of CBD which includes medicine, cosmetic products, food and drink and daily supplements. Therefore, the Group considers that there is time constraint in implementing the Group's business development plan in CBD as it is strategically important to enter into a booming market ahead of other competitors.

According to the F&S Report, processing and extraction of medical cannabis is prohibited in the PRC due to the drug control laws and regulations, industrial hemp becomes the source of CBD extraction, and it is unlikely for the PRC to open its market for overseas import of CBD isolate and CBD oil based on the current situation and the strict enforcement of drug control laws and regulations without foreseeable regulatory change. As such, the supply of CBD isolate and CBD oil in the PRC is likely to be restricted to domestic supply. As such, it is likely that domestic suppliers in the PRC would be able to capture the growing demand without competition from foreign import.

### *Legality of CBD trading business currently carried out by the Group*

At present, the Group conducts trading of CBD isolate which are sourced in the PRC for wholesale in the PRC and for export to California, the United States, and Japan. The Group has obtained legal opinions from legal advisers to satisfy itself on the legality of the CBD Trading Business in the relevant jurisdictions. According to the F&S Report, subsequent to the implementation of the 2018 Farm Bill in the U.S., which defined industrial hemp as a Cannabis sativa plant (including its derivatives and extracts such as CBD) with THC content of less than 0.3% on a dry weight basis, the standards of less than 0.2% to 0.3% THC in CBD products are widely adopted in many countries, including the PRC which adopted 0.3% of THC in their laws; while according to the European Monitoring Centre for Drugs and Drug Addiction, in some European countries such as the United Kingdom, CBD products are required to be of less than 0.2% of THC. For the trading of CBD isolate in Japan, the Narcotics and Psychotropics Control Act does not allow any THC composition in CBD products including CBD isolate. In order to ensure that the CBD isolate satisfies the applicable THC content requirements for the relevant jurisdictions, the Group would (i) ascertain the applicable THC content requirements for the relevant jurisdictions by checking the local laws, rules and/or regulations; and (ii) arrange for the product samples to be sent to accredited testing laboratories whenever it sources a new batch of CBD isolate from its suppliers to obtain a certificate of analysis to show compliance with the relevant THC content requirements. The certificate of analysis, together with the supplier confirmation and declaration, will be submitted to the relevant customs to obtain clearance for the CBD isolate. Based on the above, the Directors is satisfied that the CBD Trading Business currently

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conducted by the Group is in compliance with the laws and regulations of the relevant importing and exporting jurisdictions. Furthermore, the Group has no intention to import, export or distribute CBD products into, out of or within Hong Kong, until and unless the legal and licensing requirements in Hong Kong are clarified by government departments in due course.

Experience through the pilot operation on CBD trading for approximately one year now and the conducting of market researches on hemp cultivation and extraction for more than one year, based on the knowledge and experience acquired by the Group's CBD project team as elaborated above, the Group is now well positioned to enter the whole industry chain of hemp covering the upstream, midstream and downstream production cycles and ranging from cultivation, extraction, mass production, testing, product development of medical and non-medical uses, and the research and development of cultivation and extraction technologies. The Company sets out its CBD business expansion plan below.

### *Diversification of the trading business to cover trading of CBD isolate since 2019*

Combining the aforementioned market information and background knowledge and coupled with the Group's established experience and expertise in the trading business, the Group commenced its international trading business of polyphenol resin, a type of CBD isolate in May 2019.

As at the Latest Practicable Date, the Group conducts trading of CBD isolate for healthcare products which are sourced in the PRC for wholesale in the PRC and export to the United States and Japan. The Company will expand its customer base to distributors and retailers of CBD products brand and CBD product white labelling companies in China and United States in the next two financial years. As part of the Group's business strategies, the Group has also intensified its effort in expanding the suppliers network, in terms of nature of products, origins of import, securing additional customers and sales network. As at the Latest Practicable Date, the Group has (i) entered into a legally binding contract for the sales of CBD isolate to a customer headquartered in California of the United States, under which the Company agreed to sell CBD isolate amounting to USD240,000 (approximately HK\$1.9 million) to the customer between May and October 2020; and (ii) entered into a letter of intent with another customer in relation to the sales of CBD isolate amounting to USD52,000 (approximately HK\$0.4 million) between May and August 2020.

The Company intends to apply approximately HK\$20 million out of the net proceeds from the Subscription of HK\$498 million to secure the supply of CBD isolate in order to fulfil its existing and anticipated purchase orders from its current and future customers between April 2020 and March 2021.

For illustration purposes, the current wholesale and retail prices of CBD isolate in quality suitable for food and cosmetic uses range from US\$3,500 to US\$5,500 per kilogram, depending on product specification and destination countries.

## LETTER FROM THE BOARD

### *Entry into the hemp cultivation and extraction industry in China*

Combining these market information and background knowledge and coupled with the Group's established experience and expertise in the trading business, the Group intends to enter into the hemp cultivation and extraction industry in Yunnan as Yunnan is the only province in China which published detailed implementation rules on the bright-line requirements and procedures for hemp license applications. Under the provincial licensing regulations in China, entities or individuals proposing to be engaged in hemp plantation and processing should obtain hemp plantation permits (the "**Hemp Plantation Permits**") and hemp processing permits (the "**Hemp Processing Permits**").

As at the Latest Practicable Date, the Group has not obtained the required regulatory approval/license/permit for hemp cultivation and extraction, and intends to submit the relevant applications in or around September 2020. As at the Latest Practicable Date, the Group has followed and prepared most of the relevant application documents in accordance with the PRC Government guidelines for obtaining the permits, which included performing scientific research for cultivation, multi-breed cultivation, industrial raw material cultivation and plant processing. In addition to preparing the relevant application documents and conducting research, the success of the permit applications are also dependent on the physical structure and layout of the green house, plant facilities and the employment of expert staff, which the Group is anticipating to proceed once the net proceed of the Subscription are made available. Furthermore, as advised by the Company's PRC Legal Advisers, given (i) the favourable government policy in the Yunnan Province which intends to attract foreign investment; and (ii) the relevant subsidiary of the Group having fulfilled the registered capital, place of registration and business scope requirements of the relevant government authorities in the Yunnan Province according to the PRC Legal Advisers, there is currently no legal obstacle for the Group to obtain the required permits. The Directors believe that given the favourable government policies regarding foreign investments in the Yunnan Province as well as the preparatory works which have been conducted by the Group, the Directors are confident that there would be no obstacle for the Group to obtain the relevant permits. Assuming that the Subscription can be completed and the application for license approval would be made by September 2020, the Directors expect that for hemp cultivation, approval of the Hemp Plantation Permit would be granted in or around January 2021 and cultivation would commence from then; for hemp extraction, the Directors expect that the approval of the Hemp Processing Permit and the commencement of production would be granted and take place in or around June 2021.

The Directors are also of the view that (i) in the long run the demand for CBD isolate would rise; (ii) it is also consistent with the industry practice and as a natural step of the expansion process for companies engaging in CBD trading business to further expand to its upstream supplier in order to enjoy economies of scale; and (iii) a vertical upstream expansion will benefit its trading business by (a) securing stable inventory supply and (b) enhancing profitability by such value-added process (i.e. cultivation and extraction) in the value chain.

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The Group intends to (i) set up cultivation area of approximately 100,000 square meters and a CBD processing plant with annual production capacity of up to 3,000 kilograms of CBD isolate (with over 99.8% purity of CBD and THC well below the legal limit of 0.2% to 0.3%) in Yunnan, China; (ii) purchase the necessary THC testing equipment and specialised detection equipment and the building of relevant safety storage facilities and processing facilities; (iii) hire no less than 50 employees including professional and technical personnel; (iv) set aside by the Group of sufficient amount of capital to meet the minimum capital requirement of RMB1 million and RMB20 million for the Hemp Plantation Permit and the Hemp Processing Permit. The CBD project construction and implementation timetable and the construction plans of the hemp greenhouse and CBD extraction plant are designed by the Group with the assistance of the Specialist Consultancy by reference to the published implementation rules for license applications in Yunnan. The Directors confirm that there is no current plan to increase the scale of operation.

Assuming the Group successfully obtains the approval/license/permit for hemp cultivation and extraction, the Group will no longer be required to purchase CBD isolate but produces by its own production lines starting from June 2021. The Group estimates that the gross profit margin of CBD trading business will be increased with a stable supply of CBD isolate, which will enhance the profitability of the trading business through conducting the vertical expansion.

The Company intends to apply approximately HK\$70 million (all of which are out of the net proceeds from the Subscription of HK\$498 million) for the aforementioned vertical expansion, as elaborated in the following:

	<i>HK\$'million</i>
Setting up greenhouse as a cultivation facility (1)	32
Purchase of machineries necessary for the extraction facility (2)	22
Working capital for hemp cultivation and extraction from 1 April 2020 to 31 March 2022 (3)	16
	70
<b>Total</b>	<b>70</b>

*Notes:*

- (1) The cost of setting up the greenhouse as a hemp cultivation facility is based on (i) the cultivation area of 107,200 square meters of the cultivation facility; and (ii) the estimated construction cost of HK\$300 per square meters based on the best information and knowledge of the Directors; and (iii) the cost of leasing the cultivation area was estimated to be approximately RMB360,000 per year.
- (2) The acquisition costs of machineries (together with their repair and maintenance) necessary for conducting hemp extraction at the extraction facility include, but are not limited to, (i) extraction tanks; (ii) crystallising tanks; (iii) molecular distillation equipment; (iv) distillation column; and (v) automatic chromatography purification system.

## LETTER FROM THE BOARD

- (3) Based on the current timeline for the setting up of hemp cultivation and extraction facilities and application for relevant approvals, business operations will commence from June 2021 onwards and further expenses for two years such as (i) staff salaries (HK\$5.5 million per annum); (ii) selling expenses (HK\$0.9 million per annum); (iii) research and development expenses (HK\$0.5 million per annum); (iv) expenses for setting up office for rental and office equipment (HK\$0.5 million per annum); and (v) general and administrative expenses (HK\$0.5 million per annum) are expected to be incurred until 31 March 2022, any excess capital requirements of which are expected to be satisfied by means of internal resources.

The Directors estimated that the payback period for the establishment of the hemp cultivation and extraction facilities is approximately 8.25 years and is based on the following assumptions: (i) it will take one year to set up the CBD cultivation and extraction facilities and machinery; (ii) it will start to generate revenue in the second year of approximately HK\$24 million, of which a committed order has been received from a customer in U.S. with the transaction amount of approximately HK\$18.5 million (i.e. accounts for approximately 80.0% of the forecasted sales in the second year); (iii) it is expected that losses will be recorded for the first two years due to the initial set up costs and the fixed costs outweighed the gross profit in the second year; (iv) from the third year to eighth year, the Group has adopted a worst-case scenario and assumed a CAGR of revenue of 19.7% for prudence sake; (v) the gross profit margin is estimated at approximately 35.0% on average and net profit margin is estimated at approximately 20.0% on average during the payback period which are comparable to the gross profit margin and net profit margin of the PRC CBD isolate market for the forecasted period from 2020 to 2024 as stated in the F&S Report; (vi) the net profit will experience a CAGR of 27.0% during the payback period based on the expected CAGR of revenue in the PRC CBD isolate market from 2020 as stated in the F&S Report and the resulting increase in the growth rate of the Group's revenue from the sales of CBD isolate; (vii) the average selling price and cost of production of the CBD isolate remain fairly constant; and (viii) the applicable approval/license/permit for hemp cultivation and extraction remain valid, which the Directors believe is fair and reasonable based on the best information and knowledge according to their knowledge and experience in the CBD industry.

The Group has adopted a worst-case scenario and assumed a CAGR of revenue of 19.7% for prudence sake, which is far lower than the CAGR of revenue of 30.6% and 39.3% in the PRC CBD isolate and CBD-products markets for the forecasted period from 2020 to 2024, respectively, as stated in the F&S Report. However, taking into account (i) the trading of CBD isolate market is relatively new in PRC at the moment; and (ii) the historical growth rate of the PRC CBD isolate market of 22.9% as stated in the F&S Report, the Directors consider that the conservative and prudent approach adopted by the Group is appropriate. Moreover, the Directors are of the view that the CAGR of 27% in respect of the Group's net profit is fair and reasonable after considering (i) the historical growth trend during 2016 to 2019; (ii) the relevant growth rate, industry gross profit margin and net profit margin as set out in the F&S Report; and (iii) the growth in the demand brought by the gradual deregulation of the CBD market and general growth in demand driven by the growing awareness of health and increasing demand for niche and organic products.

## LETTER FROM THE BOARD

With the increasingly widespread use of online sales platform, it is expected that the CBD-products would gain more attention and thus raise its market awareness. Our Directors therefore expect that the Group which has already established a foothold as a supplier on the E-Commerce Platform would be in an advantageous position to capture the growing demand and maintain a sustainable growth rate in the net profit. According to the F&S Report, the Group has taken advantage of its early-mover position in the CBD-related products market in the PRC in order to establish its market position and reputation as it is unlikely for the PRC to open its market for overseas import of CBD isolate and CBD oil based on the current situation and the strict enforcement of drug control laws and regulations without foreseeable regulatory change.

In the event that the setting up of the hemp cultivation and extraction facilities does not proceed as planned, the Company may acquire an entity possessing the necessary permits and cultivation and extraction facilities for the Group's operations in the PRC at a reasonable price. As at the Latest Practicable Date, the Company has not identified any acquisition targets which is related to CBD businesses.

### **(3) Pursue growth through expansion**

The Group intends to increase its presence in its existing markets through selected expansion opportunities with identified market players in the industry. The Group has been exploring potential expansion targets in the PRC whose businesses, service growth potential and brand recognition are complementary to the Group, thereby enhancing its operational efficiency and/or expanding the portfolio of its services. Generally, the Group will focus on targets engaging in trading and distribution of cosmetics and personal care products with CBD content. In selecting these expansion targets, the Directors mainly assess (i) the quality and competitiveness of their products and/or services; (ii) whether the target companies have a well-established distribution channel; (iii) the business strategies of the target companies, such as target customers, target market and business development plan; (iv) the consideration for the expansion; (v) the background and track record of the target companies and/or their management and expertise; (vi) whether the business of the target companies are complementary with those of the Group, having regard to the image and working style of the Group; and (vii) the possible business synergies to the Group and the anticipated profitability of the target.

## LETTER FROM THE BOARD

The Group intends to apply approximately HK\$40 million out of the net proceeds from the Subscription of HK\$498 million for such expansion. Leveraging on the experience and network in the trading business, the Directors are of the view that there are some potential targets engaging in the aforementioned businesses available in the market which the Group may pursue expansion opportunities. As at the Latest Practicable Date, the Group has engaged a financial adviser in identifying and referring potential expansion targets, but the Group has not identified any potential expansion target or entered into any agreement for any expansion, nor has it conducted any detailed feasibility study on specific potential targets.

**(4) Expand the Group's money lending business operations by strengthening its loan portfolio and broadening its customer base and coverage**

The Group has been carrying on money lending business with a strategic focus on short-term personal and corporate loans. It is the Group's strategy to continuously explore market opportunities in Hong Kong, and the Directors intend to further expand its money lending business by increasing the size of their loan portfolio and its market share. With the net proceeds from Subscription, the Group would be in a better position to further expand its loan portfolio and broaden its customer base in addition to the current social and business networks of the management staff and the money lending association.

In order to strengthen the Group's market position in the money lending industry, it intends to improve its brand's awareness and hence the Group's presence within the industry by intensifying its sales effort by securing additional customers and expanding its sales network. The Directors are of the view that only by expanding the outreach to more potential customers, the Group would be able to be made known to the targeted customers, such as high net-worth customers and corporate customers. With an intensified marketing strategy, the Group would be able to raise the awareness of the Group's name as a provider of financing, and in turn the targeted customers would also be aware of the Group's market presence. As such the Group intends to expand the market outreach through the following means:

## LETTER FROM THE BOARD

*(a) Advertising on television and printed publication*

As at the Latest Practicable Date, the Company has not conducted its money lending business at retail level. The Company believes that the exposure on several marketing channels would enhance its reputation in the money lending industry and allow its money lending business to reach a substantial amount of potential new customers in both personal and corporate context within a short period of time. With broadened customer base, the Company will be able to diversify risk of borrowing from the existing group of customers.

As the Company has extensive experience in the area of short-term personal and corporate loans, the Company will continue to focus on the market for quality loans. Loans will be granted to new customers in a prudent manner. The Company has obtained quotations from several media and publication channels, including the commercial press, iMoney, TVB and ViuTV, expecting to penetrate the market of professional, corporate clients and high net worth clients.

*(b) Expansion of marketing team*

In view of the expansion of the money lending business, the Company will need a professional marketing team with experience in relevant field to expand its source of customers.

Moreover, a strong marketing team will help the Company to re-brand itself, identify competitors, position itself to the target group of customers and launch a series of events to gain more public awareness such as sponsoring marathons, cooperating with money lending organisations to hold talks related to anti-money laundering and organising roadshows.

Since the proposed marketing channels can enhance the market reputation and exposure of the Group's money lending business among the general public (which includes high net-worth and corporate customers), the Directors are of the view that this will (i) enable interested target customers to become aware of the Group's money lending business; (ii) provide channels for them to express their interest; and (iii) facilitate their identification by the Group in order to utilise the Group's reserve for new customers (as elaborated below).

## LETTER FROM THE BOARD

(c) *Reserve for new customers*

As a support of the growing business, the Company will also reserve part of the net proceeds from the Subscription as lending reserves to the new customers. In addition, the maturities of current loan portfolio concentrate in 2020 and 2021, which are relatively short-term loans. With larger money reserve, the Company will be able to manage to grant more longer-term loans, which usually bear higher interest rate depending on credit approval. Since long-term loans are repaid over a longer period of time (usually more than one year), the risk is comparatively higher and necessitates a higher interest rate. As such, this will enhance flexibility to manage loan portfolio and diversify the risk allocation of the money lending business.

The Company intends to apply approximately HK\$50 million out of the net proceeds from the Subscription of HK\$498 million to the Group's money lending business, as elaborated in the following:

	<i>HK\$'million</i>
<b>Marketing</b>	
Advertising on television, newspaper and magazine	6
Expansion on the marketing team	4
	<hr/>
<b>Sub-total</b>	10
Reserve for new customers	40
	<hr/>
<b>Total</b>	<b>50</b>
	<hr/> <hr/>

### **Alternative financing methods**

The Directors have considered other fund raising methods under the prevailing market conditions, and considered that the Subscription provided the maximum certainty on the outcome of the fund-raising and signified the support and confidence of the Company's substantial shareholder on the Group's future prospect. In respect of debt financing, the Group approached two banks in Hong Kong to explore loan opportunities but was given to understand that any unsecured bank loans offered to us is likely to carry interest of 8% per annum or above. However, given that the funding size required by the Group is significant and the Group was unable to provide any real property as collateral, all the banks approached by the Group had turned down our loan application enquiries. The Group also explored the possibility of the placing of corporate bonds through financial institutions, but the interest rates of at least 8% per annum offered by the financial institutions approached by the Company was much higher than the interest rate of 3% per annum under the Convertible Bonds.

## LETTER FROM THE BOARD

In respect of equity financing, the Company considered a wide range of potentially available options such as placing of new shares, subscription of new shares, rights issue and open offer. Compared with rights issue or open offer which requires prospectus preparation and registration and thereby needs extra time (of normally three months) to complete, the Subscription can be implemented under a shorter timetable. In addition, the Subscription involves lower costs due to the saving of the underwriting fee quoted by the financial institutions approached by the Company in the range of 2.5% to 3.5%. In fact, due to the poor market sentiment in Hong Kong for the time being, none of the financial institutions approached by the Company was willing to underwrite an open offer or rights issue of the size desired by the Company.

Compared with placing of shares or convertible bonds through placing agents, the Subscription involves lower costs due to the saving of the placing commission quoted by the financial institutions approached by the Company in the range of 2.5% to 3.5%. In addition, placing are normally conducted on best-effort basis which gives little certainty as to the outcome in the light of the poor market sentiment in Hong Kong. For best-effort placing of shares or convertible bonds, the financial institutions approached by the Company noted that both the liquidity of the Company's shares and the market sentiment of Hong Kong investors are poor, such that at least 20% discount in the issue price (in the case of share issuance) or conversion price (in the case of issuance of convertible bonds) as compared to the then-current share price level would be needed to provide incentive to subscribers. In comparison, the conversion price of the Convertible Bonds under the Subscription is close to the market price level at the time of the signing of the Subscription Agreement. In addition, financial institutions approached by the Company requested interest rates of at least 8% per annum if the Company were to place convertible bonds through them, which was much higher than the interest rate of 3% per annum under the Convertible Bonds.

Compared with a direct share subscription which involves the immediate issuance of a substantial amount of new Shares, the Directors preferred the issuance of the Convertible Bonds as it would not cause any immediate dilution to the existing shareholders.

In the light of the foregoing, the Company is of the view that the Subscription is an appropriate means of raising additional capital in a timely manner for the Company since (i) the Group was unable to procure debt financing from financial institutions; (ii) the Group was unable to find suitable underwriters for any potential rights issues or open offer; (iii) the Subscription provided the maximum certainty on the outcome of the fund-raising; and (iv) the Subscription would not have any immediate dilution impact to the Company's existing shareholding structure.

## LETTER FROM THE BOARD

### Use of Proceeds

The gross proceeds and net proceeds from the Subscription amount to approximately HK\$500 million and HK\$498 million, respectively. The Company intends to apply the net proceeds from the Subscription for the following:

	<b>Business segment</b>	<i>HK\$'million</i>
Expansion of existing trading business in cosmetics and personal care products	Trading	100
Expansion of CBD-based cosmetics and personal care product trading business	Trading	90
Purchase of CBD isolate inventory for trading purpose	Trading	20
Setting up of hemp cultivation and extraction facilities for vertical expansion of CBD trading business	Manufacturing and trading	70
Expansion of CBD-related target business	Trading	40
Expansion of existing money lending business	Money Lending	50
Repayment of bonds issued by the Company	–	70
Working capital for the financial year ending 31 March 2021	–	58
		498
<b>Total</b>		498

Regarding the repayment of bonds issued by the Company, the Company has issued the corporate bonds with aggregate principal amount of HK\$70 million to seven bondholders in 2014 with the following principal terms:

<b>Bondholders</b>	<b>Principal amount of corporate bond</b>	<b>Interest rate (per annum)</b>	<b>Maturity</b>
Individual A	HK\$10,000,000	5.5%	January 2021
Individual B	HK\$10,000,000	5.5%	January 2021
Individual C	HK\$10,000,000	5.5%	March 2021
Individual D	HK\$10,000,000	5.5%	April 2021
Individual E	HK\$10,000,000	5.5%	April 2021
Individual F	HK\$10,000,000	5.5%	May 2021
Individual G	HK\$10,000,000	5.5%	July 2021

## LETTER FROM THE BOARD

As at 31 March 2020, the Company has unsecured bonds with outstanding principal amount of approximately of HK\$70,000,000. The bank balances and cash held by the Company as at 31 March 2020 was approximately HK\$7,027,960, which the Company is unable to repay the outstanding bonds without further external financing. However, the Company considers that external refinancing is difficult due to tighten loan policies and poor market conditions. As such, the Company intends to apply approximately HK\$70 million out of the net proceeds from the Subscription of HK\$498 million to the repayment of corporate bonds which will be due between January and July 2021.

In addition, the Company intends to apply approximately HK\$58 million out of the net proceeds from the Subscription of HK\$498 million to the working capital for the financial year ending 31 March 2021.

As at the Latest Practicable Date, preliminary market research about possible suppliers and targets have been conducted, such as obtaining quotations and other relevant information and communication with agents. The Group has not confirmed anything with the possible suppliers and targets and no binding agreement has been reached so far, and further announcement(s) will be made if any disclosure obligation is triggered by the finalization of these negotiations.

The Directors consider that the Subscription represents an opportunity for the Company to raise additional capital to support its business development and expansion. As explained above, in the light of the uncertainties in the financial markets in Hong Kong, the Subscription represents the most appropriate source of funding to finance the Group's business development. The Directors have considered the potential dilution effect brought about by the exercise of the Convertible Bonds, and has come to the view that the dilution effect is justifiable and more than offset by the following benefits of the transactions, namely, the expected enhancement to the equity attributable to owners of the Company from HK\$799.8 million or HK\$0.124 per Share as at 31 March 2020 to HK\$1,297.8 million or HK\$0.155 per Share as a result of the full conversion of the Convertible Bonds (please see further details on page 40 of this circular). The Directors have also considered the risk factors associated with the utilization of proceeds in diversifying the product portfolio to include cosmetics and personal care products incorporated with CBD content as well as expanding the trading of raw materials of CBD. Given that (a) the Group has started to research and conduct preparatory work on this area more than one year ago and CBD is a new industry for almost all players anyway; and (b) the Company is assisted by the Specialist Consultancy which is experienced in CBD and hemp, the Group is of the view that the risks are effectively managed and are justified by the benefit of the building of a more balanced mix in the Group's asset and operation portfolio, as achieved by the diversification of the Group's businesses from trading and money-lending which are light-asset in nature to heavier-asset businesses of hemp cultivation and extraction. The Directors confirm that (1) for the trading business, the Group does not have any intention or long-term plan (i.e. in the next twelve months from the Latest Practicable Date) to expand and increase the scale of CBD-related businesses in addition to the current disclosures in this Circular as at the Latest Practicable Date; (2) for the money lending business, the Group will further broaden its customer base by offering a wider variety of products and expanding its market outreach.

## LETTER FROM THE BOARD

### Terms of the Subscription and the Convertible Bonds

The terms of the Subscription and the Convertible Bonds (including the Conversion Price, interest rate and maturity period) were arrived at after arm's length negotiations between the Company and Yunnan Baiyao Group with reference to, amongst other things, the historical and recent trading prices of the Shares on the Stock Exchange, the market interest rates of unsecured bank loans (of at least 8% per annum, by reference to the best lending rates offered by banks in Hong Kong at the level of 5.125% to 5.375% per annum) and customary terms of other convertible bonds issued by listed companies in Hong Kong relating to conversion restrictions, transferability and redemption right. In particular, the Board noticed that the Conversion Price of HK\$0.258 is identical to the five days' average closing price of the Shares before the date of signing of the Subscription Agreement and is only at a discount of 0.77% to the closing price of the Shares on the date of signing of the Subscription, in comparison with the 20% or more discount to share price as requested by potential placing agents in considering best-effort placing of Shares or convertible bonds. After considering the factors above, the Directors (including the independent non-executive Directors whose recommendations are now contained in the Letter from the Independent Board Committee after considering the advice of the Independent Financial Adviser, both forming part of this circular) consider that the terms of the Subscription and the Convertible Bonds (including the Conversion Price, interest rate and maturity period) are on normal commercial terms, are fair and reasonable, and the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is in the best interests of the Company and the Shareholders as a whole.

Mr. Wang Minghui, an executive Director and the Chairman of the Company, is currently the chairman of the board and interim chief executive officer of Yunnan Baiyao Group. Mr. Yin Pinyao, an executive Director of the Company, is currently the chief operation officer and senior vice president of Yunnan Baiyao Group. Mr. Wang and Mr. Yin abstained from voting on the Board level regarding the Subscription. Save for Mr. Wang and Mr. Yin, no other Director regarded himself/herself to have a material interest in the Subscription which requires him/her to disclose his/her interest and/or to abstain from voting on the Board level regarding the Subscription.

As at the Latest Practicable Date, the Company and its Directors have no intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) on any disposal or termination or scaling down of the Company's existing businesses. Save for the Subscription, as at the Latest Practicable Date the Company and its Directors have no intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) on any further equity fund raising activities.

## LETTER FROM THE BOARD

### EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company entered into the subscription agreement with Yunnan Baiyao Holdings on 20 August 2018, pursuant to which the Company agreed to issue and allot 1,000,000,000 Shares to Yunnan Baiyao Holdings (the “**2018 Share Subscription**”) at the subscription price of HK\$0.18 per Share. The 2018 Share Subscription was completed on 22 November 2018, raising gross proceeds of HK\$180.0 million and net proceeds of HK\$178.8 million. At the time of 2018 Share Subscription, the Company intended to apply the net proceeds: (a) as to approximately HK\$40.0 million for the Group’s trading business in China; (b) as to approximately HK\$40.0 million for the Group’s trading business in Hong Kong; (c) as to approximately HK\$52.5 million for the Group’s personal care product business; (d) as to approximately HK\$28.8 million for the Group’s corporate expenses, including HK\$12.4 million for the payment of salaries and remuneration of management and staff, HK\$3.8 million for the payment of bond interest, HK\$4.2 million for rental expenses, HK\$5.0 million for professional fees and HK\$3.4 million for business development budgets of the Group; and (e) as to approximately HK\$17.5 million for the Group’s general working capital.

Save for the 2018 Share Subscription, during the 12 month period immediately preceding the Latest Practicable Date, the Company has not undertaken (whether by reference to the date of announcement or the date of share issue) any rights issue, open offer or any other specific mandate placing.

The proceeds of the 2018 Share Subscription were fully utilized for their originally intended use during the year ended 31 March 2020.

### INFORMATION ABOUT YUNNAN BAIYAO GROUP

“Yunnan Baiyao” (雲南白藥) is a China Well-known Trademark according to the Trademark Bureau of the State Administration for Industry and Commerce of the PRC in February 2002. The A-shares of Yunnan Baiyao Group are listed on Shenzhen Stock Exchange with stock code: 000538. The principal businesses of Yunnan Baiyao Group include pharmaceutical products, health products, Chinese medicine resources and pharmaceutical logistics. In April 2019, the merger of Yunnan Baiyao Group with its controlling shareholder, Yunnan Baiyao Holdings Co., Ltd. (“**Yunnan Baiyao Holdings**”), was approved by China Securities Regulatory Commission, resulting in the complete listing of the enterprise with Yunnan Baiyao Group being the successor of the assets originally held by Yunnan Baiyao Holdings including the 29.59% shareholding in the Company.

To the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, both the Company and Yunnan Baiyao Group have no intention to change the composition of the Board after the completion of the Subscription. In particular, there is no intention or negotiation for Yunnan Baiyao Group or its associates to appoint any additional Directors to the Company's Board.

## LETTER FROM THE BOARD

The Group is currently sourcing plant extracts through a supply agreement (the “**Supply Agreement**”) with Yunnan Baiyao Group as disclosed in the Company’s announcement dated 10 May 2019, constituting continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The CBD isolate currently being traded by the Group are sourced under the Supply Agreement with Yunnan Baiyao Group. Under the Supply Agreement, the ultimate supplier of the CBD isolate is selected by the Group and Yunnan Baiyao Group would provide ancillary testing, logistics, import and export and related services at a service fee of not more than 2% of the actual cost of supply. As disclosed in the said announcement, the annual caps of the transaction values under the Supply Agreement are HK\$38,000,000 (the “**Annual Caps**”) for the financial year ended 31 March 2020 and each of the two financial years ending 31 March 2021 and 2022, respectively. Since the applicable percentage ratios (other than profit ratio) in respect of the Annual Caps are less than 5% and the Board (including all the independent non-executive Directors) has approved the transactions as being fair and reasonable and on normal commercial terms or better from the Company’s perspective, the transactions were only subject to announcement requirements but were exempted from circular and independent shareholders’ approval requirements. Pending the commercial operation of the Group’s own hemp cultivation and extraction facilities, the Company intends to continue to source CBD isolate from suppliers selected by the Group by continuing to use the services of Yunnan Baiyao Group in product inspection, testing and warehousing under the Supply Agreement. If the transaction value is to exceed the Annual Caps, the Company will comply with the Listing Rules accordingly.

### FINANCIAL INFORMATION OF THE GROUP

The published audited consolidated financial statements of the Group for the years ended 31 March 2017 (“**FY2017**”), 2018 (“**FY2018**”), 2019 (“**FY2019**”) and 2020 (“**FY2020**”) are disclosed in the annual reports of the Company for the years ended 31 March 2017 (the “**2017 Annual Report**”, pages 39 to 123), 2018 (the “**2018 Annual Report**”, pages 39 to 109), 2019 (the “**2019 Annual Report**”, pages 45 to 127) and 2020 (the “**2020 Annual Report**”, pages 43 to 117). The above documents can be accessed on the website of the Company ([www.0030hk.com](http://www.0030hk.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in money lending and trading of goods and commodities. Set out below is the audited financial information of the Group for FY2017, FY2018, FY2019 and FY2020 (or as at the year end date, as the case may be) as extracted from the 2017 Annual Report, 2018 Annual Report, 2019 Annual Report and 2020 Annual Report:

	FY2020	FY2019	FY2018	FY2017
	HK\$	HK\$	HK\$	HK\$
Revenue	1,162,153,635	910,081,910	767,607,149	299,259,373
Gross profit	108,083,580	87,004,954	56,039,212	27,993,647
Profit/(Loss) attributable to				
owners of the Company	49,573,533	44,271,814	(1,465,735)	(197,882,191)
Total assets	966,998,351	868,645,961	737,702,717	460,938,401
Equity attributable to				
owners of the Company	799,808,772	764,029,770	556,131,921	344,728,652

## LETTER FROM THE BOARD

### Financial performance in FY2019

According to the 2019 Annual Report, the Group's revenue increased by approximately HK\$142.5 million or 18.6%, from approximately HK\$767.6 million in FY2018 to approximately HK\$910.1 million in FY2019. Such increase was mainly attributable to (i) the increase in revenue from the operation of trading segment by approximately HK\$115.1 million; and (ii) the increase in revenue from the money lending segment by approximately HK\$27.4 million. Amongst the revenue of the Group in the amount of approximately HK\$910.1 million in FY2019, (i) approximately HK\$836.0 million or 91.9% was contributed by the trading segment and approximately HK\$74.1 million or 8.1% was contributed by the money lending segment; and (ii) approximately HK\$773.9 million or 85.0% came from operations in the PRC and approximately HK\$136.2 million or 15.0% came from operations in Hong Kong.

According to the 2019 Annual Report, the Group has achieved a profit turnaround in FY2019, with a net profit of approximately HK\$44.3 million in FY2019 as compared to a net loss of approximately HK\$1.5 million in FY2018. The turnaround from loss to profit was principally due to the continuous strengthening of the equity base of the Company in support of the ongoing growth and business development of the Company, resulting in a significant increase in revenue in FY2019. Amongst the total segment profit of the Group (before unallocated corporate income and gain, unallocated corporate expenses and finance cost) in the amount of approximately HK\$78.2 million in FY2019, approximately HK\$3.6 million or 4.6% was contributed by the trading segment and approximately HK\$74.6 million or 95.4% was contributed by the money lending segment.

According to the 2019 Annual Report, the Group's shareholders' equity attributable to owners of the Company increased by 37.4% from approximately HK\$556.1 million as at 31 March 2018 to approximately HK\$764.0 million as at 31 March 2019, and total assets increased by 17.7% from approximately HK\$737.7 million as at 31 March 2018 to approximately HK\$868.6 million as at 31 March 2019, mainly due to: (a) the completion of the issuance and allotment of 1,000,000,000 Shares to Yunnan Baiyao Holdings which raised net proceeds of approximately HK\$178.8 million in November 2018; and (b) the total comprehensive income recorded in FY2019. Amongst the total segment assets of the Group (before unallocated corporate assets) in the amount of approximately HK\$818.5 million as at 31 March 2019, approximately HK\$321.7 million or 39.3% was contributed by the trading segment and approximately HK\$496.8 million or 60.7% was contributed by the money lending segment.

### Financial performance in FY2020

According to the 2020 Annual Report, the Group's revenue increased by approximately HK\$252.1 million or 27.7% from approximately HK\$910.1 million in FY2019 to approximately HK\$1,162.2 million in FY2020. Such increase was mainly attributable to (i) the increase in revenue from the operation of trading segment by approximately HK\$236.5 million; and (ii) the increase in revenue from the money lending segment by approximately HK\$15.6 million. Amongst the revenue of the Group in the amount of approximately HK\$1,162.2 million in FY2020, approximately HK\$1,072.5 million or 92.3% was contributed by the trading segment and approximately HK\$89.7 million or 7.7% was contributed by the money lending segment.

## LETTER FROM THE BOARD

According to the 2020 Annual Report, the Group recorded a net profit of approximately HK\$49.6 million in FY2020, representing an increase of HK\$5.3 million or 12.0% as compared to the net profit of approximately HK\$44.3 million in FY2019. Such increase in profit was principally due to increase in gross profit from money lending segment. Amongst the total segment profit of the Group (before unallocated corporate income, gains and losses, unallocated corporate expenses and finance costs) in the amount of approximately HK\$102.0 million in FY2020, approximately HK\$13.0 million or 12.8% was contributed by the trading segment and approximately HK\$89.0 million or 87.3% was contributed by the money lending segment.

According to the 2020 Annual Report, the Group's shareholders' equity attributable to owners of the Company increased by 4.7% from approximately HK\$764.0 million as at 31 March 2019 to approximately HK\$799.8 million as at 31 March 2020, and total assets increased by 11.3% from approximately HK\$868.6 million as at 31 March 2019 to approximately HK\$967.0 million as at 31 March 2020, mainly due to the increase in right-of-use assets, inventories and other receivables, deposits and prepayments during the year. Amongst the total segment assets of the Group (before unallocated corporate assets) in the amount of approximately HK\$935.9 million as at 31 March 2020, approximately HK\$401.7 million or 42.9% was contributed by the trading segment and approximately HK\$534.2 million or 57.1% was contributed by the money lending segment.

### Major customers and suppliers

According to the 2020 Annual Report, in FY2020, (i) the Group's largest supplier and the five largest suppliers combined constituted 11.8% and 33.0%, respectively, of the items purchased by the Group which are not of a capital nature; and (ii) the Group's largest customer and the five largest customers combined constituted 27.7% and 69.4%, respectively, of the revenue from sales of goods or rendering of services. No directors, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers disclosed above.

### Debts and borrowings

As at the close of business on 31 July 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had bonds payable and lease liabilities of approximately HK\$69.4 million and HK\$10.2 million, respectively.

These bonds payable are in respect of the outstanding unsecured 5.5% per-annum 7-years (due between January and July 2021) corporate bonds (the "**Bonds**") with aggregate principal sum of HK\$70 million. The repayment obligations of the Company under the instruments of the Bonds are guaranteed by Jun Qiao Limited ("**Jun Qiao**"). Under the terms of the subscription agreements in relation to the Bonds, to the extent which is legally permissible, the Company and Jun Qiao undertook to continue to maintain its interests in the mining assets (the "**Mining Assets**") owned by Jun Qiao and its subsidiaries (the "**Jun Qiao Group**") and not to dispose of, transfer or sell any of the Mining Assets until the maturity of the Bonds, unless the consent of the majority of the

## LETTER FROM THE BOARD

bondholders is obtained. Due to the purported transfer of 90% equity of Yiu Di Mining Company Limited to Henan Guiyuan Industry Co., Ltd. and related incidents as disclosed in the Company's announcements dated 15 January 2017, 22 January 2017 and 1 February 2017 (the "**Incidents**"), the Company deconsolidated the Yiu Di Mining and its subsidiary (collectively, the "**De-consolidated Subsidiaries**"). As a matter of prudent treatment, the Bonds were classified as current liabilities. On 31 January 2019, the Group entered into a sale and purchase agreement to dispose of its 60% shareholding in Jun Qiao to an independent third party for a cash consideration of HK\$100,000 together with a 30% proportionate sharing of the compensation, after costs, from the legal actions commenced by the Group in seeking to recover the Mining Assets. Jun Qiao is an investment holding company whose principal assets are its investments in the De-consolidated Subsidiaries. The Disposal was completed on 25 February 2019.

All lease liabilities of the Group as at 31 July 2020 were due to independent third parties, unguaranteed, unsecured, non-interest bearing and repayable on demand.

As at 31 July 2020, the Group had no material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables, as at 31 July 2020, the Group did not have any (i) debt securities of the Group issued and outstanding, or authorised or otherwise created but unissued; (ii) term loans; (iii) other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (iv) mortgages and charges of the Group; or (v) guarantees or material contingent liabilities. For the purpose of the above indebtedness, Renminbi has been translated into Hong Kong dollars at the exchange rate of HK\$1.00 to RMB0.90 for illustration purposes only.

### **Financial and trading prospects**

The Company is an investment holding company. The Group is principally engaged in money lending business and trading of goods and commodities.

#### *(i) Money lending segment*

The Company's money lending business has been generating steady income for and continued to contribute a constant cash inflow to the Group. As disclosed in the 2019 Annual Report, in FY2019, the revenue and segment profit generated from the money lending business were approximately HK\$74.1 million and HK\$74.6 million, representing approximately 8.1% of the Group's revenue and 95.4% of the Group's total segment profit (before unallocated corporate income and gain, unallocated corporate expenses and finance cost). As disclosed in the 2020 Annual Report, in FY2020, the revenue and segment profit generated from the money lending business were approximately HK\$89.7 million and HK\$89.0 million, representing approximately 7.7% of the Group's revenue and 87.3% of the Group's total segment profit (before unallocated corporate income, gains and losses, unallocated corporate expenses and finance costs).

## LETTER FROM THE BOARD

During and subsequent to the financial year ended 31 March 2020, the Group continued to make new loans or renew matured loans with existing customers. Loan renewals had the benefits of deeper understanding of customer background and repayment records, and streamlined procedures on legal documentation and approval process. The management is of the view that the money lending segment will continue to provide a constant cash inflow to the Group.

As disclosed in the Company's announcement dated 27 September 2018, the Company responded to the changes in interest rate and monetary policy by fine-tuning its development pace of the money lending business. The Company will continue to take a pragmatic approach in its money lending business to adapt to the market environment and the money supply market and to counteract market challenges from time to time. The management expects the money lending segment will still be one of the major revenue and profit contributors of the Group in the coming years.

### *(ii) Trading segment*

The trading business has been the major source of income of the Company. As disclosed in the 2019 Annual Report, in FY2019, the revenue and segment profit generated from the trading business were approximately HK\$836.0 million and HK\$3.6 million, representing approximately 91.9% of the Group's revenue and 4.6% of the Group's total segment profit (before unallocated corporate income and gain, unallocated corporate expenses and finance cost). As disclosed in the 2020 Annual Report, in FY2020, the revenue and segment profit generated from the trading business were approximately HK\$1,072.5 million and HK\$13.0 million, representing approximately 92.3% of the Group's revenue and 12.8% of the Group's total segment profit (before unallocated corporate income, gains and losses, unallocated corporate expenses and finance costs).

In previous years, the trading segment of the Group successfully diversified its trading goods categories from refined edible oil and cosmetics products to sugar and personal care products. This year, through the business network of our suppliers and customers of cosmetics and personal care products, the Group became aware of the worldwide trend of the legalization and the consumer use in CBD and commenced its international trading business of CBD isolate. Due to the familiarity of the Group with suppliers and customers of cosmetics and personal care products, our sales were initially targeted for brand owners and manufacturers of non-medicine personal care products. The Company has formulated business plans to enter the whole industry chain of hemp covering the upstream, midstream and downstream production cycles and ranging from cultivation, extraction, mass production, testing, product development of medical and non-medical uses, and the research and development of cultivation and extraction technologies. In order to finance the Company's development of its hemp and CBD related business, the Company entered into the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) with Yunnan Baiyao Group in relation to the issue of the Convertible Bonds.

The management always believes that it is in the best interest of the Company and its shareholders to diversify the Group's business portfolio. The Company will continue to identify appropriate potential investment opportunities.

## LETTER FROM THE BOARD

### **Working capital sufficiency**

The Group does not currently have any facilities that are available to it. As explained in the section headed “Alternative financing methods” on page 29 of the circular, the Company did not manage to obtain any facility to finance the cash requirement needed for the expansion plans of the Group.

After taking into account the Group’s existing cash and bank balances, internal resources and the expected cash flow from the Group’s ordinary and usual course of business but without taking into account the cash requirement needed for financing the expansion plans of the Group as stipulated in the section headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF THE PROCEEDS”, the Directors are of the opinion that the working capital available to the Group is sufficient for the Group’s requirements for at least twelve months from the date of this circular.

After taking into account the Group’s existing cash and bank balances, internal resources, the expected cash flow from the Group’s ordinary and usual course of business and the proceeds from the completion of the Subscription, the Directors are of the opinion that the working capital available to the Group is sufficient for the Group’s requirements for at least twelve months from the date of this circular, including the cash requirement needed for financing the expansion plans of the Group as stipulated in the section headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF THE PROCEEDS”.

### **Financial effects of the Subscription and the full conversion of the Convertible Bonds**

According to the 2019 Annual Report, the audited consolidated shareholders’ equity attributable to owners of the Company was HK\$764.0 million or HK\$0.118 per Share as at 31 March 2019. According to the 2020 Annual Report, the audited consolidated shareholders’ equity attributable to owners of the Company was HK\$799.8 million or HK\$0.124 per Share as at 31 March 2020. The issued share capital of the Company as at 31 March 2019 and 31 March 2020 were 6,448,152,160 Shares.

It is expected that the Subscription would not lead to any material and immediate change to the shareholder’s equity of the Company immediately upon completion of the Subscription. However, if the Convertible Bonds are fully converted into 1,937,984,496 Shares at or before maturity and assuming no other changes in the issued share capital and shareholders’ equity, the shareholder’s equity attributable to owners of the Company is expected to increase by HK\$498 million (being the net proceeds raised from the Subscription), from approximately HK\$799.8 million or HK\$0.124 per Share as at 31 March 2020 to approximately HK\$1,297.8 million or HK\$0.155 per Share (on the basis of 8,386,136,656 issued Shares of the Company as enlarged by the full conversion of the Convertible Bonds) upon the full conversion of the Convertible Bonds.

## LETTER FROM THE BOARD

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Subscription or upon the conversion of the Convertible Bonds.

### CHANGES TO SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structures of the Company as at the Latest Practicable Date and immediately after the issue of all the Conversion Shares upon full exercise of conversion rights attaching to the Convertible Bonds, assuming that there is no other change in the issued share capital of the Company from now up to the full conversion of the Convertible Bonds:

Shareholders	As at the Latest Practicable Date		Immediately before the Conversion of the Convertible Bonds and assuming that no Conversion would be made due to the conversion restriction		Immediately after the full conversion of the Convertible Bonds		Immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds (for illustration purpose only) as subject to the restrictions that the conversion does not result in (i) a mandatory general offer under Takeovers Code; and (ii) the public float of the Shares being less than 25% (or such percentage as required by the Listing Rules of the issued Shares)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Yunnan Baiyao Group (Note)	1,908,025,360	29.59%	1,908,025,360	29.59%	3,846,009,856	45.86%	1,945,305,360	29.99%
Mr. Chow Wang	495,404,000	7.68%	495,404,000	7.68%	495,404,000	5.91%	495,404,000	7.64%
Mr. Fong For	349,068,000	5.41%	349,068,000	5.41%	349,068,000	4.16%	349,068,000	5.38%
Public Shareholders	3,695,654,800	57.32%	3,695,654,800	57.32%	3,695,654,800	44.07%	3,695,654,800	56.99%
<b>Total</b>	<b>6,448,152,160</b>	<b>100.00%</b>	<b>6,448,152,160</b>	<b>100.00%</b>	<b>8,386,136,656</b>	<b>100.00%</b>	<b>6,485,432,160</b>	<b>100.00%</b>

*Note:* The shareholding number and percentage stated here are for illustration purpose only. The conversion of the Convertible Bonds is limited by the Conversion Restrictions (i.e. if the conversion by the holders of the Convertible Bonds would trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the exercising bond holders or parties acting in concert with them, or reduce the public float of the Company to less than 25% as prescribed by Rule 8.08(1)(a) of the Listing Rules, then the conversion by the relevant bond holders shall be restricted until and unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with), such that no bondholder shall convert the Convertible Bonds to an extent which would reduce the public float of the Company to below the percentage prescribed under the Listing Rules, or trigger the mandatory offer obligation under the Takeovers Code on the part of the exercising bond holders and parties acting in concert with them, until and unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with.

## LETTER FROM THE BOARD

### IMPLICATIONS UNDER THE LISTING RULES

As at the date of the circular, Yunnan Baiyao Group is a substantial shareholder holding 1,908,025,360 Shares, representing approximately 29.59% of the issued share capital of the Company. As Yunnan Baiyao Group is a connected person of the Company, the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) constitutes a connected transaction for the Company and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. In addition, the Convertible Bonds and the Conversion Shares will be issued under the Specific Mandate which is subject to Independent Shareholders' approval at the SGM.

### THE SGM

A notice convening the SGM is set out on pages 94 to 96 of this circular. The SGM will be convened and held for the purposes of considering and, if thought fit, approving the Subscription and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the Conversion Shares under the Specific Mandate.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any votes of the shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the chairman of the SGM will demand a poll for the resolution put forward at the SGM in respect of all the resolutions stated in the notice of the SGM.

Yunnan Baiyao Group is interested in 1,908,025,360 Shares as at the date of the circular and has a material interest in the transactions contemplated under the Subscription. To the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, save for Yunnan Baiyao Group, no other Shareholder has a material interest in the Subscription.

In accordance with the Listing Rules, Yunnan Baiyao Group and its associates will be required to abstain from voting on the resolution(s) in respect of the Subscription at the SGM. Yunnan Baiyao Holdings confirmed to the Company that (a) save as disclosed above, as at the Latest Practicable Date, they and their associates were not interested in any other Shares or underlying Shares; and (b) they control and will be entitled to exercise control over the voting rights in 1,908,025,360 Shares, no voting trust exists over those Shares and they will abstain from voting on the resolution(s) in respect of the Subscription at the SGM in respect of their entire holding of Shares.

## LETTER FROM THE BOARD

### RECOMMENDATIONS

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Wong Chui San, Susan, has been established to advise the Independent Shareholders regarding the terms of the Subscription and the Specific Mandate. Having taken into account the terms of the Subscription, the information stated in the Letter from the Board and the Letter from the Independent Financial Adviser, the Independent Board Committee considers that although the Subscription is not conducted in the ordinary and usual course of business of the Company, the terms of the Subscription and the Convertible Bonds are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription and the Specific Mandate for the issue of the Convertible Bonds and the Conversion Shares. The full text of the Letter from the Independent Board Committee is set out on pages 46 to 79 of this circular.

Red Sun Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Specific Mandate. Having taken into consideration the factors and reasons stated in the Letter from the Independent Financial Adviser, Red Sun Capital is of the opinion that although the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is not in the ordinary and usual course of business of the Company, the terms of the Subscription and the Convertible Bonds are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, Red Sun Capital recommends the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Subscription and the Specific Mandate for the issue of the Convertible Bonds and the Conversion Shares. The full text of the Letter from the Independent Financial Adviser is set out on pages 46 to 79 of this circular.

## LETTER FROM THE BOARD

Having considered the factors stated in the paragraph headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF THE PROCEEDS” of the Letter from the Board, the Directors (including the independent non-executive Directors whose recommendation are now contained in the Letter from the Independent Board Committee after considering the advice contained in the Letter from the Independent Financial Adviser, both forming part of this circular) are of the view that the Subscription and the Convertible Bonds are on normal commercial terms, are fair and reasonable, and the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription and the Specific Mandate for the issue of the Convertible Bonds and the Conversion Shares.

### WARNING OF RISKS OF DEALING IN SHARES

**SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT COMPLETION OF THE SUBSCRIPTION IS CONDITIONAL UPON THE SATISFACTION OF CERTAIN CONDITIONS PRECEDENT AND THEREFORE MAY OR MAY NOT PROCEED. SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD THEREFORE EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY. PERSONS WHO ARE IN DOUBT AS TO THE ACTION THEY SHOULD TAKE SHOULD CONSULT THEIR PROFESSIONAL ADVISERS.**

### ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendix to this circular.

Yours faithfully  
By order of the Board  
**Ban Loong Holdings Limited**  
**Chow Wang**  
*Deputy Chairman & Chief Executive Officer*



萬隆控股集團有限公司  
Ban Loong Holdings Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 30)**

11 September 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE BONDS  
BY YUNNAN BAIYAO GROUP CO., LTD. UNDER SPECIFIC MANDATE**

We have been appointed to form an independent board committee to consider and advise you on the terms of the Subscription and the Specific Mandate, details of which are set out in the circular issued by the Company to the Shareholders dated 11 September 2020 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board set out on pages 6 to 44 of the Circular, the letter of advice from the Independent Financial Adviser set out on pages 46 to 79 of the Circular and the additional information set out in the appendix to the Circular.

Having taken into consideration the terms of the Subscription and the Convertible Bonds and the advice of the Independent Financial Adviser, we concur with the view of the Independent Financial Adviser and consider that although the Subscription is not conducted in the ordinary and usual course of business of the Company, the terms of the Subscription and the Convertible Bonds are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription and the Specific Mandate for the issue of the Convertible Bonds and the Conversion Shares.

Yours faithfully,  
For and on behalf of the Independent Board Committee

**Jiang Zhi**  
*Independent non-executive  
Director*

**Leung Ka Kui, Johnny**  
*Independent non-executive  
Director*

**Wong Chui San, Susan**  
*Independent non-executive  
Director*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.*



**红日资本有限公司**  
**RED SUN CAPITAL LIMITED**

11 September 2020

To: *The Independent Board Committee and the Independent Shareholders  
of Ban Loong Holdings Limited*

Dear Sir/Madam,

### **CONNECTED TRANSACTION IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE BONDS BY YUNNAN BAIYAO GROUP CO., LTD. UNDER SPECIFIC MANDATE**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Subscription and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 11 September 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the Company’s announcements dated 14 October 2019, 4 November 2019, 18 November 2019, 2 December 2019, 16 December 2019, 31 December 2019, 31 January 2020, 14 February 2020, 28 February 2020, 31 March 2020, 3 May 2020, 31 July 2020, 31 August 2020 and 10 September 2020 in relation to the Subscription by Yunnan Baiyao Group, pursuant to which the Company has conditionally agreed to issue, and Yunnan Baiyao Group has conditionally agreed to subscribe for, the Convertible Bonds in the principal amount of HK\$500,000,000 at the Subscription Price.

Based on the initial Conversion Price of HK\$0.258 per Conversion Share and assuming there is no other change in the issued share capital of the Company between now and the full conversion of the Convertible Bonds, 1,937,984,496 Conversion Shares will be allotted and issued by the Company upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing: (a) approximately 30.05% of the existing issued share capital of the Company; and (b) approximately 23.11% of the issued share capital of the Company as enlarged by the issue of the 1,937,984,496 Conversion Shares.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the date of the Circular, Yunnan Baiyao Group is a substantial shareholder holding 1,908,025,360 Shares, representing approximately 29.59% of the issued share capital of the Company. As Yunnan Baiyao Group is a connected person of the Company, the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) constitutes a connected transaction for the Company and is subject to the announcement, reporting and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. In addition, the Convertible Bonds and the Conversion Shares will be issued under the Specific Mandate which is subject to Independent Shareholders' approval at the SGM.

Mr. Wang Minghui, an executive Director and the Chairman of the Company, is currently the chairman of the board and interim chief executive officer of Yunnan Baiyao Group. Mr. Yin Pinyao, an executive Director of the Company, is currently the chief operation officer and senior vice president of Yunnan Baiyao Group. Mr. Wang and Mr. Yin abstained from voting on the Board level regarding the Subscription. Save for Mr. Wang and Mr. Yin, no other Director regarded himself/herself to have a material interest in the Subscription which requires him/her to disclose his/her interest and/or to abstain from voting on the Board level regarding the Subscription.

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Wong Chui San, Susan, has been established to advise the Independent Shareholders regarding the terms of the Subscription and the Specific Mandate.

Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to whether or not (i) the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) was entered into in the ordinary and usual course of the business of the Company and on normal commercial terms; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) and the transactions contemplated thereunder at the SGM.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the Independent Financial Adviser to the independent board committee and the independent shareholders of the Company with regard to the connected transaction in relation to the share subscription by Yunnan Baiyao Holdings Co. Ltd. under specific mandate whose circular (including out letter from independent financial adviser) was published on 7 September 2018. Apart from the abovementioned Independent Financial Adviser roles and acting as the Independent Financial Adviser in relation to the Subscription Agreement (as amended and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

supplemented by the Supplemental Subscription Agreements) and transactions contemplated thereunder, we have not acted in any other capacity for the Company in the past two years.

Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

#### 1. Principal business and financial information of the Group

##### (a) Background information of the Group

The Group is principally engaged in money lending business and trading of goods and commodities. The following table summarises the consolidated financial results of the Group for the years ended 31 March 2018, 2019 and 2020, which are extracted from the Company's annual reports for the year ended 31 March 2019 (the "2019 Annual Report") and 2020 (the "2020 Annual Report"):

	<b>For the year ended 31 March</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>
Revenue	1,162,153,635	910,081,910	767,607,149
– Money lending	89,701,100	74,131,590	46,749,499
– Trading	1,072,452,535	835,950,320	720,857,650
Gross profit	108,083,580	87,004,954	56,039,212
Profit/(loss) before tax	60,102,905	51,916,329	(184,398)
Net profit/(loss)	<u>49,568,862</u>	<u>44,267,894</u>	<u>(1,493,920)</u>

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

	<b>As at 31 March</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(audited)	(audited)	(audited)
<b>Current assets</b>			
Inventories	13,394,914	–	–
Trade receivables	22,800,777	82,262,278	29,280,334
Loan and interest receivables	531,302,686	475,114,381	358,909,116
Other receivables, deposits and prepayments	364,320,021	231,147,014	198,195,178
Tax recoverable	–	–	1,414,296
Amount due from a shareholder	10,425,788	–	–
Bank balances and cash	7,027,960	74,664,169	144,042,321
	<u>949,272,146</u>	<u>863,187,842</u>	<u>731,841,245</u>
<b>Current liabilities</b>			
Trade and other payables	45,638,191	14,953,908	109,100,093
Contract liabilities	23,683,820	15,009,993	–
Amounts due to non-controlling shareholders of subsidiaries	–	–	4,375,651
Tax payable	14,357,969	5,298,410	3,303
Bonds	69,229,000	68,429,000	67,629,000
Lease liabilities	8,313,293	–	–
	<u>161,222,273</u>	<u>103,691,311</u>	<u>181,108,047</u>
<b>Net current assets</b>	<u><u>788,049,873</u></u>	<u><u>759,496,531</u></u>	<u><u>550,733,198</u></u>

According to the 2019 Annual Report, the Group's revenue increased by approximately HK\$142.5 million or 18.6% from approximately HK\$767.6 million for the year ended 31 March 2018 to approximately HK\$910.1 million in the year ended 31 March 2019. Such increase was mainly attributable to (i) the increase in revenue from the operation of trading segment by approximately HK\$115.1 million; and (ii) the increase in revenue from the money lending segment by approximately HK\$27.4 million.

As disclosed in the 2020 Annual Report, the Group's revenue increased by approximately HK\$252.1 million or 27.7% from approximately HK\$910.1 million for the year ended 31 March 2019 to approximately HK\$1,162.2 million for the year ended 31 March 2020. Such increase was mainly attributable (i) increase in income from money lending segment due to the increase in demand of loans from the Group's money lender customers; and (ii) increase in income from trading segment mainly due to the increase in purchase orders placed by the Group's trading customers.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the 2019 Annual Report, the Group has achieved a profit turnaround for the year ended 31 March 2019, with a net profit of approximately HK\$44.3 million for the year ended 31 March 2019 as compared to a net loss of approximately HK\$1.5 million for the year ended 31 March 2018. The turnaround from loss to profit was principally due to the continuous strengthening of the equity base of the Company in support of the ongoing growth and business development of the Company, resulting in a significant increase in revenue during the year ended 31 March 2019. As set out in 2020 Annual Report, net profit of the Group increased from approximately HK\$44.3 million for the year ended 31 March 2019 to approximately HK\$49.6 million for the year ended 31 March 2020, representing an increase of approximately 12.0%. Such increase was mainly attributable to the increase in revenue as discussed above.

As disclosed in the 2020 Annual Report, as at 31 March 2020, the Group recorded bank balances and cash of approximately HK\$7.0 million, representing a decrease of approximately HK\$67.7 million as compared to approximately HK\$74.7 million recorded as at 31 March 2019. As at 31 March 2020, the Group had outstanding unsecured 5.5% per-annum 7-years (due between January and July 2021) corporate bonds with aggregate principal sum of HK\$70.0 million and an outstanding carrying amount of approximately HK\$69.2 million as at 31 March 2020.

*(b) Background information of Yunnan Baiyao Group*

“Yunnan Baiyao” (雲南白藥) is a China Well-known Trademark according to the Trademark Bureau of the State Administration for Industry and Commerce of the PRC in February 2002. Yunnan Baiyao Group is amongst the first batch of State Innovative Enterprises, with its A shares being listed on Shenzhen Stock Exchange with stock code: 000538. The principal businesses of Yunnan Baiyao Group include pharmaceutical products, health products, Chinese medicine resources and pharmaceutical logistics. In April 2019, the merger of Yunnan Baiyao Group with its controlling shareholder, Yunnan Baiyao Holdings Co., Ltd. (“**Yunnan Baiyao Holdings**”), was approved by China Securities Regulatory Commission, resulting in the complete listing of the enterprise with Yunnan Baiyao Group being the successor of the assets originally held by Yunnan Baiyao Holdings including the 29.59% shareholding in the Company.

To the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, both the Company and Yunnan Baiyao Group have no intention to change the composition of the Board after the Completion of the Subscription. In particular, there is no intention or negotiation for Yunnan Baiyao Group or its associates to appoint any additional Directors to the Company’s Board.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group is currently sourcing plant extracts through a supply agreement (the “**Supply Agreement**”) with Yunnan Baiyao Group as disclosed in the Company’s announcement dated 10 May 2019, constituting continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The CBD isolate currently being traded by the Group are sourced under the Supply Agreement with Yunnan Baiyao Group. Under the Supply Agreement, the ultimate supplier of the CBD isolate is selected by the Group and Yunnan Baiyao Group would provide ancillary testing, logistics, import and export and related services at a service fee of not more than 2% of the actual cost of supply. As disclosed in the said announcement, the annual caps of the transaction values under the Supply Agreement are HK\$38,000,000 (the “**Annual Caps**”) for the financial year ended 31 March 2020 and each of the two financial years ending 31 March 2021 and 2022, respectively. Since the applicable percentage ratios (other than profit ratio) in respect of the Annual Caps are less than 5% and the Board (including all the independent non-executive Directors) has approved the transactions as being fair and reasonable and on normal commercial terms or better from the Company’s perspective, the transactions were only subject to announcement requirements but were exempted from circular and independent shareholders’ approval requirements. Pending the commercial operation of the Group’s own hemp cultivation and extraction facilities, the Company intends to continue to source CBD isolate from suppliers selected by the Group by continuing to use the services of Yunnan Baiyao Group in product inspection, testing and warehousing under the Supply Agreement. If the transaction value is to exceed the Annual Caps, the Company will comply with the Listing Rules accordingly.

## 2. Industry outlook

As stated in the Letter from the Board, the Directors intend to apply the net proceeds from the Subscription to strengthen its existing business in (i) trading operations in China, Hong Kong and internationally and (ii) money lending operations in Hong Kong.

### (i) *Trading of cosmetics and personal care products*

The Group is principally engaged in trading of goods and commodities and target customers of the Group are located in Hong Kong and the PRC. According to an article published in Leading Industry Research in 2019<sup>1</sup>, based on a research report from Euromonitor, the market size of the beauty and personal care market in the PRC is estimated to increase from RMB410.5 billion in 2018 to RMB621.4 billion in 2023, representing a CAGR of 8.6%. According to the data from Trade Statistics for International Business Development<sup>2</sup>, in 2019, Hong Kong had imported beauty cosmetics and skincare products of approximately US\$5.0 billion, ranking the third in the world; while exporting of approximately US\$3.1 billion, which representing a net import of approximately US\$1.9 billion. According to the data, the annual growth rate of imported beauty cosmetics and skincare products from 2015 to 2019 is approximately 17%.

<sup>1</sup> <http://www.leadingir.com/datacenter/view/4293.html>

<sup>2</sup> <https://www.trademap.org/Bilateral.aspx?nvpm=1%7c344%7c%7c000%7c%7c33%7c%7c4%7c1%7c1%7c1%7c1%7c1%7c1%7c1>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, it is expected that the beauty cosmetics and skincare products market in China and Hong Kong will continue to have a sustainable growth in the future.

### (ii) *The Cannabidiol market*

As set out from the Letter from the Board, CBD is a one of the naturally occurring non-psychoactive ingredient found in hemp. In contrast to tetrahydrocannabinol (THC) which is the key psychoactive ingredient in cannabis plants, CBD exhibits no effects indicative of abuse or dependence potential and no evidence of public health-related problems according to the Cannabidiol (CBD) Critical Review Report published by the Expert Committee on Drug Dependence of the World Health Organization (“WHO Report”) in 2018<sup>3</sup>. In 2018, Food & Drug Administration (“FDA”) of the United States approved the first medication to contain purified CBD extracted from the cannabis plant. Furthermore, according to an article from Harvard Health Publishing, the media and publishing division of the Harvard Medical School of Harvard University, posted in November 2019<sup>4</sup>, some laboratory research on human cells suggests that CBD may have anti-inflammatory effects on oil-secreting glands in the skin.

According to an article dated 16 October 2019 from the FDA, a federal agency of the United States Department of Health and Human Services, CBD is becoming increasingly available in recent years and can be found in many different products such as drugs, food, dietary supplements and cosmetics products. This is due to the fact that hemp was no longer considered as federally illegal controlled substance in the United States following the passage of the Agriculture Improvement Act of 2018 in December 2018. Since then, more than 42,000 acres of land has been approved in the United States for planting hemp, which compared to the 6,700 planted acres in 2018, represents a substantial increase of more than 600%. It was believed that there is a huge potential market for hemp and CBD in the United States with expected demand continue to increase in the coming future. According to an article from Forbes published in May 2019<sup>5</sup> which summarised the latest project of the CBD market, it was estimated that by 2024, the collective market for CBD sales in the United States could surpass US\$20 billion, represented a CAGR or approximately 49%.

With strong demand in the United States and a shortage of supply, farming and exporting CBD has also become a business for countries outside the United States. According to an article by Inkstone News<sup>6</sup>, an online news platform owned by the South China Morning Post Publishers Ltd, CBD production is also growing in China. According to the article, whilst the growing of marijuana remained strictly prohibited in China, commercial hemp cultivation was allowed in two provinces,

<sup>3</sup> <https://www.who.int/medicines/access/controlled-substances/WHOCBDReportMay2018-2.pdf?ua=1>

<sup>4</sup> <https://www.health.harvard.edu/blog/why-are-women-using-cbd-products-and-do-they-work-2019111818317>

<sup>5</sup> <https://www.forbes.com/sites/irisdorbjan/2019/05/20/cbd-market-could-reach-20-billion-by-2024-says-new-study/#1b39ae8949d0>

<sup>6</sup> <https://www.inkstonenews.com/business/how-china-gearing-fuel-americas-cannabis-cbd-craze/article/3030424>

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

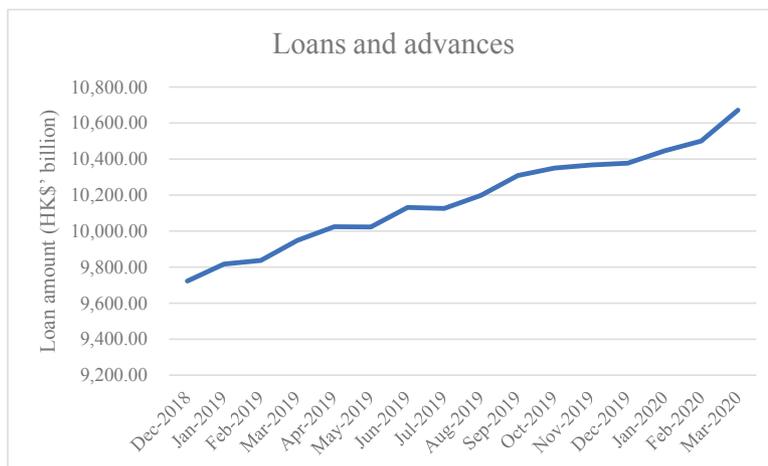
being Yunnan and Heilongjiang. It is reported by the article that in 2017, the two provinces together produced 13.7 tons of cannabis, with some of them processed into CBD.

Furthermore, it is also expected that there is a growing demand in global skin care products, in particular, the CBD skin care product. According to an article published in Business Wire in 2019<sup>7</sup>, based on a research paper by Technavio, a research company, global cosmetics skin care market is poised to grow by US\$45.48 billion during 2019-2023, progressing at a CAGR of almost 6% during the forecast period. According to an article by Prohibition Partners<sup>8</sup>, a market intelligence firm providing strategic consultancy services, insights and data on the global cannabis industry in London, based on the content of interviews with top beauty industry experts and extensive in-house data analysis, the value of the global CBD skincare market in 2018 is approximately US\$710 million. By 2024, Prohibition Partners predicts that the market will bring in a projected US\$959 million in sales.

Based on the above, it is expected that there will be ongoing development in the hemp market, the CBD market and the CBD skin care product industry.

*(iii) Money lending*

The Group is principally engaged in money lending business, as advised by the Management, the Group mainly focuses on short term personal and corporate loans. Set out below is a monthly analysis on the total loans and advances by authorized institutions from December 2018 to March 2020:



Source: the Hong Kong Monetary Authority (the "HKMA")

<sup>7</sup> <https://www.businesswire.com/news/home/20200218005419/en/>

<sup>8</sup> <https://prohibitionpartners.com/2020/01/31/key-insights-from-the-impact-series-disrupting-beauty/>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On a monthly basis, as stated in the monthly statistical bulletin published by the HKMA, the total loans and advances by authorized institutions increased to approximately HK\$10,671.7 billion in March 2020 from approximately HK\$9,722.6 billion in December 2018, representing a growth of approximately 9.8%. Based on the aforesaid, it is expected that there will be a sustainable growth in the Hong Kong loans market.

Having considered (i) the potential growth in beauty cosmetics and skincare products market in China in the coming years; (ii) the growth in beauty cosmetics and skincare products market in Hong Kong over the past five years; (iii) the ongoing development in the hemp market and the CBD market; (iv) the estimated global CBD skincare market to be US\$959 million in sales in 2024; (v) the growing demand in CBD skin care product; and (vi) the a sustainable growth in the Hong Kong loans market, it is expected that the prospects of the respective industries is promising.

### **3. Reasons for and benefits of the Subscription and use of proceeds**

According to the Letter from the Board, the Company intends to apply the net proceeds arising from the Subscription in the following manner:

- expansion of existing trading business in cosmetics and personal care products of approximately HK\$100.0 million;
- expansion of CBD-based cosmetics and personal care product trading business of approximately HK\$90.0 million;
- purchase of CBD isolate inventory for trading purpose of approximately HK\$20.0 million;
- setting up of hemp cultivation and extraction facilities for vertical expansion of CBD trading business of approximately HK\$70.0 million;
- expansion of CBD-related target business of approximately HK\$40.0 million;
- expansion of existing money lending business of approximately HK\$50.0 million;
- repayment of bonds issued by the Company of approximately HK\$70.0 million; and
- working capital for the financial year ending 31 March 2021 of approximately HK\$58.0 million.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out from Letter from the Board, the principal activity of the Company is investment holding. The Group has been exploring opportunities to diversify businesses by diversifying its product portfolio. Since as early as 2017 and 2018, the Group has already diversified the product range of its trading business from edible oil and sugar to include also cosmetics and personal care products, under which the Group procures products from cosmetics and personal care product brands and supplies them to e-commerce platforms and other traders of cosmetics and personal care products. In order to enhance the (i) earnings and profits of the Group, (ii) the sustainability and viability of the Group's business and (iii) add value in the value chain of the trading and money lending operations, the Directors intend to apply the net proceeds from the Subscription to strengthen its existing business in (i) trading operations in China, Hong Kong and internationally and (ii) money lending operations in Hong Kong through the following means:

- (1) *Strengthen the Group's market position in Hong Kong through continued expansion of the Group's cosmetics and personal care products and brand portfolio and explore new suppliers and expand the sales network in China*
  - (a) Expansion of the scale of trading of cosmetics and personal care products by expanding its product portfolio and presence on e-commerce platform

As disclosed in the 2020 Annual Report, the Group had been engaged in trading in cosmetics and personal care products since 2017. For the year ended 31 March 2020, the Group generated revenue of approximately HK\$1,072.5 million from trading business, of which approximately HK\$860.0 million was derived from China and of approximately HK\$212.5 million was derived from Hong Kong.

As disclosed in Letter from the Board, as at the Latest Practicable Date, the Group has identified several overseas brands in cosmetics and personal care products, and intends to obtain their distributorship rights for sales in China. On 3 April 2020, the Company was appointed as the authorised distributor of products from a Thai brand of natural body care, skin care and home spa products on an e-commerce platform (the "**E-commerce Platform**"), which is operated by a Singapore subsidiary of an enterprise established under the laws of the PRC which is (i) principally engaged in the business of e-commerce, retail, internet and technology services and (ii) is listed on the New York Stock Exchange and the Stock Exchange ("**Customer A**"), for a period until 2 April 2021. As advised by the Management, going forward, the Company intends to continue (i) to enhance the cosmetics and personal care products brand portfolio of the Group; and (ii) to intensify its efforts in expanding the suppliers network, in terms of nature of products, origins of import, and securing additional customers and sales network. Customer A is principally engaged in the business of e-commerce, retail, internet and technology services, and the E-Commerce Platform it operates is a high-end e-commerce platform which is a cross-border marketplace for foreign brands and merchants to mainly sell directly to Chinese consumers.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company considers the status of being an authorised supplier as a competitive advantage due to entry barriers to be qualified on list such as requirements on a supplier's financial resources (e.g. size of operation or listing status), reputation, sourcing capabilities, quality and authenticity of products, track record and past business relationship with Customer A. To facilitate the elevation of the Group's market position in the cosmetics and personal care products industry, the Directors are of the view that it is vital for the Group to (i) satisfy the purchase orders of its existing customers on a timely basis and (ii) maintain a steady supply of cosmetics and personal care products, in particular, it would be essential to maintain an ample amount of inventory for such products in order to meet orders of larger quantities. With the expansion of the operation scale of the Group's trading business, increased orders are also expected from existing customers and therefore additional funds would also be allocated to procure goods to meet such demand.

Since 2017, the Group has been one of the authorised suppliers of Customer A, supplying cosmetics and personal care products for the E-commerce Platform. On 31 March 2020, the Company has entered into a master product purchase agreement with Customer A, under which the Company was again appointed as one of Customer A's authorised suppliers of cosmetics and personal care products for the E-commerce Platform for a term of one year, which is automatically renewed for successive terms of one year unless notice of termination is provided by either party. Being an authorised supplier enables the Group to submit for tenders listed by Customer A. Upon award of the tenders, the Group (as supplier) enters into product purchase agreements with Customer A (as purchaser) for the Group's direct supply of goods to them, which are subsequently sold on the E-commerce Platform, according to the best knowledge and information available to the Directors.

Accordingly, the Group plans to increase the sales of current cosmetics and personal care products to the E-commerce Platform, by continuing to bid for the tenders listed by Customer A from time to time and increasing its volume of goods sold to the E-commerce Platform. As advised by the Management, the Group intends to use approximately HK\$100.0 million for the expansion of the scale of trading of cosmetics and personal care products by expanding its product portfolio and presence on E-commerce Platform.

Having considered (i) the prospects of global skin care products market in China and Hong Kong as stated in the section headed "2. Industry outlook" above, in particular, the potential growth in beauty cosmetics and skincare products market in China in the coming years and the growth in beauty cosmetics and skincare products market in Hong Kong over the past five years; (ii) the track record of the Group in trading business; (iii) the potential business opportunities with Customer A; and (iv) the expansion of the scale of trading of cosmetics and personal care products by expanding its product portfolio and presence on e-commerce platform is consistent with the business strategy of the Group, we concur with the Management that such intended use of proceeds from the Subscription for the expansion of product portfolio and the Group's presence on e-commerce platform is fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) Diversify the product portfolio to include cosmetics and personal care products incorporated with CBD content

As disclosed from the Letter from the Board, through the business network of the Group's suppliers and customers of cosmetics and personal care products, the Group became aware of the worldwide trend of the legalization and the consumer use in commercialized scale of cannabidiol (CBD), one of the naturally occurring non-psychoactive cannabinoids found in hemp. In contrast to tetrahydrocannabinol (THC) which is the key psychoactive cannabinoids in cannabis plants, CBD exhibits no effects indicative of abuse or dependence potential and no evidence of public health-related problems according to the WHO Report in 2018. In Western developed countries such as Canada, the United States, part of Europe and the United Kingdom, CBD is used in cosmetics and skincare products such as anti-inflammatory masks.

As set out from the Letter from the Board, as a natural progression and part of the expansion plan of the Group as an authorised supplier on the E-commerce Platform, the Group intends to operate an online retail shop on the E-commerce Platform to sell cosmetics and personal care products to end consumers, which include products with and without CBD content for customers in the PRC. The Group has also implemented a policy for the sales arrangement on the E-Commerce Platform which restricts delivery of the sales orders to destinations within the PRC only. The Group has also confirmed with the E-Commerce Platform that such restriction was allowed on the E-Commerce Platform. The Group has further confirmed the legality of such arrangement with its PRC legal advisers in respect of the legality of sale of cosmetics and personal care products with CBD content on the E-commerce Platform and it was confirmed that as long as the destinations of delivery of the relevant products with CBD contents was in the PRC, such operation was legal and in compliance with the relevant laws and regulations in the PRC.

We had discussed and understand from the Management that in view of the increase of global demand in cosmetics and personal care products incorporated with CBD content, the Directors are of the view that there is potential in the PRC market for cosmetics and personal care products incorporated with CBD content and the expansion of the Group into such market will be beneficial to its business operations and financial performance in the long run.

As set out from the Letter from the Board, according to the F&S Report, the market size of CBD cosmetics and personal care product in the PRC is expected to experience a rapid growth with the CAGR of 39.3% from 2020 to 2024. The rapid growth of CBD cosmetics and personal care product market in the PRC is primarily supported by the increasing total healthcare expenditure, ageing population, coupled with a growing preference towards cosmetics and personal care products with natural, organic and herbal ingredients. Specifically, the growing proportion of high-aged population from approximately 11.5% in 2019 to 13.5% in 2024 will lead to enlarged customer bases for cosmetics and personal care products with natural ingredients and exceptional effects for relieving skin conditions. As such, the emergence of

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

imported CBD cosmetics and personal care products is expected to demonstrate a huge potential to capture the untapped demand from customers in the PRC.

Furthermore, also according to the F&S Report, (i) the overall CBD market has been undergoing rapid growth globally since 2016, from 2016 to 2019, the growth of CBD market in the PRC has recorded 19.9%; (ii) it is forecasted that the growth in the PRC CBD market would amount to 32.6% from 2020 to 2024; and (iii) the growth drivers of the CBD market has been driven by the growing awareness towards the health benefits and increasing penetration of CBD in consumer products, as well as increasing degree of acceptance by both regulatory authorities and consumers of CBD products in various countries. We have obtained and reviewed the F&S Report and discussed with F&S, among others, (i) their experience in relation to the preparation of F&S Report; (ii) the principal source of data used; and (iii) bases, assumptions used in the F&S Report and F&S has confirmed its independence.

We noted (i) in the section headed “2. Industry outlook” above that (a) research had suggested that CBD may have anti-inflammatory effects on oil-secreting glands in the skin; (b) the prospects of global skin care products market and the projected global CBD skincare market by 2024 is US\$959 million in sales; and (c) market size of the beauty and personal care market in the PRC is estimated to increase from RMB410.5 billion in 2018 to RMB621.4 billion in 2023; and (ii) from the F&S Report that the forecasted growth rate in the PRC would amount to 32.6% from 2020 to 2024, we concur with the Directors CBD has medical value and that there will be ongoing development for beauty and personal care market in the PRC and global CBD skincare market.

In this regard, the Company intends allocate approximately HK\$90.0 million from the net proceeds of the issue of the Subscription to expand into the CBD-based cosmetics and personal care product trading business in the PRC.

As advised by the Management, as at the Latest Practicable Date, the Group had (i) conducted a feasibility study for operation of an online shop on the E-commerce Platform for sales of cosmetics and personal care products incorporated with CBD content (the “**Feasibility Study**”) and obtained PRC legal opinions for the carrying out of such business; (ii) commenced discussions with the E-commerce Platform in relation to the establishment of the online retail shop on the E-commerce Platform and understood that the Group has qualified as such given the prior working relationship with Customer A as an authorised supplier; (iii) engaged a PRC service provider which is specialised in the operation and management of online shops on e-commerce platforms, which includes carrying out promotional campaigns such as hiring key opinion leaders (“**KOLs**”) to promote European branded cosmetics and personal care products incorporated with CBD content, to operate its online retail shop on the E-commerce Platform; and (iv) commenced negotiations with potential suppliers of European branded cosmetics and personal care products incorporated with CBD content.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We had reviewed the Feasibility Study and PRC legal opinions. Based on the articles and reports set out in the section headed “2. Industry outlook” above, the Feasibility Study and PRC legal opinions, we noted that (i) the potential market for sales of cosmetics and personal care products, both incorporated with or without CBD content, globally, including the PRC, is promising, in particular, (a) the prospects of global skin care products market and the projected global CBD skincare market by 2024 is US\$959 million in sales and (b) market size of the beauty and personal care market in the PRC is estimated to increase from RMB410.5 billion in 2018 to RMB621.4 billion in 2023 as stated in the section headed “2. Industry outlook” above; and (ii) in respect of the legality of sale of cosmetics and personal care products with CBD content on the E-commerce Platform, according to the PRC Legal Advisers, as long as the destinations of delivery of the relevant products with CBD content was in the PRC, such operation was legal and in compliance with the relevant laws and regulations in the PRC.

Taking into consideration of (i) the prospects of global skin care products market and the projected global CBD skincare market by 2024 is US\$959 million in sales as stated in the section headed “2. Industry outlook” above; (ii) the Feasibility Study; and (iii) the PRC legal opinions, we concur with the Management that such intended use of proceeds for the expansion of CBD-based cosmetics and personal care product trading business from the Subscription is fair and reasonable.

- (2) *Continue to engage in the international trading of the raw material of CBD and vertical expansion into hemp cultivation and extraction*

As advised by the Management, since 2019, the Group has expanded its trading products portfolio by including raw material of CBD and intends to engage in vertical expansion into hemp cultivation and extraction to naturally progress along the supply chain to enjoy the economics of scale of hemp cultivation and extraction.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In 2019, the Group has engaged the Specialist Consultancy which is specialized in hemp cultivation and extraction and the distribution channels in the North America. Moreover, we had discussed and understand from the Management the legality of CBD trading business currently carried out by the Group, details of which were set out in the Letter from the Board. In May 2019, the Group has commenced its international trading business of polyphenol resin, a type of CBD isolate. As set out from the Letter from the Board, as at the Latest Practicable Date, the Group conducts trading of CBD isolate for healthcare products which are sourced in the PRC for wholesale in the PRC and export to the United States and Japan. The Company will expand its customer base to distributors and retailers of CBD products brand and CBD product white labelling companies in China and United States in the next two financial years. As part of the Group's business strategies, the Group has also intensified its effort in expanding the suppliers network, in terms of nature of products, origins of import, securing additional customers and sales network. As at the Latest Practicable Date, the Group has (i) entered into a legally binding contract for the sales of CBD isolate to a customer headquartered in California of the United States, under which the Company agreed to sell CBD isolate amounting to USD240,000 (approximately HK\$1.9 million) to the customer between May and October 2020; and (ii) entered into a letter of intent with another customer in relation to the sales of CBD isolate amounting to USD52,000 (approximately HK\$0.4 million) between May and August 2020.

As disclosed in the announcement of the Company dated 10 May 2019, the Group has secured reliable supplier of plant extracts which match the quality and specification required by its customer's by leveraging on Yunnan Baiyao Group's strong bargaining power and logistics and testing capability. As disclosed from the Letter from the Board, the Group has generated revenue of approximately HK\$1.2 million with minimal profit from its CBD trading business for the year ended 31 March 2020.

As advised by the Management, based on the Group's understanding, the demand of CBD is strong in developed countries and in particular, the United States, calling for demand to import from other countries. Due to high cultivation and production cost in these developed countries, there exists a business opportunity to set up cultivated land and extraction facilities in developing countries where cultivation of hemp is legalised while farming and production costs are relatively low. According to (i) an article from The Motley Fool<sup>9</sup>, it is estimated that (a) the five countries with the highest cannabis spending by 2024 would be the United States, Canada, Germany, Mexico and the United Kingdom; and (b) the estimated total spending by these five countries will be approximately US\$38.2 billion; and (ii) a report titled "Economic Viability of Industrial Hemp in the United States: A Review of State Pilot Programs" issued by the United States Department of Agriculture<sup>10</sup>, (a) Canada, Europe, and China are major foreign hemp-producing regions; (b) along with the United States, Canadian and the European Union hemp industries face competition from low-cost suppliers in Eastern Europe and China; and (c) it is likely China is the world's largest industrial hemp producer as of 2019. Based on the above-mentioned article and report, we noted that (i) the demand of CBD is strong in developed countries; and (ii) that China is one of the major foreign hemp-producing regions, being one of the largest industrial hemp producers as of 2019.

<sup>9</sup> <https://www.fool.com/investing/2019/09/08/5-countries-with-the-highest-cannabis-spending-by.aspx>

<sup>10</sup> <https://www.ers.usda.gov/webdocs/publications/95930/eib-217.pdf>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out from the Letter from the Board, the Group intends to enter into the hemp cultivation and extraction industry in Yunnan as Yunnan is the only province in China which published detailed implementation rules on the bright-line requirements and procedures for hemp license applications. Under the provincial licensing regulations in China, entities or individuals proposing to be engaged in hemp plantation and processing should obtain hemp plantation permits and hemp processing permits.

As advised by the Management, the Directors are of the view that (i) in the long run the demand for CBD isolate would rise; (ii) it is also consistent with the industry practice and as a natural step of the expansion process for companies engaging in CBD trading business to further expand to its upstream supplier in order to enjoy economies of scale; and (iii) a vertical upstream expansion will benefit its trading business by (a) securing stable inventory supply and (b) enhancing profitability by such value-added process (i.e. cultivation and extraction) in the value chain. Moreover, we noted from the business expansion plan of the Group that the Group intends to enter into the hemp cultivation and extraction industry in Yunnan as Yunnan is the only province in China which published detailed implementation rules on the bright-line requirements and procedures for hemp license applications. Moreover, as advised by the Company's PRC Legal Advisers, given (i) the favourable government policy in the Yunnan Province which intends to attract foreign investment; and (ii) the relevant subsidiary of the Group having fulfilled the registered capital, place of registration and business scope requirements of the relevant government authorities in the Yunnan Province, according to the PRC Legal Advisers, there is currently no legal obstacle for the Group to obtain the required permits.

Accordingly, the Company plans to apply (i) approximately HK\$20.0 million to secure the supply of CBD isolate in order to fulfil its existing and anticipated purchase orders from its current and future customers; and (ii) approximately HK\$70.0 million for setting up of hemp cultivation and extraction facilities for vertical expansion of CBD trading business.

Taking into consideration (i) the prospects of CBD market as stated in the section headed "2. Industry outlook" above; (ii) the legality of CBD trading business currently carried out by the Group; (iii) the fact that a significant amount of the proceeds are related to the setting up of the necessary facilities for obtaining the necessary permits as discussed above; (iv) the business plan of the Group; (v) the PRC legal opinions; and (vi) the intended use of proceeds in strengthening the Group's existing business related to trading of CBD isolate, we concur with the Management that such intended use of proceeds for the expansion of CBD-based cosmetics and personal care product trading business from the Subscription is fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(3) *Pursue growth through expansion*

As advised by the Management, the Group intends to increase its presence in its existing markets through selected expansion opportunities with identified market players in the industry. The Group has been exploring potential expansion targets in the PRC whose businesses, service growth potential and brand recognition are complementary to the Group, thereby enhancing its operational efficiency and/or expanding the portfolio of its services.

Furthermore, we noted from the Management that the Group will focus on targets engaging in trading and distribution of cosmetics and personal care products with CBD content. In selecting these expansion targets, the Directors mainly assess (i) the quality and competitiveness of their products and/or services; (ii) whether the target companies have a well-established distribution channel; (iii) the business strategies of the target companies, such as target customers, target market and business development plan; (iv) the consideration for the expansion; (v) the background and track record of the target companies and/or their management and expertise; (vi) whether the business of the target companies are complementary with those of the Group, having regard to the image and working style of the Group; and (vii) the possible business synergies to the Group and the anticipated profitability of the target.

In this regard, the Group intends to utilise HK\$40.0 million from the net proceeds of the issue of the Subscription for such expansion. Having consider (i) the prospects of CBD market as stated in the section headed “2. Industry outlook” above; (ii) such expansion is a continuous of the Group’s existing business; and (iii) the selection criteria of the Company as list above, we concur with the Management that such intended use of proceeds for the expansion of CBD-based cosmetics and personal care product trading business from the Subscription is fair and reasonable.

(4) *Expand the Group’s money lending business operations by strengthening its loan portfolio and broadening its customer base and coverage*

As set out from the Letter from the Board, the Group has been carrying on money lending business with a strategic focus on short-term personal and corporate loans. As advised by the Management, it is the Group’s strategy to continuously explore market opportunities in Hong Kong, and the Group intends to further expand its money lending business by increasing the size of their loan portfolio and its market share. In view of the above, the Management believes that with the proceeds from Subscription, the Group would be in a better position to further expand its loan portfolio and broaden its customer base in addition to the current social and business networks of the management staff and the money lending association. Going forward, the Company intends to utilise approximately HK\$50.0 million out of the net proceeds from the issue of the Subscription to its existing money lending business. We had discussed and understand from the Management that a majority of such proceed would be reserve to new customer as lending reserve; while the remaining would be allocated to strengthen the market position by improving their brand awareness and the Group’s presence within the industry by (i) advertisement and (ii) expanding marketing team.

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Taking into consideration (i) the majority of the intended use of proceeds for the Company's existing money lending business would be reserved as a lending reserve for new customer; and (ii) the expansion of money lending business are in line with the business development strategy of the Group, we concur with the Management that the intended use of proceeds for money lending business is fair and reasonable.

### *(5) Repayment of bonds issued by the Company and general working capital*

In 2014, the Company has issued the corporate bonds with aggregate principal amount of HK\$70 million to seven bondholders. As disclosed in the 2020 Annual Report, as at 31 March 2020, the Company has (i) unsecured bonds with outstanding principal amount of approximately of HK\$70.0 million; and (ii) bank balances and cash of approximately HK\$7.0 million. Accordingly, the Company is unable to repay the outstanding bonds without further external financing.

As advised by the Management, the Company considers that external refinancing is difficult due to tighten loan policies and poor market conditions. As such, the Company intends to apply the net proceeds from the issue of the Subscription amounting to approximately HK\$70.0 million for repayment of corporate bonds which will be due between January and July 2021. Furthermore, the Company intends to allocated approximately HK\$58.0 million for general working capital. We noted from the 2019 Annual Report the Group's net cash flow used in the operating activities was approximately HK\$257.5 million for the year ended 31 March 2019. As at 31 March 2020, the Company recorded a bank balances and cash of approximately HK\$7.0 million, which is relatively thin when compared to the scale of its operation and expenses.

Having considered that (i) the fact that the Company is unable to repay its outstanding bonds without further external financing; and (ii) the relatively thin cash level of the Company when compared to the scale of its operation and expenses, we concur with the Management that the intended use of proceeds for repayment of bonds issued by the Company and general working capital is fair and reasonable.

### Other financing alternatives considered by the Company

As set out in the Letter from the Board, the Directors have considered other fund raising methods under the prevailing market conditions, and considered that the Subscription provided the maximum certainty on the outcome of the fund-raising and signified the support and confidence of the Company's substantial shareholder on the Group's future prospect. In respect of equity financing, the Company considered a wide range of potentially available options such as placing of new shares, subscription of new shares, rights issue and open offer. Compared with rights issue or open offer which requires prospectus preparation and registration and thereby needs extra time (of normally three months) to complete, the Subscription can be implemented under a shorter timetable. In addition, the Subscription involves lower costs

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due to the saving of the underwriting fee quoted by the financial institutions approached by the Company in the range of 2.5% to 3.5%. In fact, due to the poor market sentiment in Hong Kong for the time being, none of the financial institutions approached by the Company was willing to underwrite an open offer or rights issue of the size desired by the Company.

Compared with placing of shares or convertible bonds through placing agents, the Subscription involves lower costs due to the saving of the placing commission quoted by the financial institutions approached by the Company in the range of 2.5% to 3.5%. In addition, placing are normally conducted on best-effort basis which gives little certainty as to the outcome in the light of the poor market sentiment in Hong Kong. For best-effort placing of shares or convertible bonds, the financial institutions approached by the Company noted that both the liquidity of the Company's shares and the market sentiment of Hong Kong investors are poor, such that at least 20% discount in the issue price (in the case of share issuance) or conversion price (in the case of issuance of convertible bonds) as compared to the then-current share price level would be needed to provide incentive to subscribers. In comparison, the conversion price of the Convertible Bonds under the Subscription is close to the market price level at the time of the signing of the Subscription Agreement. In addition, financial institutions approached by the Company requested interest rates of at least 8% per annum if the Company were to place convertible bonds through them, which was much higher than the interest rate of 3% per annum under the Convertible Bonds.

We have discussed with the Directors and understand that they have considered other fund-raising alternatives before resolving to the Subscription, such as debt financing and equity financing. However, as the funding requirement intended to be raised by the Group is significant, and that the Group would not be able to provide any real property collateral for the loan, all the banks approached by the Group had turned down our loan application enquiries. The Group also explored the possibility of the placing of corporate bonds through financial institutions, but the interest rates of at least 8% per annum offered by the financial institutions approached by the Company is higher than the interest rate of 3% per annum under the Convertible Bonds.

In respect of equity financing, we understand the Directors had also considered a wide range of potentially available options such as placing of new shares, subscription of new shares, rights issue and open offer. Compared with rights issue and open offer which requires prospectus preparation and registration, the Subscription can be implemented under a shorter timetable. Compared with placing of shares or convertible bonds through placing agents, the Subscription involves lower costs due to the saving of the placing commission. In addition, placing are normally conducted on best-effort basis which gives little certainty as to the outcome in the light of the poor market

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sentiment in Hong Kong. Compared with a direct share subscription which involves the immediate issuance of a substantial amount of new Shares, the Directors preferred the issuance of the Convertible Bonds as it would not cause any immediate dilution to the existing shareholders.

Having considered the above, we are of the view and concur with the Directors that the Subscription is the more appropriate means of raising the amount of capital required in a timely manner for the Company since (i) the Group was unable to procure debt financing from banks and financial institutions; (ii) the Group was unable to find suitable underwriters for any potential rights issues or open offer; (iii) the Subscription provided the maximum certainty on the outcome of the fund-raising; and (iv) the Subscription would not have any immediate dilution impact to the Group's existing shareholding structure.

#### **4. Principal terms of the Subscription**

On 14 October 2019 (after trading hours), 31 December 2019 (after trading hours), 28 February 2020 (after trading hours), 30 April 2020 (after trading hours), 31 July 2020 (after trading hours) and 10 September 2020 (after trading hours), the Company entered into the Subscription Agreement and the Supplemental Subscription Agreements by the Yunnan Baiyao Group, pursuant to which the Yunnan Baiyao Group has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$500,000,000 and the Company has conditionally agreed to issue the Convertible Bonds, subject to and on the terms of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements). The initial Conversion Price is HK\$0.258 per Conversion Share, and the Convertible Bonds will carry an interest of 3% per annum and will mature on the second anniversary of the date of issue. For further details of the principal terms of the Subscription and Convertible Bonds, please refer to the section headed "The Subscription" and "Principal terms of the Convertible Bonds" in the Letter from the Board.

#### **5. Evaluation of the Conversion Price**

##### *(a) Review on Share price performance*

We note that the Conversion Price of HK\$0.258 per Conversion Share:

- (i) represents a discount of approximately 0.77% to the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on the 14 October 2019, being the date of the Subscription Agreement;
- (ii) is equivalent to the average closing price of approximately HK\$0.258 as quoted on the Stock Exchange for the last five consecutive trading days up immediately prior to the date of the signing of the Subscription Agreement;

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- (iii) represents a discount of approximately 1.1% to the average closing price of approximately HK\$0.261 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 14 October 2019;
- (iv) represents a premium of approximately 1.2% to the average closing price of approximately HK\$0.255 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the 14 October 2019;
- (v) represents a premium of approximately 1.2% to the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) represents a premium of approximately 108.1% over the net asset value attributable to owners of the Company as at 31 March 2020 of approximately HK\$0.124 per Share.

With a view to assess whether the Conversion Price is fair and reasonable, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange for the twelve-month period from 14 October 2018 to 14 October 2019 (the “**Review Period**”), which is determined with reference to the date of the entering into the Subscription Agreement by the Group (i.e. 14 October 2019). Set out below is the share price of the Group from 14 October 2018 to the Latest Practicable Date:



Source: the Stock Exchange

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From October 2018 to mid-February 2019, the Share closing price of the Group remained largely stable between HK\$0.174 and HK\$0.19. On 14 February 2019, the Share closing price of the Group increased by approximately 28.7% from HK\$0.181 as per the Share closing price on 13 February 2019 to HK\$0.233 as per the Share closing price on 14 February 2019, and later on further increased to HK\$0.315 on 21 March 2019. Such increase may be attributable to the positive reaction of the market to the announcement of the Group dated 31 January 2019 in relation to the disposal of Jun Qiao Limited and the positive market sentiment in Hong Kong generally during this period, as reflected by the increase of Hang Seng Index from the 25,000 level in January 2019 to the 30,000 level in April 2019. Since then, from April 2019 to October 2019, the Share closing price of the Company was generally on a declining trend prior to the entering into the Subscription Agreement. After the publication of the announcement dated 14 October 2019 in relation to the Subscription, the Shares closing price was generally on an increasing trend, reaching the peak during the Review Period at HK\$0.385 at 4 November 2019. Thereafter, the Share closing price was generally on a declining trend.

During the Review Period, the closing prices of the Shares ranged from HK\$0.174 per Share to HK\$0.385 per Share. The Conversion Price is within such range of the closing prices of the Shares during the Review Period, and is also close to the prevailing market price of the Shares immediately before entering the Subscription Agreement. We consider that the comparison of the Conversion Price with the more recent Share price is a more relevant analysis than the comparison with historical Share prices over the past six to twelve months when determining the fairness and reasonableness of the Conversion Price as the market price of the Shares immediately before entering into the Subscription Agreement can directly reflect the value of Shares in the then prevailing market conditions and financial situation of the Group, especially as the Group has undertaken the Disposal in January 2019 which was believed to be have partially contributed to the fluctuations of the share price since then. In the light of the foregoing and the results of market comparable analysis set out in section (c) as below, we are of the view that the Conversion Price is fair and reasonable.

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(b) *Trading liquidity of Shares*

We have reviewed the trading volume data in respect of the Shares during the Review Period as illustrated in the table below:

	<b>Total trading volume for the month/ period</b> <i>Number of Share</i>	<b>Average daily trading volume for the relevant month/period</b> <i>Number of Share</i>	<b>Percentage of average daily trading volume to number of Shares in issue as at the end of the relevant month/period</b>
<b>2018</b>			
October	134,953,000	6,426,333	0.12%
November	120,481,000	5,476,409	0.08%
December	68,168,000	3,587,789	0.06%
<b>2019</b>			
January	75,126,000	3,414,818	0.05%
February	147,061,000	8,650,647	0.13%
March	321,830,000	15,325,238	0.24%
April	153,348,000	8,070,947	0.13%
May	92,617,000	4,410,333	0.07%
June	59,661,000	3,140,053	0.05%
July	65,557,000	2,979,864	0.05%
August	29,080,100	1,321,823	0.02%
September	61,409,000	2,924,238	0.05%
October	384,376,000	18,303,619	0.28%
November	222,642,000	10,602,000	0.16%
December	88,972,000	4,448,600	0.07%
<b>2020</b>			
January	56,180,000	2,809,000	0.04%
February	42,342,000	2,117,100	0.03%
March	54,802,000	2,491,000	0.04%
April	47,456,000	2,497,684	0.04%
May	85,847,000	4,292,350	0.07%
June	36,566,000	1,741,238	0.03%
July	97,871,000	4,448,682	0.07%
August	46,986,000	2,237,429	0.03%
September (up to the Latest Practicable Date)	23,682,000	3,383,143	0.05%
		<b>Maximum</b>	0.28%
		<b>Minimum</b>	0.02%
		<b>Average</b>	0.08%

Source: the Stock Exchange

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As illustrated in the table above, we consider the average daily trading volume of the Shares during the Review Period was thin which may be due to the lack of public interests. As such, we are of the view that it is reasonable for the Company to consider the Subscription instead of the issue of new Shares to the public given their lack of interests.

(c) *Market comparable analysis*

For comparison purpose, we have, on a best effort basis, reviewed announcement of all recent issues of convertible bonds/notes to connected persons by companies listed on the Main Board of the Stock Exchange that were announced during the last six months prior to and including 14 October 2019 (the “**Comparable Issues**”) by searching through published information on the website of Stock Exchange. Based on such criteria, we have identified 10 Comparable Issues, which to the best of our knowledge, efforts and endeavours, is an exhaustive list.

In order to determine whether the Conversion Price is reasonable, we have compared the respective premium/discount of the conversion price to (i) the closing price of the shares of such companies on the on the date of the relevant subscription agreement (the “**Last Trading Day Premium/Discount**”); (ii) the average closing price of the last five consecutive trading days immediately prior and/or including the subscription agreements (the “**Five Days Premium/Discount**”); and (iii) the unaudited net asset value per share as shown on the latest available financial statement published by the time of the subscription agreement (the “**NAV Premium/Discount**”) of the Comparable Issues with the corresponding premium/discounts represented by the Conversion Price. In addition, we have also reviewed and compared the maturity period and the interest rates of the Convertible Bonds with that of the Comparable Issues.

Taking into account that valid comparables have to be under similar and recent market conditions and fulfil the criteria of being connected transactions of companies listed on the Main Board of the Stock Exchange as set out above to ensure they provide a fair and reasonable comparison, we consider that the 10 Comparable Issues found are sufficient to reflect the prevailing market conditions for comparison. Shareholders should note that the business, operations and prospects of the Group are not the same as the Comparable Issues and the Comparable Issues are only used to provide a general reference for the recent general market practice on the issue of the new convertible bonds.

As the conversion price of the convertible bonds is usually determined with reference to the prevailing market conditions, we consider that the selected time frame (i.e. the six-month period prior to and including 14 October 2019) is appropriate for the purposes of comparison as it can generate sufficient number of comparables which can satisfy the abovementioned selection criteria, as well as an insight on the conversion price of the convertible bonds recently issued by other listed companies on the Stock Exchange under similar market conditions and sentiments. Although a longer time frame may yield more comparables, the market conditions out of the selected time frame may be substantially different and may not yield an accurate result for comparison. In order to strike a balance between accuracy and number of comparables, we are of the view that the 10 Comparables Issues observed from the selected time frame can reflect the recent trend of conversion price of new issuance of convertible bonds/notes in the market.

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We set out our findings in the table below:

Announcement date of the Comparable Issues	Stock Code	Issuers of the Comparable Issues	Principal Amount HK\$ million	Maturity Period years	Premium/(discount) of the conversion price to the closing price of the shares on the last trading day %	Premium/(discount) of the conversion price to the average closing price of the shares for the last five consecutive trading days immediately prior and/or including the last trading day %	Premium/(discount) of conversion price to/over the net asset value per Share %	Interest rate per annum %
24-Sep-19	707	Asia Television Holdings Limited	400.0	3.0	85.2	72.4	63.9	6.0
10-Sep-19	1341	Hao Tian International Construction Investment Group Limited	213.0	3.0	16.7	16.7	102.2	5.0
31-Jul-19	756	Summi (Group) Holdings Limited	74.0	3.0	16.9	18.4	(86.4)	2.3
10-Jul-19	827	Ko Yo Chemical (Group) Limited	987.0	5.0	(19.9)	(19.7)	(4.7)	5.0
1-Jul-19	821	Value Convergence Holdings Limited	99.0	3.0	(18.2)	(16.7)	(46.7)	0.0
17-Jun-19	616	Eminence Enterprise Limited	70.0	5.0	-	-	(93.5)	3.0
29-May-19	575	Regent Pacific Group Limited	136.5	3.0	(15.0)	(15.5)	(60.4)	4.0
23-May-19	1589	China Logistics Property Holdings Co. Limited	1,109.0	5.0	10.0	8.2	(20.6)	7.0
20-May-19	171	Silver Grant International Holdings Group Limited (Formerly known as Silver Grant International Industries Limited)	1,150.0	3.0	39.0	40.0	(29.4)	7.0

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Announcement date of the Comparable Issues	Stock Code	Issuers of the Comparable Issues	Principal Amount <i>HK\$ million</i>	Maturity Period <i>years</i>	Premium/(discount) of the conversion price to the closing price of the last trading day %	Premium/(discount) of the conversion price to the average closing price of the last five consecutive trading days immediately prior and/or including the last trading day %	Premium/(discount) of conversion price to/over the net asset value per Share %	Interest rate per annum %
26-Apr-19	539	Victory City International Holdings Limited	400.0	2.0	10.4	9.5	(86.9)	5.0
			Maximum	5.0	85.2	72.4	102.2	10.0
			Minimum	2.0	(19.9)	(19.7)	(93.5)	0.0
			Average	3.5	12.5	11.3	(26.3)	4.4
			Median	3.0	13.5	13.5	32.2	5.0
14-Oct-19		<i>The Company</i>	500.0	2.0	(0.8)	-	115.0	3.0

**Source:** The website of the Stock Exchange as well as next day disclosure returns, monthly returns and announcements published by the Company on the website of the Stock Exchange

**Notes:**

- In calculating the average, we have averaged out positive numbers (premiums) with negative numbers (discounts). We consider that such average figure is meaningful as it indicates whether, on average, the conversion price of the Comparable Issues represents a premium (if the average figure is a positive number) or a discount (if the average figure is a negative number) over/to the then prevailing market price of the relevant shares, and the magnitude of such premium or discount.
- The proposed issue of the convertible bonds announced on 22 January 2020 by Huajun International Group Limited (stock code: 377) is excluded from the Comparable Issues and the above analysis as it appears to be an extreme outlier as compared to other comparable issues, thus does not provide a meaningful analysis.

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As illustrated in the table above, we note that (i) the Last Trading Day Discount represented by the Conversion Price of approximately 0.8% falls within the range of the Last Trading Day Premium/Discount of the Comparable Issue ranged from a discount of approximately 19.9% to a premium of approximately 85.2%, with an average of a premium of approximately 12.5%; (ii) the Conversion Price is equivalent to the average closing price for the five trading days immediately prior to the date of signing of the Subscription Agreement, which falls within the range of the Five Days Premium/Discount of Comparable Issues ranged from a discount of approximately 19.7% to a premium of approximately 72.4%, with an average premium of approximately 11.3%; and (iii) the NAV Premium represented by the Conversion Price of approximately 115.0% is higher than both (a) the range of the NAV Premium/Discount of the Comparable Issues, which ranged from a discount of approximately 93.5% to a premium of approximately 102.2%; and (b) the average discount of approximately 26.3%.

Although the Conversion Price is below the averages of Last Trading Day Premium/Discount and the Five Days Premium/Discount of the Comparable Issues, we considered that a NAV Premium of the Conversion Price indicates that, assuming full conversion of the convertible bonds, the net asset value attributable to the Shareholders per share after the conversion shall increase, we are of the view that a high NAV Premium of the Conversion Price shall be in the interest of the Shareholders.

Moreover, in terms of the Company's ongoing fund needs, we noted that the Group (i) is required to repay the outstanding corporate bonds issued in 2014 during 2021; (ii) requires funds for the aforementioned expansion plans; and (iii) has current and future working capital needs to continue to develop its CBD business as abovementioned. However, based on the current financial conditions of the Group, it has difficulties in fulfilling such funding needs due to (i) the Group's limited cash resources of approximately HK\$7.0 million as at 31 March 2020, which is insufficient to repay the outstanding bonds; (ii) the Group is unable to borrow from banks as the Group does not have any property for collateral; and (iii) other equity fund raising methods with similar scale of the Subscription have not been feasible, as mentioned in the paragraph headed "Other financing alternatives considered by the Company" above.

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As a result, despite the Conversion Price are below the averages of Last Trading Day Premium/Discount and the Five Days Premium/Discount of the Comparable Issues, having considered, in particular,

- (i) the Subscription can provide immediate funding to the Company to meet its imminent and ongoing funding needs, among others, the repayment of the outstanding corporate bonds issued in 2014 during 2021,
- (ii) the Share closing price of the Company was generally on a declining trend prior to the entering into the Subscription Agreement and the low liquidity in the trading of the Shares during the Review Period;
- (iii) the Last Trading Day Discount and Five Days Premium/Discount represented by the Conversion Price falls within the range of the Premium/Discount and Five Days Premium/Discount of the Comparable Issues respectively; and
- (iv) the NAV Premium represented by the Conversion Price is the highest among the Comparable Issues;

we are of the view that the Conversion Price is acceptable and justifiable so far as the Independent Shareholders are concerned.

In addition, considered that (i) the interest rates of the Convertible Bonds of 3.0% falls within range of the interests rates of the Comparable Issues ranged from 0.0% to 10.0% and is lower than the average of the Comparable Issues of approximately 4.4%, which is in the interest of the Shareholders; and (ii) the maturity period of the Convertible Bonds of 2 years falls within the range of the maturity periods of the Comparable Issues ranged from 2 years to 5 years, which is in the interest of the Shareholders, we are of the view that the interests rates and maturity period of the Convertible Bonds are fair and reasonable.

### **6. Financial effects of the Subscription**

#### *(a) Effect on shareholders' equity*

According to the 2019 Annual Report, the audited consolidated shareholders' equity of the Company was approximately HK\$764.0 million or HK\$0.118 per Share as at 31 March 2019. According to the 2020 Annual Report, the audited consolidated shareholders' equity attributable to owners of the Company was approximately HK\$799.8 million or HK\$0.124 per Share as at 31 March 2020. The issued share capital of the Company as at 31 March 2019 and 31 March 2020 were 6,448,152,160 Shares.

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It is expected that the Subscription would not lead to any material and immediate change to the shareholder's equity of the Company immediately upon completion of the Subscription. However, if the Convertible Bonds are fully converted into 1,937,984,496 Shares at or before maturity and assuming no other changes in the issued share capital and shareholders' equity, the shareholder's equity attributable to owners of the Company is expected to increase by HK\$498 million (being the net proceeds raised from the Subscription), from approximately HK\$799.8 million or HK\$0.124 per Share as at 31 March 2020 to approximately HK\$1,297.8 million or HK\$0.155 per Share (on the basis of 8,386,136,656 issued Shares of the Company as enlarged by the full conversion of the Convertible Bonds) upon the full conversion of the Convertible Bonds.

*(b) Effect on working capital*

As confirmed by the Directors, immediately upon the Completion of the Subscription by Yunnan Baiyao Group, it is expected that the working capital of the Group will increase.

*(c) Effect on gearing ratio*

Based on the 2019 Annual Report, the gearing ratio of the Group, calculated based on the total liabilities divided by total assets, was approximately 11.9% as at 31 March 2019. According to the 2020 Annual Report, gearing ratio of the Group was approximately 17.2% as at 31 March 2020.

It is expected that the gearing ratio of the Group will decrease if the Convertible Bonds are fully or partly converted at or before Maturity, as the outstanding liability component of the Convertible Bonds will be contributed to total equity and total debt of the Group will decrease.

Having considered that, upon the completion of the Subscription, the working capital will be improved, while upon the exercise of the Convertible Bonds, the net asset value of the Group will be increased and the gearing ratio will be improved, we are of the view that the Subscription is beneficial to the Group from the financial point of the view.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the Completion of the Subscription.

**7. Fund-raising activities of the Company during the past 12 months**

As disclosed from the Letter from the Board, the Company entered into the subscription agreement with Yunnan Baiyao Holdings on 20 August 2018, pursuant to which the Company agreed to issue and allot 1,000,000,000 Shares to Yunnan Baiyao Holdings (the “**2018 Share Subscription**”) at the subscription price of HK\$0.18 per Share. The 2018 Share Subscription was completed on 22 November 2018, raising gross proceeds of HK\$180.0 million and net proceeds of HK\$178.8 million. At the time of 2018 Share Subscription, the Company intended to apply the net proceeds: (a) as to approximately HK\$40.0 million for the Group’s trading business in China; (b) as to approximately HK\$40.0 million for the Group’s trading business in Hong Kong; (c) as to approximately HK\$52.5 million for the Group’s personal care product business; (d) as to approximately HK\$28.8 million for the Group’s corporate expenses, including HK\$12.4 million for the payment of salaries and remuneration of management and staff, HK\$3.8 million for the payment of bond interest, HK\$4.2 million for rental expenses, HK\$5 million for professional fees and HK\$3.4 million for business development budgets of the Group; and (e) as to approximately HK\$17.5 million for the Group’s general working capital.

Save for the 2018 Share Subscription, during the 12 month period immediately preceding the Latest Practicable Date, the Company has not undertaken (whether by reference to the date of announcement or the date of share issue) any rights issue, open offer or any other specific mandate placing.

The proceeds of the 2018 Share Subscription were fully utilised for their originally intended use during the year ended 31 March 2020.

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### 8. Potential dilution to the Independent Shareholders' interests

For illustration purpose, set out below are (i) the shareholding structure of the Company as at the Latest Practicable Date; and (ii) the shareholding structure upon exercise in full of the conversion rights attached to the Convertible Bonds assuming there are no other changes in the shareholding structures of the Company from the Latest Practicable Date to the completion of the conversion of the Convertible Bonds:

Shareholders	As at the Latest Practicable Date		Immediately before the Conversion of the Convertible Bonds and assuming that no Conversion would be made due to the conversion restriction		Immediately after the full conversion of the Convertible Bonds		Immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds (for illustration purpose only) as subject to the restrictions that the conversion does not result in (i) a mandatory general offer under Takeovers Code; and (ii) the public float of the Shares being less than 25% (or such percentage as required by the Listing Rules of the issued Shares)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Yunnan Baiyao Group (Note)	1,908,025,360	29.59%	1,908,025,360	29.59%	3,846,009,856	45.86%	1,945,305,360	29.99%
Mr. Chow Wang	495,404,000	7.68%	495,404,000	7.68%	495,404,000	5.91%	495,404,000	7.64%
Mr. Fong For	349,068,000	5.41%	349,068,000	5.41%	349,068,000	4.16%	349,068,000	5.38%
Public Shareholders	<u>3,695,654,800</u>	<u>57.32%</u>	<u>3,695,654,800</u>	<u>57.32%</u>	<u>3,695,654,800</u>	<u>44.07%</u>	<u>3,695,654,800</u>	<u>56.99%</u>
Total	<u>6,448,152,160</u>	<u>100.00%</u>	<u>6,448,152,160</u>	<u>100.00%</u>	<u>8,386,136,656</u>	<u>100.00%</u>	<u>6,485,432,160</u>	<u>100.00%</u>

*Note:* The shareholding number and percentage stated here are for illustration purpose only. The conversion of the Convertible Bonds is limited by the Conversion Restrictions (i.e. if the conversion by the holders of the Convertible Bonds would trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the exercising bond holders or parties acting in concert with them, or reduce the public float of the Company to less than 25% as prescribed by Rule 8.08(1)(a) of the Listing Rules), such that no bondholder shall convert the Convertible Bonds to an extent which would reduce the public float of the Company to below the percentage prescribed under the Listing Rules, or trigger the mandatory offer obligation under the Takeovers Code on the part of the exercising bond holders and parties acting in concert with them, until and unless the regulatory requirements under the Takeovers Code and the Listing Rules are fully complied with.

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The theoretical diluted price, the benchmarked price and the theoretical dilution effect (as those terms are defined under Rule 7.27B of the Listing Rules) for the Subscription under the Specific Mandate are HK\$0.260 per Share, HK\$0.260 per Share and nil, respectively.

Taking in to account (i) the reasons for and benefits of the Subscription as set out in the section headed “3. Reasons for and benefits of the Subscription and use of proceeds”; (ii) the fact that the terms of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) and the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the fact that the conversion of the Convertible Bonds are subject to the Conversion Restrictions, and would only further enhance the equity attributable to owners of the Company if they are being converted, we are of the view that the potential dilution impact and the aforementioned level of dilution to the shareholding interests of the existing public Shareholders are acceptable.

### RECOMMENDATION

Having taken into consideration the factors and reasons stated above, in particular,

- (i) the reasons and use of proceeds for the Subscription as discussed in the section headed “3. Reasons for and benefits of the Subscription and use of proceeds” above;
- (ii) the interest rate, term of maturity, Conversion Price of the Convertible Bonds fall within the range of the Comparable Issues and are generally in line with market;
- (iii) the conversion of the Convertible Bonds are subject to the Conversion Restrictions; and
- (iv) the potential dilution effect to the shareholding interest of the public Shareholders arising from the Subscription is acceptable,

we are of the opinion that (i) although the entering into of the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) is not in the ordinary and usual course of business of the Group, it is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Independent Shareholders as a whole; and (ii) the terms of the Subscription are fair and reasonable, in particular, the interest rate of the Convertible Bonds is lower than the average of the Comparable Issues, which is in the interests of the Group and the Independent Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Subscription Agreement (as amended and supplemented by the Supplemental Subscription Agreements) together with the transactions contemplated thereunder, and the Specific Mandate for the issue of the Convertible Bonds and the Conversion Shares.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**  
**Robert Siu**  
*Managing Director*

*Note:* Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon full conversion of the Convertible Bonds are as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares	<u>200,000,000.00</u>
<i>Issued and fully paid share capital or credited as fully paid:</i>		
6,448,152,160	Shares in issue as at the Latest Practicable Date	64,481,521.60
<u>1,937,984,496</u>	Conversion Shares to be issued pursuant to the full exercise of the Convertible Bonds	<u>19,379,844.96</u>
<u>8,386,136,656</u>		<u>83,861,366.56</u>

As at the Latest Practicable Date, the Company does not have any outstanding convertible debt securities, derivatives, options, warrants or similar rights which confer right to subscribe for, convert or exchange into Shares. The Company has not issued any founder, management or deferred shares.

All Shares in issue rank pari passu in all respects with each other including rights to dividends, voting and return of capital. The Conversion Shares to be issued pursuant to the exercise of conversion rights attaching to the Convertible Bonds, when allotted, issued and fully-paid or credited as fully-paid, will rank pari passu in all respects with the Shares then in issue including as to the right to receive future dividends and distributions which may be declared, made or paid on or after the date of allotment of the Conversion Shares.

The issued Shares are listed and traded on the Main Board of the Stock Exchange. 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.

### 3. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register (the “**Section 352 Register**”) maintained by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) set out in Appendix 10 to the Listing Rules, were as follows:

Names of Directors	Capacity or nature of interest	Long positions in Shares and underlying Shares	Shareholding percentage <i>(Note)</i>
Mr. Chow Wang	Beneficial owner	495,404,000	7.68%
Mr. Fong For	Beneficial owner	349,068,000	5.41%

*Note:* The percentages are calculated based on the total number of 6,448,152,160 issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations which were (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) recorded in the Section 352 Register; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

#### 4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, so far as any Directors are aware based on the disclosure of interest notices filings revealed by the Company from public records, persons (other than the Directors or chief executives of the Company) who have interests or short positions in the Shares or underlying shares of the Company which were disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register (the “Section 336 Register”) maintained by the Company pursuant to section 336 of the SFO, were as follows:

Names of Shareholders	Capacity or nature of interest	Long positions in Shares and underlying Shares	Shareholding percentage (Note 2)
Yunnan Baiyao Group (Note 1)	Beneficial owner	3,846,009,856	59.65%

Notes:

1. According to disclosure of interest filings, as at the Latest Practicable Date, the 3,846,009,856 Shares and underlying Shares deemed to be interested by Yunnan Baiyao Group comprised 1,908,025,360 Shares held by it and 1,937,984,496 underlying Shares falling to be issued upon the full exercise of the conversion rights attaching to the Convertible Bonds subscribed by it under the Subscription (which is still subject to conditions and has yet to complete).
2. The percentages are calculated based on the total number of 6,448,152,160 issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any persons (other than the Directors or chief executives of the Company) who have interests or short positions in the Shares or underlying shares of the Company which were disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the Section 336 Register.

## 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective close associates (as defined in the Listing Rules) 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. SHARE OPTION SCHEME

In order to provide the Company with a flexible means of giving incentive to Eligible Participants to recognize and acknowledge the contributions that Eligible Participants made or may make to the Group, a share option scheme (the "**Share Option Scheme**") has been approved by the shareholders at the annual general meeting of the Company held on 30 September 2013 (the "**Adoption Date**"), the Directors may, at their discretion, invite any participants to take up options to subscribe for fully paid ordinary shares in the Company subject to the terms and conditions stipulated therein. The Share Option Scheme is valid and effective for ten years and will expire on 29 September 2023. From the Adoption Date up to 31 March 2020, no option has been granted. Save for the Share Option Scheme, the Company do not have any other share option scheme as at 31 March 2020.

## 8. DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had since 31 March 2020 (being the date to which the latest published audited financial statements of the Group were made up) been acquired by, disposed of by or leased to any member of the Group, or were proposed to be acquired by, disposed of by or leased to any member of the Group.

**9. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 March 2020, being the date to which the latest published audited financial statements of the Group were made up.

**10. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**11. MISCELLANEOUS**

- (1) The estimated expenses payable by the Company in connection with the Subscription (including printing, translation, legal and otherwise) is estimated to be in the amount of approximately HK\$2 million.
- (2) No commissions, discounts, brokerages or other special terms (such as installment payments) have been granted since 31 March 2020 (being the date to which the latest published audited accounts of the Company were made up) in connection with the issue or sale of any capital of any member of the Group.
- (3) There has been no alteration in the capital of any member of the Group since 31 March 2020 (being the date to which the latest published audited accounts of the Company were made up), whether fully or partly paid up in cash or otherwise.
- (4) No share or loan capital of the Company or any of its subsidiaries has been put under option or agreed conditionally or unconditionally to be put under option. In particular, as at the Latest Practicable Date, no option has been granted or agreed to be granted to any eligible participants of the Company's share option scheme as adopted on 30 September 2013.
- (5) Subsequent to 31 March 2020 (being the date to which the latest published audited accounts of the Company have been made up), no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published accounts of the Company.

- (6) No company has been acquired since the date of the last published audited accounts of the Group in respect of which an accountants' report has already been submitted to Shareholders or which was itself during the last 12 months a listed issuer.
- (7) The Group conducted its business operations principally in Hong Kong and China. There are no foreign exchange controls in force in Hong Kong, and Hong Kong dollars are freely convertible into other currencies. Regarding the PRC, there are exchange control regulations governing the requirement of obtaining approval for the inflow and outflow of foreign exchange, especially as regards capital account items (such as interest and repatriation of capital). Foreign exchange under current account items (such as dividends and profits) can be remitted abroad upon presentation of necessary documents required by State Administration of Foreign Exchange of the PRC.

## 12. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Group) have been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (1) the subscription agreement dated 20 August 2018 and entered into between the Company and Yunnan Baiyao Holdings in relation to the subscription of 1,000,000,000 Shares by Yunnan Baiyao Holdings for the subscription price of HK\$0.180 per Share;
- (2) the supplemental agreement dated 15 October 2018 and entered into between the Company and Yunnan Baiyao Holdings in relation to the extension of long stop date of the share subscription agreement from 31 October 2018 to 26 November 2018;
- (3) the Supplemental Subscription Agreement I dated 31 December 2019 and entered into between the Company and Yunnan Baiyao Group in relation to the extension of the Long Stop Date from 31 December 2019 to 28 February 2020 (or such later date as the Company and Yunnan Baiyao Group may agree);
- (4) the Supplemental Subscription Agreement II dated 28 February 2020 and entered into between the Company and Yunnan Baiyao Group in relation to the extension of the Long Stop Date from 28 February 2020 to 30 April 2020 (or such later date as the Company and Yunnan Baiyao Group may agree);
- (5) the Supplemental Subscription Agreement III dated 30 April 2020 and entered into between the Company and Yunnan Baiyao Group in relation to the extension of the Long Stop Date from 30 April 2020 to 31 July 2020 (or such later date as the Company and Yunnan Baiyao Group may agree);

- (6) the Supplemental Subscription Agreement IV dated 31 July 2020 and entered into between the Company and Yunnan Baiyao Group in relation to the extension of the Long Stop Date from 31 July 2020 to 31 October 2020 (or such later date as the Company and Yunnan Baiyao Group may agree);
- (7) the Supplemental Subscription Agreement V dated 10 September 2020 and entered into between the Company and Yunnan Baiyao Group in relation to, among others, the reduction of the aggregate principal amount and the Subscription Price of the Convertible Bonds from HK\$730,000,000 to HK\$500,000,000;
- (8) the sale and purchase agreement dated 31 January 2019 and entered into between the Company and Mr. Liu Guoming in relation to the disposal by the Company of 60% issued share capital of Jun Qiao Limited for a cash consideration of HK\$100,000 (together with an outcome sharing adjustment which is equivalent to 30% of any compensation successfully recovered from the recovery actions relating to the mining assets owned by the subsidiaries of Jun Qiao Limited, after deducting recovery costs); and
- (9) the conditional Subscription Agreement dated 14 October 2019 and entered into between the Company and Yunnan Baiyao Group in relation to the subscription of the Convertible Bonds in the principal amount of HK\$730,000,000 by Yunnan Baiyao Group for the subscription price which is equivalent to the principal amount.

### 13. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

<b>Name of expert</b>	<b>Qualification</b>
Red Sun Capital Limited	A corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Frost & Sullivan International Limited	Industry consultant
Beijing Yingke Law Firm Guangzhou office	Legal advisers as to PRC laws

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired by, disposed of by or leased to any member of the Group, or which are proposed to be acquired by, disposed of by or leased to any member of the Group since 31 March 2020 (being the date to which the latest published audited accounts of the Group were made up).

#### 14. CORPORATE INFORMATION OF THE GROUP

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is situated at Room 2709-10, 27/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (c) The principal share registrar and transfer agent of the Company is CONYERS CORPORATE SERVICES (BERMUDA) LIMITED, situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The company secretary of the Company is Ms. Li Wing Sze. Ms. Li Wing Sze is an associate member of Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators.
- (f) The authorised representatives of the Company are Mr. Chow Wang and Mr. Chu Ka Wa.
- (g) The auditors of the Company is HLB Hodgson Impey Cheng Limited, who are Certified Public Accountants and situated at 31/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

(h) **Directors**

Mr. Wang Minghui  
Room 701, Unit 5, Yunchen Garden, Dongsu Rd  
Kunming, Yunnan, P.R. China

Mr. Chow Wang  
Flat A2, 15/F, Park View Court, 1 Lyttelton Road  
Mid-Level West, Hong Kong

Mr. Yin Pinyao  
No.102, Unit 1, Building 22, Qiushili  
No. 3978, Yunnan Baiyao Street, Chenggong District  
Kunming City, Yunnan Province, PRC

Mr. Chu Ka Wa  
Flat J, 15/F, Tower 5, One Kai Tak (II)  
No. 8 Muk Ning Street, Kowloon  
Hong Kong

Mr. Wang Zhaoqing  
Flat A, 7/F, Block T8, One Beacon Hill  
1 Beacon Road, Kowloon Tong  
Kowloon, Hong Kong

Mr. Fong For  
Room 20A, Building 306, Mangrove West Coast  
Shenwan 1 Street, Nanshan District  
Shenzhen, PRC

Mr. Jiang Zhi  
Flat 13AD, Block C, Chang Le Hua Yuan  
No. 9 Bai Hua Si Lu, Futian District  
Shenzhen, Guangdong Province, PRC

Mr. Leung Ka Kui, Johnny  
9 Lily Path, Palm Spring, Yuen Long  
New Territories, Hong Kong

Ms. Wong Chui San, Susan  
Block A, 5th Floor, Kam Yuen Mansion  
3 Old Peak Road, Mid-Levels  
Hong Kong

**15. BIOGRAPHICAL DETAILS OF DIRECTORS****Executive Directors**

**Mr. Wang Minghui (“Mr. Wang”)**, aged 58, was appointed as an Executive Director and the Chairman of the Company with effect from 12 September 2019. Mr. Wang graduated from Yunnan University with a post-graduate degree in foreign economics and management. Mr. Wang is a senior economist in China and has over 36 years of management experience occupying key management roles in pharmaceutical enterprises in China. He is currently the chairman of the board and interim chief executive officer of Yunnan Baiyao Group, a company whose A shares are listed on the Shenzhen Stock Exchange with stock code 000538. As at the Latest Practicable Date, Yunnan Baiyao Group is a substantial shareholder holding approximately 29.59% of the total issued shares of the Company.

**Mr. Yin Pinyao (“Mr. Yin”)**, aged 51, was appointed as an Executive Director with effect from 12 September 2019. Mr. Yin graduated from Yunnan University with a bachelor degree in economics. Mr. Yin is a senior economist in China and has over 25 years of management and finance experience occupying key management roles in pharmaceutical enterprises in China. He is currently the chief operation officer and senior vice president of Yunnan Baiyao Group. As at the Latest Practicable Date, Yunnan Baiyao Group is a substantial shareholder of the Company holding approximately 29.59% of the total issued shares of the Company.

**Mr. Chow Wang (“Mr. Chow”)**, aged 56, has over more than 21 years of experience in the field of business development, trading and investment. After Mr. Chow finished his secondary education in China in early 80’s, he was engaged in trading business in Shenzhen, China. After relocating to Hong Kong in late 80’s, Mr. Chow established Ban Loong Shareholding Limited (“**Ban Loong Shareholding**”) and acquired Union Shine Technology Limited (“**Union Shine**”). Ban Loong Shareholding is engaged in the investment in private equity projects in Hong Kong and China, while Union Shine is engaged in the production of consumer electronic products, accessories and parts. Mr. Chow has extensive experience in corporate development and management, and has a well-established social network in financial and business sectors in Hong Kong and China. As at the Latest Practicable Date, Mr. Chow has interest in 495,404,000 shares of the Company representing approximately 7.68% of the total number of shares in issue of the Company.

Mr. Chow was appointed as an Executive Director, the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company with effect from 9 October 2014. Mr. Chow was appointed as a Chief Executive Officer of the Company with effect from 23 January 2017. With effect from 12 September 2019, Mr. Chow ceased to be the Chairman of the Board and was re-designated as the Deputy Chairman, continued to occupy the position of Chief Executive Officer, ceased to be the chairman but continue to be a member of the Nomination Committee. Mr. Chow currently acts as director of the following subsidiaries of the Company, namely, Ban Loong Finance Company Limited, Wan Long Xing Ye Commercial Trading (Hong Kong) Limited, Yunnan Baiyao Qingyitang Hong Kong Limited and Ban Loong Fund Investment Limited.

**Mr. Chu Ka Wa (“Mr. Chu”)**, aged 35, obtained a Bachelor of Accounting degree from The Hong Kong University of Science and Technology in 2008 and a Master of Corporate Governance degree from The Hong Kong Polytechnic University in 2016. Mr. Chu is a member of Hong Kong Institute of Certified Public Accountants, an associate member of Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators. Mr. Chu had over 9 years’ experience in auditing and financial management.

Mr. Chu joined the Company in 2013 and was appointed as the Financial Controller of the Company since March 2013. Mr. Chu was appointed as an Executive Director and Chief Financial Officer of the Company on 23 January 2017. He was also appointed as an authorized representative and a member of the Nomination Committee and the Remuneration Committee of the Company on 24 January 2017. With effect from 12 September 2019, Mr. Chu ceased to be a member of the Nomination Committee. Mr. Chu currently acts as a director of the following subsidiaries of the Company, namely, Ban Loong Finance Company Limited, Wan Long Xing Ye Commercial Trading (Hong Kong) Limited, Yunnan Baiyao Qingyitang Hong Kong Limited, Susanoo Ventures Limited, Ban Loong Asset Management Limited, Ban Loong Fund Investment Limited and Ban Loong Hemp Technology Limited.

**Mr. Wang Zhaoqing (“Mr. Wang”)**, aged 57, graduated from College for Administrative Personnel of the Customs, China in 1987 and College of Economics, Jinan University, Guangzhou in 1989. He also obtained a Master of Business Administration degree from Hong Kong Baptist University in 2004. Mr. Wang obtained a Doctor of Business Administration degree from Victoria University, Switzerland in 2009. From 2007 to 2008, he was a Senior Visiting Scholar in Asia School of Business Singapore. Mr. Wang has over 25 years of working experience in the business operating sector, and is experienced in financial and economic analysis, and the management of import and export.

Mr. Wang joined the Company in 2013 and was appointed as the Chief Operating Officer of the Company since December 2013. Mr. Wang was appointed as an Executive Director of the Company with effect from 23 January 2017. Mr. Wang currently acts as a director of Ban Loong Finance Company Limited, a subsidiary of the Company.

#### **Non-executive Director**

**Mr. Fong For (“Mr. Fong”)**, aged 61, was appointed as a Non-Executive Director of the Company with effect from 12 December 2014. Mr. Fong completed his high school education in Lufeng, Guangdong, China. He is currently an Honorary President of the Confederacy of Hong Kong Shanwei Clansmen Limited, and a Vice President of the Standing Committee of the Overseas Friendship Association of Shanwei. Mr. Fong was also previously a member of the Shanwei Committee of the Chinese People’s Political Consultative Conference. Mr. Fong has many years of business and management experience in textile, trading, investments, property development and logistics. As at the Latest Practicable Date, Mr. Fong is interested in 349,068,000 shares of the Company, representing approximately 5.41% of the total number of shares in issue of the Company.

#### **Independent non-executive Directors**

**Mr. Jiang Zhi (“Mr. Jiang”)**, aged 51, was appointed as an Independent Non-executive Director, a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company with effect from 19 January 2015. Mr. Jiang obtained a master degree (major in civil and commercial law) from Southwest University of Political Science & Law in Shenzhen, PRC in 2001. Mr. Jiang has been practising in various reputable law firms in Shenzhen since 1989. Mr. Jiang obtained PRC solicitors practising certificate and became a qualified lawyer in China in 1993. Mr. Jiang was previously a founder and currently a partner of Guangdong Jun Yan Law Firm from 2003 to August 2015. Mr. Jiang now is the partner of 廣東深信律師事務所. Mr. Jiang provides legal advice to many clients in different industries in the PRC. His practice area includes mainly contract law, real estate law, corporate law and medical law. Mr. Jiang has solid academic foundation and rich practical experience in those areas. Mr. Jiang was re-appointed as an arbitrator of the Qingyuan Arbitration Commission with hiring period from 1 June 2020 to 30 May 2022. Mr. Jiang was also appointed as deputy secretary for the Secretariat of the Qingyuan Arbitration Commission with hiring period from 27 May 2017 to 28 May 2020.

**Mr. Leung Ka Kui, Johnny (“Mr. Leung”)**, aged 63, was appointed as an Independent Non-executive Director, the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company on 9 October 2014. Mr. Leung holds a Bachelor of Laws of the University of London. Mr. Leung is a qualified solicitor in Hong Kong, England & Wales and Singapore, and is a Notary Public and China Appointed Attesting Officer. He has over 33 years of experience in legal field and is the senior partner of Messrs. Johnny K.K. Leung & Co., Solicitors & Notaries. Mr. Leung is currently an independent non-executive director of Celestial Asia Securities Holdings Limited (Stock Code: 1049) and Affluent Partners Holdings Limited (Stock Code: 1466), the shares of which are listed on the Main Board of the Stock Exchange, and Phoenixtron Holdings Limited (Stock Code: 8066), the shares of which are listed on GEM of the Stock Exchange. Mr. Leung was formerly an independent non-executive director of Aeso Holding Limited (Stock Code: 8341, a GEM listed company) for the period from 13 January 2017 to 8 June 2017, and an independent non-executive director of Asia Coal Limited (Stock Code: 835, a Main Board listed company) for the period from 12 September 2018 to 6 June 2019.

**Ms. Wong Chui San, Susan (“Ms. Wong”)**, aged 47, was appointed as an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Company on 9 October 2014. Ms. Wong has been a certified practising accountant of the Australian Society of Certified Practising Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 1999 and May 2000, respectively. She is also a member of The Society of Chinese Accountants and Auditors, a fellow and a certified tax adviser of the Taxation Institute of Hong Kong. Ms. Wong has more than 19-year experience in auditing, accounting and taxation. She is the founder of Messrs. C.S. Wong & Co.. Ms. Wong is currently an independent non-executive director of Loco Hong Kong Holdings Limited (Stock Code: 8162), the shares of which are listed on GEM of the Stock Exchange. Ms. Wong was formerly the company secretary of Grand Investment International Limited (now renamed as Youth Champ Financial Group Holdings Limited) (Stock Code: 1160, a Main Board listed company) between 14 November 2014 and 16 June 2017, and the chief financial officer and company secretary of Astrum Financial Holdings Limited (Stock Code: 8333, a GEM listed company) between 19 January 2015 to 31 August 2019.

**16. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours (i.e. 9:00 a.m. to 1:00 p.m. and 2:00 p.m. to 5:00 p.m. on weekdays excluding Saturdays, Sundays and Hong Kong public holidays) from the date of this circular up to and including the date of the SGM at the principal place of business in Hong Kong of the Company at Room 2709-10, 27/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the “Letter from the Board”, the text of which is set out on pages 6 to 44 of this circular;
- (c) the “Letter from the Independent Board Committee”, the text of which is set out on page 45 of this circular;
- (d) the “Letter from the Independent Financial Adviser”, the text of which is set out on pages 46 to 79 of this circular;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” of this appendix;
- (f) the written consent referred to in the paragraph headed “Expert and Consent” of this appendix;
- (g) the Subscription Agreement;
- (h) the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Annual Report;
- (i) this circular;
- (j) the PRC legal opinion issued by our PRC Legal Advisers; and
- (k) the F&S Report prepared by Frost & Sullivan, the market research consultant of the Company.

## NOTICE OF SPECIAL GENERAL MEETING



### 萬隆控股集團有限公司 Ban Loong Holdings Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 30)**

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of Ban Loong Holdings Limited (the “**Company**”) will be held at Boardroom 5, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 28 September 2020 at 11:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

1. “**THAT:**
  - (a) the terms of the subscription agreement dated 14 October 2019 (as amended and supplemented by the supplemental agreements dated 31 December 2019, 28 February 2020, 30 April 2020, 31 July 2020 and 10 September 2020 (collectively the “**Subscription Agreement**”), a copy of which has been produced to this meeting marked “**A**” and signed by the chairman of this meeting for the purpose of identification) entered into by the Company as issuer and Yunnan Baiyao Group Co., Ltd. (“**Yunnan Baiyao Group**”) as subscriber (details relating to the Subscription Agreement are set out in the circular of the Company dated 11 September 2020), be and are hereby approved, confirmed and ratified;
  - (b) the issue by the Company, pursuant to the Subscription Agreement, of the convertible bonds in the aggregate principal amount of HK\$500,000,000 at an initial conversion price of HK\$0.258 per ordinary share (the “**Convertible Bonds**”) (subject to adjustment pursuant to the terms and conditions of the Convertible Bonds) together with the issuance of the bond certificate, to Yunnan Baiyao Group, be and are hereby approved;

## NOTICE OF SPECIAL GENERAL MEETING

- (c) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, the Conversion Shares (as defined below) to be allotted and issued upon the conversion of the Convertible Bonds, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot and issue 1,937,984,496 ordinary shares of HK\$0.01 each of the Company upon the exercise of the conversion rights attaching to the Convertible Bonds at an initial conversion price of HK\$0.258 per share (subject to adjustment pursuant to the terms and conditions of the Convertible Bonds), on and subject to the terms and conditions of the Convertible Bonds (the “**Conversion Shares**”), provided that the Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 27 September 2019 or such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution;
- (d) the transactions contemplated under the Subscription Agreement in connection with the issue of the Convertible Bonds (the “**Transactions**”) be and are hereby approved; and
- (e) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and sign and execute all such documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the secretary of the Company) and to take such steps as he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement and the Transactions, including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares.”

By order of the Board  
**Ban Loong Holdings Limited**  
**Chow Wang**  
*Deputy Chairman & Chief Executive Officer*

Hong Kong, 11 September 2020

*As at the date of this notice, the executive directors of the Company are Mr. Wang Ming Hui (Chairman), Mr. Chow Wang (Deputy Chairman and Chief Executive Officer), Mr. Yin Pinyao, Mr. Chu Ka Wa (Chief Financial Officer), Mr. Wang Zhaoqing (Chief Operating Officer), non-executive director of the Company is Mr. Fong For, and the independent non-executive directors of the Company are Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Chui San, Susan.*

## NOTICE OF SPECIAL GENERAL MEETING

*Notes:*

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. In the case of joint holders of shares, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the SGM, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
4. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the meeting will be taken by poll, except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.
5. The register of members of the Company will be closed from Wednesday, 23 September 2020 to Monday, 28 September 2020 for determining the entitlement to attend and vote at the SGM or any adjournment thereof during which no transfer of shares will be effected. In order to qualify for attending and voting at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 22 September 2020. The record date for the entitlement of attending and voting at the SGM is on 28 September 2020.