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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)

**(1) CONNECTED TRANSACTION
IN RELATION TO THE SHARE SUBSCRIPTION
BY YUNNAN BAIYAO HOLDINGS CO., LTD.
UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

**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 Basement 2 (B2), The Wharney Guang Dong Hotel, 57-73 Lockhart Road, Wanchai, Hong Kong on Friday, 28 September 2018 at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company held on the same day, whichever is earlier) is set out on pages 46 to 47 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.

7 September 2018

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	13
Letter from the Independent Financial Adviser	14
Appendix – General Information	37
Notice of Special General Meeting	46

DEFINITIONS

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

“Announcement”	the Company’s announcement dated 20 August 2018 in relation to the Subscription
“associates”	having the meaning ascribed thereto under the Listing Rules
“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
“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 persons”	having the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	collectively, the Company and its subsidiaries
“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 Agreement

DEFINITIONS

“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 Agreement
“Independent Shareholders”	Shareholders other than (a) Yunnan Baiyao Holdings 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 Agreement and the Specific Mandate at the SGM
“Latest Practicable Date”	4 September 2018, 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”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened to be held at Basement 2 (B2), The Wharney Guang Dong Hotel, 57-73 Lockhart Road, Wanchai, Hong Kong on Friday, 28 September 2018 at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company held on the same day, whichever is earlier) for the purpose of approving, amongst other things, the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription 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)

DEFINITIONS

“Specific Mandate”	the authority to be sought from the Independent Shareholders at the SGM to authorize the Directors to allot and issue the Subscription Shares under the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Subscription Shares by Yunnan Baiyao Holdings on the terms and subject to the conditions of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement entered into on 20 August 2018 (after trading hours) between the Company and Yunnan Baiyao Holdings in relation to the Subscription
“Subscription Price”	HK\$0.180 per Subscription Share
“Subscription Shares”	1,000,000,000 new Shares to be allotted and issued to Yunnan Baiyao Holdings pursuant to the Subscription Agreement
“substantial shareholders”	having the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Yunnan Baiyao Holdings”	Yunnan Baiyao Holdings Co., Ltd. (雲南白藥控股有限公司), a limited liability company established in the PRC and the subscriber under the Subscription Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	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. Chow Wang (*Chairman & Chief Executive Officer*)

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

Mr. Wang Zhaoqing (*Chief Operating Officer*)

Non-executive Director:

Mr. Fong For

Independent non-executive Directors:

Mr. Jiang Zhi

Mr. Leung Ka Kui, Johnny

Ms. Wong Chui San, Susan

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in

Hong Kong:

Unit 2709-10, 27/F.

China Resources Building

26 Harbour Road, Wanchai

Hong Kong

7 September 2018

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
IN RELATION TO THE SHARE SUBSCRIPTION
BY YUNNAN BAIYAO HOLDINGS CO., LTD.
UNDER SPECIFIC MANDATE**

INTRODUCTION

Reference is made to the Company's announcement dated 20 August 2018 in relation to the Subscription Agreement with Yunnan Baiyao Holdings, pursuant to which the Company has conditionally agreed to allot and issue, and Yunnan Baiyao Holdings has conditionally agreed to subscribe for, 1,000,000,000 Subscription Shares at the Subscription Price of HK\$0.180 per Subscription Share.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Subscription Shares under the Specific Mandate; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms of the Subscription Agreement 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 Agreement and the Specific Mandate; (iv) other information prescribed by the Listing Rules; and (v) the notice of the SGM.

The principal terms of the Subscription Agreement are set out below:

THE SUBSCRIPTION AGREEMENT

Date

20 August 2018 (after trading hours)

Parties

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

Number of Subscription Shares

The 1,000,000,000 Subscription Shares represent (i) approximately 18.35% of the issued share capital of the Company as at the date of the Subscription Agreement; and (ii) approximately 15.51% of the issued share capital of the Company as enlarged by the Subscription Shares immediately after Completion, assuming that there is no other change in the issued share capital of the Company from the date of the Subscription Agreement up to Completion. The aggregate nominal value of the Subscription Shares is HK\$10,000,000.

Subscription Price

The Subscription Price is HK\$0.180 per Subscription Share or HK\$180,000,000 in aggregate. The aggregate Subscription Price shall be remitted by Yunnan Baiyao Holdings to the account designated by the Company no later than two business days after it was notified by the Company of the due registration of the Subscription Shares in the name of Yunnan Baiyao Holdings (or as it may direct) on Completion.

The Subscription Price of HK\$0.180 per Subscription Share: (i) is equivalent to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; and (ii) represents a discount of approximately 1.207% to the average closing price of HK\$0.1822 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Subscription Agreement.

LETTER FROM THE BOARD

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 approximately HK\$0.1819 per Share, HK\$0.1822 per Share and 0.1873%, respectively. During the 12 months period immediately preceding the date of the Announcement, the Company has not undertaken (whether by reference to the day on which such share issue was announced or completed) any rights issue, open offer or specific mandate placing.

Conditions

Completion of the Subscription is conditional upon:

- (a) the obtaining by Yunnan Baiyao Holdings of all necessary approvals in relation to the Subscription in compliance of laws and regulations in the PRC regarding offshore investment and foreign exchange;
- (b) the obtaining by the Company of the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription 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 Agreement and the Specific Mandate; and
- (d) the allotment and issue of the Subscription Shares not triggering any mandatory general offer obligations under the Takeovers Code.

Yunnan Baiyao Holdings shall use its reasonable endeavours to procure that Condition (a) above is satisfied by 5:00 p.m. on or before 31 October 2018 (the “**Long Stop Date**”). The Company shall use its reasonable endeavours to procure that Conditions (b) and (c) above are satisfied by 5:00 p.m. 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 Holdings mutually agree to further extend the Long Stop Date to such later time and date, the Subscription Agreement 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.

LETTER FROM THE BOARD

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. In any event, Completion of the Subscription shall take place within six weeks after the date of obtaining of the Independent Shareholders' approval on the Subscription and the Specific Mandate at the SGM.

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank pari passu amongst themselves and with all the other Shares in issue at the time of allotment and issue of the Subscription Shares.

Application for listing

Application will be made to the Stock Exchange for listing of, and permission to deal in, the Subscription Shares.

Specific Mandate

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

INFORMATION ABOUT YUNNAN BAIYAO HOLDINGS

Yunnan Baiyao Holdings is a limited liability company established in the PRC whose scope of business includes the development and operation of botanical pharmaceutical ingredient base; the production, sales, research and development of pharmaceutical products; the investment in medical and pharmaceutical industries; the development and use of biological resources; and the domestic and international trades. As at the Latest Practicable Date, (a) Yunnan Baiyao Holdings is 45%, 45% and 10% owned by the State-owned Assets Supervision and Administration Commission of Yunnan Province ("**Yunnan SASAC**"), New Huadu Industrial Group Co., Ltd. ("**New Huadu**") and 江蘇魚躍科技發展有限公司 (Jiangsu Yuwell Technology Development Co., Ltd.), respectively; (b) New Huadu is a limited liability company established in the PRC and is 76.87% owned by Mr. Chen Fa Shu; and (c) Yunnan Baiyao Holdings is the 41.52% holding company of 雲南白藥集團股份有限公司 (Yunnan Baiyao Group Co., Ltd.) ("**Yunnan Baiyao Group**"), a joint stock limited liability company established in the PRC whose A shares are listed on the Shenzhen Stock Exchange with stock code: 000538.

LETTER FROM THE BOARD

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, trading and mining operations.

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. Compared with debt financing, the Subscription incurred no interest expenses for the Company. Compared with rights issue or open offer, the timetable for the Subscription is expected to be shorter since there is no need to prepare a prospectus for registration. Compared with best-effort placing conducted by a placing agent, the fund-raising outcome of the Subscription is more certain and the transaction costs are lower.

The gross proceeds and net proceeds from the Subscription amount to approximately HK\$180 million and HK\$178.8 million, respectively. The net price for the Subscription is approximately HK\$0.1788 per Subscription Share. The Company intends to apply the net proceeds from the Subscription: (a) as to approximately HK\$30 million for the business development and expansion of the Group's trading business; (b) as to approximately HK\$120 million for the business development and expansion of the Group's money lending business; and (c) as to the remaining HK\$28.8 million for the Group's general working capital, 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 project-sourcing and business development budgets and other operating expenses of the Group.

The Directors consider that the Subscription represents an opportunity for the Company to raise additional capital to support its business development and expansion. The terms of the Subscription Agreement (including the Subscription Price) were arrived at after arm's length negotiations between the Company and Yunnan Baiyao Holdings taking into account: (a) the recent trading prices of the Shares on the Stock Exchange, by reference to the closing price of HK\$0.180 per Share on the date of the Subscription Agreement; (b) the audited net asset value attributable to owners of the Company as at 31 March 2018 of approximately HK\$0.10 per Share; (c) the trading liquidity of the Shares which remained at a low level throughout 2018; and (d) a comparison of the issue price and the trading price of shares of other recent equity issues by companies listed on the Stock Exchange. 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 Agreement are on normal commercial terms, are fair and reasonable and the entering into of the Subscription Agreement is in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The following table summarizes the equity fund raising activities of the Company for the twelve months immediately preceding the Latest Practicable Date:

Equity fund raising activities	Intended use of proceeds	Actual use of proceeds
<p>Date of announcement: 7 September 2017</p> <p>Nature: allotment and issue of 908,025,360 Shares by the Company to Yunnan Baiyao Holdings under the refreshed general mandate, which was completed on 27 October 2017</p> <p>Subscription price: HK\$0.22 per share, representing a discount of 16.98% and 17.60% when compared to the share price on the date of the subscription agreement and the five days' average share price prior thereto, respectively</p>	<p>The net proceeds of approximately HK\$199 million were originally intended to be used:</p> <p>(a) as to HK\$70 million for the development of personal care products business of the Group;</p> <p>(b) as to HK\$70 million for the money lending business of the Group;</p> <p>(c) as to HK\$30 million for the development of trading business; and</p> <p>(d) as to HK\$29 million for the Group's general working capital.</p>	<p>As at the Latest Practicable Date, the net proceeds were actually used:</p> <p>(a) as to HK\$70 million for the Group's money lending business as intended;</p> <p>(b) as to HK\$30 million for the Group's trading business as intended;</p> <p>(c) due to the delay in business development plan of the Group's personal care products business, approximately HK\$46 million out of HK\$70 million which was originally intended for the development of personal care products business was reallocated for the Group's trading business; and</p> <p>(d) amongst the remaining approximately HK\$53 million, approximately HK\$33 million was utilized for the Group's general working capital up to August 2018 (including approximately HK\$9.5 million for the payment of salaries and remuneration of management and staff, approximately HK\$1.9 million for the payment of bond interest in March 2018, approximately HK\$4.2 million for rental expenses, approximately HK\$3.4 million for professional fees, approximately HK\$4.6 million for tax payment and prepayment, approximately HK\$2 million for the establishment of a new fund management department of the Group, approximately HK\$3 million for business development expenditures and approximately HK\$4.4 million for expenditures incurred in project-sourcing exercises of the Group and other operating expenses), and the remaining HK\$20 million remained unutilized and continued to be set aside for the Group's general working capital until the end of 2018 (including HK\$3.8 million being set aside for salaries and remuneration, HK\$1.9 million for bond interest in September 2018, HK\$1.4 million for rental expenses, HK\$6 million for professional fees and HK\$6.9 million for expenditures of business development and project-sourcing and other operating expenses).</p>

LETTER FROM THE BOARD

CHANGES TO SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structures of the Company before the Subscription and immediately after the Completion, assuming that there is no other change in the issued share capital of the Company from the date of the Subscription Agreement up to Completion:

Shareholders	Before the Subscription		Immediately after Completion	
	No. of Shares	%	No. of Shares	%
Yunnan Baiyao Holdings	908,025,360	16.67%	1,908,025,360	29.59%
Mr. Chow Wang (<i>Note 1</i>)	495,404,000	9.09%	495,404,000	7.68%
Mr. Fong For (<i>Note 2</i>)	349,068,000	6.40%	349,068,000	5.41%
Public Shareholders	<u>3,695,654,800</u>	<u>67.84%</u>	<u>3,695,654,800</u>	<u>57.32%</u>
Total	<u>5,448,152,160</u>	<u>100.00%</u>	<u>6,448,152,160</u>	<u>100.00%</u>

Notes:

1. Mr. Chow Wang is an executive Director, the Chairman and the Chief Executive Officer of the Company.
2. Mr. Fong For is a non-executive Director of the Company.

IMPLICATIONS UNDER THE LISTING RULES

None of the Directors has a material interest in the Subscription and hence no Director is required to abstain from voting on such board resolutions in accordance with the Listing Rule.

As at the date of the Announcement, Yunnan Baiyao Holdings is a substantial shareholder holding 908,025,360 Shares, representing approximately 16.67% of the issued share capital of the Company. As Yunnan Baiyao Holdings is a connected person of the Company, the entering into of the Subscription Agreement 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.

The Subscription 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 46 to 47 of this circular. The SGM will be convened and held for the purposes of considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Subscription Shares under the Specific Mandate.

LETTER FROM THE BOARD

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 Holdings is interested in 908,025,360 Shares as at the date of the Announcement and has a material interest in the transactions contemplated under the Subscription Agreement. To the best of the knowledge, information and belief of the Directors, save for Yunnan Baiyao Holdings, no other Shareholder has a material interest in the Subscription Agreement.

In accordance with the Listing Rules, Yunnan Baiyao Holdings 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 will abstain from voting on the resolution(s) in respect of the Subscription at the SGM in respect of their entire holding of Shares.

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 Agreement and the Specific Mandate. Having taken into account the terms of the Subscription Agreement, 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 Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and are 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 Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate. The full text of the Letter from the Independent Board Committee is set out on page 13 of this circular.

LETTER FROM THE BOARD

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 Agreement 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 is not in the ordinary and usual course of business of the Company, it is on normal commercial terms, its terms are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, Red Sun Capital recommends the Independent Shareholders to vote, and 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. The full text of the Letter from the Independent Financial Adviser is set out on pages 14 to 36 of this circular.

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 recommendations 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 terms of the Subscription Agreement are normal commercial terms, are fair and reasonable and in the interests of the Company and the Independent 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 Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

WARNING OF RISKS OF DEALING IN SHARES

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT COMPLETION OF THE SUBSCRIPTION AGREEMENT 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
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)

7 September 2018

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
IN RELATION TO THE SHARE SUBSCRIPTION
BY YUNNAN BAIYAO HOLDINGS 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 Agreement and the Specific Mandate, details of which are set out in the circular issued by the Company to the Shareholders dated 7 September 2018 (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 4 to 12 of the Circular, and the letter of advice from the Independent Financial Adviser set out on pages 14 to 36 of the Circular, and the additional information set out in the Appendix to the Circular.

Having taken into consideration the terms of the Subscription Agreement 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 Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription 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 Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

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

7 September 2018

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

Dear Sir/Madam,

CONNECTED TRANSACTION IN RELATION TO ISSUE OF NEW SHARES TO A CONNECTED PERSON

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 Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company to the Shareholders dated 7 September 2018 (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 announcement dated 20 August 2018 in relation to the Subscription under the Specific Mandate. On 20 August 2018 (after trading hours), the Company entered into the Subscription Agreement with Yunnan Baiyao Holdings, pursuant to which the Company has conditionally agreed to allot and issue, and Yunnan Baiyao Holdings has conditionally agreed to subscribe for, 1,000,000,000 Subscription Shares at the Subscription Price of HK\$0.180 per Subscription Share.

The 1,000,000,000 Subscription Shares represent (i) approximately 18.35% of the total existing issued share capital of the Company as at the date of the Subscription Agreement; and (ii) approximately 15.51% of the total issued share capital of the Company as enlarged by the Subscription Shares immediately after Completion, assuming that there is no other change in the issued share capital of the Company from the date of the Subscription Agreement up to Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Yunnan Baiyao Holdings is a substantial shareholder holding 908,025,360 Shares, representing approximately 16.67% of the issued share capital of the Company. As Yunnan Baiyao Holdings is a connected person of the Company, the entering into of the Subscription Agreement 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.

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

An Independent Board Committee comprising all independent non-executive Directors, namely, Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Wong Chui San, Susan, has been formed to advise the Independent Shareholders on the Subscription Agreement and the transaction contemplated thereunder. All members of the Independent Board Committee have confirmed to the Company that they are independent with respect to the Subscription and are thus suitable to give advice and recommendation to the Independent Shareholders.

Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee. We do not by this letter warrant the merits of the above transaction other than to form an opinion for the purpose of the Listing Rules. 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 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 and the transaction 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 in relation to refreshment of the existing share issue mandate whose circular (including our letter from independent financial adviser) was published on 28 April 2017. Apart from the abovementioned Independent Financial Adviser role and acting as the Independent Financial Adviser in relation to the Subscription Agreement and transaction contemplated thereunder, we have not acted in any other capacity for the Company in the past two years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription Agreement, we have taken into consideration the following principal factors and reasons:

(1) Reasons for entering into the Subscription Agreement

(a) Background information of the Group

The Group is principally engaged in money lending business, trading of goods and commodities and mining operations. The following table summarises the consolidated financial results of the Group for each of the two years ended 31 March 2017 and 31 March 2018, which are extracted from the Company's annual report for the year ended 31 March 2018 (the "Annual Report 2018").

	For the year ended 31 March	
	(audited)	
	2017	2018
	HK\$	HK\$
Revenue	299,259,373	767,607,149
Gross profit	27,993,647	56,039,212
Loss before tax	(188,571,659)	(184,398)
Net loss	(199,084,920)	(1,493,920)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 March	
	(audited)	
	2017	2018
	<i>HK\$</i>	<i>HK\$</i>
Non-current assets		
Property, plant and equipment	4,594,205	4,073,539
Interest in an associate	–	558,803
Loan receivable	–	1,019,488
Deferred tax asset	138,112	209,642
	<u>4,732,317</u>	<u>5,861,472</u>
Current assets		
Trade receivables	10,391,604	29,280,334
Loan and interest receivables	231,903,888	358,909,116
Other receivables, deposits and prepayments	99,586,992	198,195,178
Tax recoverable	–	1,414,296
Bank balances and cash	114,323,600	144,042,321
	<u>456,206,084</u>	<u>731,841,245</u>
Total assets	460,938,401	737,702,717
Current liabilities		
Trade and other payables	43,601,911	109,100,093
Amounts due to non-controlling shareholders of subsidiaries	4,375,651	4,375,651
Tax payable	1,809,441	3,303
Bonds	66,829,000	67,629,000
	<u>116,616,003</u>	<u>181,108,047</u>
Net current assets	339,590,081	550,733,198
Net assets	<u>344,322,398</u>	<u>556,594,670</u>

According to the Annual Report 2018, the Group's revenue in the year ended 31 March 2018 was approximately HK\$767.6 million, representing an increase of approximately 156.5% from approximately HK\$299.3 million in the year ended 31 March 2017. The increase was mainly attributable to (i) increase in income from money lending segment due to increase in demand in loans of borrowers and the fund as well as the lending ability of the Group, and (ii) the growing in size of the operation of trading segment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Annual Report 2018, the loss of the Group for the year ended 31 March 2018 decreased to approximately HK\$1.5 million, as compared to approximately HK\$199.1 million in the year ended 31 March 2017. The significant decrease in loss was primarily due to the fact that the Group's financial results for the year ended 31 March 2018 were no longer affected by the one-off loss in de-consolidation of, and the impairment loss of amount due from, Tong Bai Yin Di Mining Company Limited and its subsidiary for the year ended 31 March 2017.

The Group's consolidated statement of financial position remained solid. The total assets increased by approximately 60.0% to approximately HK\$737.7 million mainly due to the completion of the issuance and allotment of 908,025,360 shares to Yunnan Baiyao Holdings at the subscription price of HK\$0.22 per Share in October 2017 and increase in the trade deposit received from trading business. Net assets increased by approximately 61.6% from approximately HK\$344.3 million as at 31 March 2017 to approximately HK\$556.6 million as at 31 March 2018 primarily due to the subscription of Shares by Yunnan Baiyao Holdings.

Segment Performance

	For the year ended 31 March (audited)					
	2017			2018		
	Money lending segment <i>HK\$</i>	Trading segment <i>HK\$</i>	Mining segment <i>HK\$</i>	Money lending segment <i>HK\$</i>	Trading segment <i>HK\$</i>	Mining segment <i>HK\$</i>
Revenue	25,607,494	273,651,879	-	46,749,499	720,857,650	-
Profit/(loss)	23,743,941	(843,033)	-	42,220,089	(508,202)	-

The money lending segment refers to the money lending business engaged in Hong Kong by Ban Loong Finance Company Limited ("**Ban Loong Finance**"), a wholly-owned subsidiary of the Company which is a licensed money lender in Hong Kong. The trading segment refers to (i) the trading of goods and commodities in China by Wan Long Xing Ye Commercial Trading (Shenzhen) Limited ("**Wan Long Xing Ye**"), a wholly-owned subsidiary of the Company and (ii) trading of goods and commodities in Hong Kong by Wan Long Xing Ye Commercial Trading (Hong Kong) Limited ("**Wan Long Xing Ye HK**"), a wholly-owned subsidiary of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the money lending segment, Ban Loong Finance primary focuses in the area of short-term personal and corporate loans. During the year ended 31 March 2018, the business performance of the money lending segment was summarized below:

Aggregate amount of lending	HK\$301.6 million (2017: HK\$255.0 million)
Total number of lending	36 (2017: 27)
Range of effective annual percentage rate (“APR”)	12%-30% (2017: 10.0%-42.6%)
Weighted average APR	17.3% (2017: 16.6%)

During the year ended 31 March 2018, revenue generated from the money lending segment, contributed essentially by interest received and accrued, increased by approximately 82.56% from approximately HK\$25.6 million in 2016/2017 to approximately HK\$46.7 million in 2017/2018 which was mainly due to (i) rise in total number and aggregate amount of lending; and (ii) increase in the APR.

For the trading segment, Wan Long Xing Ye carried out trading of goods and commodities business in China. During the year ended 31 March 2018, Wan Long Xing Ye mainly engaged in the trading of refined edible oil. During the year ended 31 March 2018, trading revenue amounted to approximately HK\$714.4 million (2016/2017: HK\$273.7 million), with trading of 121,043 tonnages (2016/2017: 40,747 tonnages) of refined edible oil being completed. Wan Long Xing Ye HK stated carrying out trading of goods and commodities in Hong Kong during the year ended 31 March 2018. Trading revenue amounted to approximately HK\$6.5 million, with trading of 36,674 units of cosmetic products being completed.

(b) Background information of Yunnan Baiyao Holdings

Yunnan Baiyao Holdings is a limited liability company established in the PRC whose scope of business includes the development and operation of botanical pharmaceutical ingredient base; the production, sales, research and development of pharmaceutical products; the investment in medical and pharmaceutical industries; the development and use of biological resources; and the domestic and international trades. As at the Latest Practicable Date, Yunnan Baiyao Holdings is 45%, 45% and 10% owned by the State-owned Assets Supervision and Administration Commission of Yunnan Province, New Huadu Industrial Group Co., Ltd. (“**New Huadu**”) and 江蘇魚躍科技發展有限公司 (Jiangsu Yuwell Technology Development Co., Ltd.),

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

respectively. New Huadu is a limited liability company established in the PRC and is 76.87% owned by Mr. Chen Fa Shu. Yunnan Baiyao Holdings is the 41.52% holding company of 雲南白藥集團股份有限公司 (Yunnan Baiyao Group Co., Ltd.) ("**Yunnan Baiyao Group**"), a joint stock limited liability company established in the PRC whose A shares are listed on the Shenzhen Stock Exchange with stock code: 000538.

(c) *Reasons for the entering into the Subscription Agreement and use of proceeds*

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in money lending, trading and mining operations. The mining operations segment, deconsolidated during the year ended 31 March 2017, refers to the exploration and exploitation of mineral resources in China conducted by Jun Qiao Limited and its subsidiaries.

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. Compared with debt financing, the Subscription incurred no interest expenses for the Company. Compared with rights issue or open offer, the timetable for the Subscription is expected to be shorter since there is no need to prepare a prospectus for registration. Compared with best-effort placing conducted by placing agents, the fund-raising outcome of the Subscription is more certain and the transaction costs are lower.

The gross proceeds and net proceeds from the Subscription amount to approximately HK\$180 million and HK\$178.8 million, respectively. The net price for the Subscription is approximately HK\$0.1788 per Subscription Share. The Company intends to apply the net proceeds from the Subscription (a) as to approximately HK\$30 million for the business development and expansion of the Group's trading business; (b) as to approximately HK\$120 million for the business development and expansion of the Group's money lending business; and (c) as to the remaining HK\$28.8 million for the Group's general working capital, 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 project-sourcing and business development budgets and other operating expenses of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors consider that the Subscription represents an opportunity for the Company to raise additional capital to support its business development and expansion. The terms of the Subscription Agreement (including the Subscription Price) were arrived at after arm's length negotiations between the Company and Yunnan Baiyao Holdings taking into account: (a) the recent trading prices of the Shares on the Stock Exchange, by reference to the closing price of HK\$0.180 per Share on the date of the Subscription Agreement; (b) the audited net asset value attributable to owners of the Company as at 31 March 2018 of approximately HK\$0.10 per Share; (c) the trading liquidity of the Shares which remained at a low level throughout 2018; and (d) a comparison of the issue price and the trading price of shares of other recent equity issues by companies listed on the Stock Exchange. After considering the factors above, the Directors consider that the terms of the Subscription Agreement are on normal commercial terms, are fair and reasonable and the entering into of the Subscription Agreement is in the best interests of the Company and the Shareholders as a whole.

According to the circular released by the Hong Kong Monetary Authority ("HKMA") related on prudential measures for property mortgage loans, the HKMA considered that it is necessary to introduce several measures to strengthen the risk management of authorized institutions (i.e. banks) and safeguard banking stability, for example raise the risk-weight floor from 15% to 25% for new residential mortgage loans in calculating the capital charges for credit risk. In other words, the credit restrictions were tightened in the authorized institutions. As a result, buyers of new flats are increasingly choosing home loans from finance companies to minimize their down payments, which are beyond the reach of the banking regulator, according to a survey done by Centaline Property Agency.

During and subsequent to the year ended 31 March 2018, the Group has made several short-terms loans to customers. The Group would normally request customers to provide adequate guarantees before releasing loan money. The management of the Company considered the potential of the segment was high and the segment could help to provide a constant cash inflow to the Group. The Group plans to gradually increase the overall loan portfolio size to achieve better economy of scale and efficiency optimisation.

As a result, we hold a positive view towards the money lending industry in Hong Kong and we concur with the Directors that the proceeds to be used in the Group's money lending business is beneficial to the Group for its expansion in the money lending industry.

The Directors advised that half of the proceeds of the Subscription for the business development and expansion of the Group's trading business will be allocated to the trading of cosmetic products in Hong Kong and the other half of the proceeds for the business development and expansion of the Group's trading business will be allocated to the trading of refined edible oil in China. Therefore, our analysis will be focused on trading of (a) cosmetic products in Hong Kong; and (b) refined edible oil in China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the cosmetic product market in Hong Kong, according to the U.S. Department of Commerce, Hong Kong is a bifurcated market in that it serves both the local population of 7.2 million, as well as serving as an import hub for China and catering to a large number of tourists and business travellers. Hong Kong consumers between 30-49, comprising the largest age group (31.3% or 2.3 million) and have the highest disposable income, are the biggest buyers of imported cosmetics and toiletries. Another large group of prospective buyers is the visitors from China. A Nielsen survey (Nielsen is a global measurement and data analytics company that provides a complete and trusted view of consumers and markets worldwide) on mainland Chinese tourists' purchases revealed that cosmetic and skincare products were among the top shopping purchases, followed by electronics/photographic products, clothing, and jewellery/watches. Therefore, we are of the view that the cosmetics market in Hong Kong is robust and thus the proceeds to be used in the trading of cosmetic products in Hong Kong is beneficial to the Group as a whole.

For the refined edible oil market in China, according to an article released by the Direct China Chamber of Commerce in the Netherlands ("DCCC") in April 2018, China is the world's largest consumer of oilseeds and cooking oil. Moreover, the patterns of edible oil consumption in China have changed with increased urbanisation, improved standards of living and food safety, thus there is an increase in purchasing imported oils with larger brand and/or better quality. As a result, the Group may enjoy a higher profit margin when trading luxury branded edible oil. Therefore, we are of the view that proceeds to be used in the trading of edible oil in China is beneficial to the Group as a whole.

We have discussed with the management of the Company and understood that the management of the Company has considered other fund raising alternatives before resolving to the Subscription, such as debt financing and equity financing. In respect of debt financing, the Company had approached two banks in Hong Kong to explore loan opportunities. Since the Company would not be able to provide any real property asset collateral and the Company had been loss making for the years ended 31 March 2017 and 2018, the banks have both refused to provide loan financing to the Company. In respect of equity financing such as placing, rights issue and open offer, the Company has approached four independent financial institutions to explore the possibility. Given the loss-making position of the Group for the financial years ended 31 March 2017 and 2018 and the unsatisfactory share price performance and unsatisfactory trading liquidity of the Shares, it is difficult for the financial institutions to attract investors to participate in the equity financing to enable the Company to raise sufficient fund without adopting a substantial discount (of, say, at least 20%) of the subscription price as compared to the then-prevailing market price of the Shares. In addition, the result of best-effort placing conducted by financial institutions would be less certain than direct subscriptions by identified interested subscribers. As such, the management of the Company considers and we concur that fund raising through the Subscription is a better way of fund raising at this stage.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we are of the view and concur with the Directors 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 Subscription provided the maximum certainty on the outcome of the fund-raising; and (iii) the Subscription incurred no interest expenses for the Company.

(2) Principal terms of the Subscription Agreement

Date

20 August 2018 (after trading hours)

Parties

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

Number of Subscription Shares

The 1,000,000,000 Subscription Shares represent (i) approximately 18.35% of the total existing issued share capital of the Company as at the date of the Subscription Agreement; and (ii) approximately 15.51% of the total issued share capital of the Company as enlarged by the Subscription Shares immediately after Completion, assuming that there is no other change in the issued share capital of the Company from the date of the Subscription Agreement up to Completion. The aggregate nominal value of the Subscription Shares is HK\$10,000,000.00.

Subscription Price

The Subscription Price is HK\$0.180 per Subscription Share or HK\$180,000,000 in aggregate. The aggregate Subscription Price shall be remitted by Yunnan Baiyao Holdings to the account designated by the Company no later than two business days after it was notified by the Company of the due registration of the Subscription Shares in the name of Yunnan Baiyao Holdings (or as it may direct) on Completion.

The Subscription Price of HK\$0.180 per Subscription Share: (i) is equivalent to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; and (ii) represent a discount of approximately 1.207% to the average closing price of approximately HK\$0.1822 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Subscription Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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\$0.1819 per Share, HK\$0.1822 per Share and 0.1873%, respectively. 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 specific mandate placing.

Completion of the Subscription is conditional upon:

- (a) the obtaining by Yunnan Baiyao Holdings of all necessary approvals in relation to the Subscription in compliance of laws and regulations in the PRC regarding offshore investment and foreign exchange;
- (b) the obtaining by the Company of the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription 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 Agreement and the Specific Mandate; and
- (d) the allotment and issue of the Subscription Shares not triggering any mandatory general offer obligations under the Takeovers Code.

Yunnan Baiyao Holdings shall use its reasonable endeavours to procure that Condition (a) above is satisfied by 5:00 p.m. on or before 31 October 2018 (the “**Long Stop Date**”). The Company shall use its reasonable endeavours to procure that Conditions (b) and (c) above are satisfied by 5:00 p.m. 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 Holdings mutually agree to further extend the Long Stop Date to such later time and date, the Subscription Agreement 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.

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. In any event, Completion of the Subscription shall take place within six weeks after the date of obtaining of the Independent Shareholders’ approval on the Subscription and the Specific Mandate at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(3) Evaluation of the Subscription Price

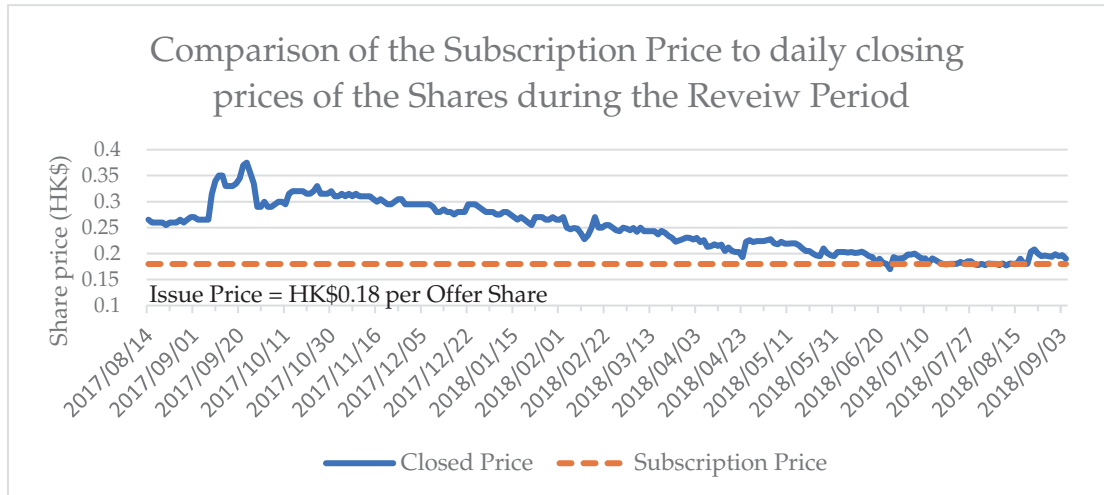
(a) *Review on Share price performance*

We note that the Subscription Price of HK\$0.180 per Subscription Share:

- (i) is equivalent to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the 20 August 2018, the date of the Subscription Agreement;
- (ii) represents a discount of approximately 1.207% to the average closing price of approximately HK\$0.1822 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to 20 August 2018;
- (iii) represents a discount of approximately 0.387% to the average closing price of approximately HK\$0.1807 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 20 August 2018;
- (iv) represents a discount of approximately 0.935% to the average closing price of approximately HK\$0.1817 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including 20 August 2018;
- (v) represents a discount of approximately 5.263% to the closing price of HK\$0.19 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) represents a premium of approximately 80% over the audited net asset value attributable to owners of the Company as at 31 March 2018 of approximately HK\$0.10 per Share.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the daily closing price of the Shares as quoted on the Stock Exchange for the twelfth-month period ended on and including the 20 August 2018 together with the period commencing from the date immediately after the 20 August 2018 up to and including the Latest Practicable Date (the “**Review Period**”):



Between 7 September 2017 and 13 September 2017, the closing price increased from HK\$0.265 to HK\$0.35 which represents approximately 32.1% increase. The sudden increase was mainly due to the announcement released on 7 September 2017 which related to the subscription of Shares by Yunnan Baiyao Holdings. After that, the closing prices were generally in a decreasing trend.

During the Review Period, the closing prices of the Shares ranged from HK\$0.17 per Share to HK\$0.375 per Share. While the Subscription Price is within such range of the closing prices of the Shares during the Review Period, we note that the Subscription Price represents a discount over the prevailing market price of the Shares in general as analysed above. We consider that the comparison of the Subscription Price with the recent Share price is a more relevant analysis than the comparison with historical Share prices over the past six to 12 months when determining the fairness and reasonableness of the Subscription Price as the current market price of the Shares can directly reflect the value of shares in prevailing market conditions. And based on the results in section (c) market comparable analysis below, we are of the view that the Subscription Price is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(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:

	Total trading volume for the month/period <i>Number of Share</i>	Average daily trading volume for the month/period <i>Number of Share</i>	Percentage of average daily trading volume to number of Shares in issue as at the end of the relevant month/period %
2017			
August	1,028,554,000	46,752,455	1.03
September	7,527,085,000	358,432,619	7.89
October	572,879,000	28,643,950	0.63
November	240,606,200	10,936,645	0.20
December	109,990,900	5,788,995	0.11
2018			
January	173,713,300	7,896,059	0.14
February	72,921,600	4,051,200	0.07
March	71,087,000	3,385,095	0.06
April	43,626,000	2,296,105	0.04
May	59,310,000	2,824,286	0.05
June	190,292,000	9,514,600	0.17
July	42,334,000	2,015,905	0.04
August	167,129,000	7,266,478	0.13
September (up to and including the Latest Practicable Date)	5,260,000	2,630,000	0.05
		Maximum	7.89
		Minimum	0.04
		Average	0.76

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*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the table above, we consider the average daily trading volume of the Shares during the Review Period was thin. It means the trading of the Shares is not considered as active therefore setting the Subscription Price at a discount could encourage more interests for Yunnan Baiyao Holdings to participate in the Subscription. As such, we are of the view that it is reasonable to set the Subscription Price at discount to the latest Share prices to balance the low liquidity of the Shares during the Review Period.

(c) *Market comparable analysis*

For comparison purpose, we have, on a best effort basis, conducted a search of all recent issues of shares by companies listed on the Stock Exchange that were announced during the six-month period prior to the 20 August 2018 (the “**Comparable Issues**”) by searching through published information on the website of Stock Exchange. Our search criteria include (i) the transactions are connected transactions, (ii) the share issuance are not H-share companies whose share capital structure is different from the Company, and (iii) share issuance are not undertaking a reverse takeover. Based on such criteria, we have identified 22 Comparable Issues. To the best of our knowledge, effort and endeavour and based on our search conducted according to the aforesaid criteria, the list of Comparable Issues is an exhaustive list of issues of shares meeting the aforesaid criteria.

We compared the respective premium/discount over/to the closing price of the shares of such companies on the date of the relevant subscription agreements (the “**Premium/Discount**”) and the last five consecutive trading days immediately prior and/or including the subscription agreements (the “**Five Days Premium/Discount**”) as represented by the subscription price of such Comparable Issues with the corresponding Premium/Discount and Five Days Premium/Discount represented by the Subscription Price. 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 shares which we consider the Comparable Issues to be fair and representative.

Taking into account that valid comparables have to be under similar and recent market conditions in order to provide a more fair and reasonable comparison, we consider that five or more comparables can already provide a reasonable comparison and could reflect the recent trend of the subscription price of subscription shares adopted in the market, therefore we consider that the 22 comparables found are sufficient to reflect the prevailing market conditions for comparison. As the subscription price of subscription shares is usually determined with reference to the prevailing market conditions, we consider that the selected time frame (of the six-month period prior to the 20 August 2018) is appropriate for the purposes of comparison as it can lower the impact over fluctuations in share prices in the stock market caused by external atmosphere, whilst it can also generate a reasonable number of comparables which can satisfy the abovementioned selection criteria, as well as an insight on the subscription price of the subscription shares recently issued by other listed companies on the Stock Exchange under

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 quite 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 22 Comparables observed from the selected time frame can reflect the recent trend of subscription price of subscription shares in the market.

We set out our findings in the table below:

Announcement date of the Comparable Issues	Stock Code	Issuers of the Comparable Issues	Premium/(discount) of the subscription price to the closing price of the shares on the last trading day or the date of corresponding agreement %	Premium/(discount) of the subscription 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 %
13/8/2018	772	China Literature Limited	19.00	19.40
31/7/2018	732	Truly International Holdings Limited	(6.35)	(4.84)
30/7/2018	82	V1 Group Limited	27.70	35.50
30/7/2018	1699	China Putian Food Holding Limited	(27.10)	(24.70)
24/7/2018	697	Shouhang Concord International Enterprises Company Limited	28.87	30.21
6/7/2018	8123	Sinofortune Financial Holdings Limited	5.26	3.09
3/7/2018	1141	CMBC Capital Holdings Limited	(18.40)	(19.50)
25/6/2018	2688	ENN Energy Holdings Limited	(1.23)	4.49
5/6/2018	2768	Jiayuan International Group Limited	(3.54)	(5.79)
4/6/2018	164	China Baoli Technologies Holdings Limited	(22.58)	(15.00)
31/5/2018	512	China Grand Pharmaceutical Holdings Limited	(15.90)	(20.20)
24/5/2018	512	China Grand Pharmaceutical Holdings Limited	(33.80)	(33.00)
24/5/2018	512	China Grand Pharmaceutical Holdings Limited	(21.10)	(20.20)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Announcement date of the Comparable Issues	Stock Code	Issuers of the Comparable Issues	Premium/(discount)	Premium/(discount)
			of the subscription price to the closing price of the shares on the last trading day or the date of corresponding agreement	of the subscription 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
			%	%
24/5/2018	3966	China Baofeng (International) Limited	(13.33)	(13.91)
9/5/2018	596	Inspur International Limited	(2.93)	(2.21)
30/4/2018	118	Cosmos Machinery Enterprises Limited	11.10	6.80
17/4/2018	872	Tus International Limited	(11.97)	(9.90)
17/4/2018	899	Asia Resources Holdings Limited	201.20	175.90
11/4/2018	8045	Jiangsu Nandasoft Technology Company Limited	0.00	8.11
28/3/2018	1341	Hao Tian International Construction Investment Group Limited	17.65	15.61
26/3/2018	832	Central China Real Estate Limited	7.04	8.24
2/3/2018	500	Frontier Services Group Limited	(35.00)	(31.58)
All Comparable Issues		Maximum	201.20	175.90
		Minimum	(35.00)	(33.00)
		Average (Note 1)	4.75	4.84
		Median	(9.84)	(9.85)
20/8/2018		The Company	0.00	(1.21)

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note:

1. In calculating the average premium/discount, we do simple addition of all the premiums (i.e. positive numbers) to all the discounts (i.e. negative numbers) represented by the cited market comparables, and then divided the sum by the total numbers of comparables. We consider that such calculation method of average figure is meaningful as it indicates whether, on average, the subscription 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.

As illustrated in the table above, we note that the Premium/Discount represented by the subscription prices of the Comparable Issue ranged from a discount of approximately 35.00% to a premium of approximately 201.20%, with an average of a premium of approximately 4.75%. The Premium/Discount represented by the Subscription Price therefore falls within the range of the Premium/Discount of Comparable Issues. Similarly, the Five Days Premium/Discount represented by the subscription prices of the Comparable Issue ranged from a discount of approximately 33.0% to a premium of approximately 175.90%, with an average of a premium of approximately 4.84%. The Five Days Premium/Discount represented by the Subscription Price therefore falls within the range of the Five Days Premium/Discount of Comparable Issues.

As such, we are of the view that the Subscription Price is fair and reasonable in this regard.

Although the Subscription Price generally represents a discount to the closing prices of the Shares, having taken into account

- (i) the Subscription Price represents a substantial premium over the audited consolidated net asset value of HK\$0.10 per Share as at 31 March 2018;
- (ii) the price of the Shares was in a declining trend during the Review Period;
- (iii) the Premium/Discount and Five Days Premium/Discount represented by the Subscription Price falls within the range of the Premium/Discount and Five Days Premium/Discount of the Comparable Issues respectively, and is close to the average Premium/Discount and Five Days Premium/Discount of the Comparable Issues respectively;
- (iv) the low liquidity in the trading of the Shares during the Review Period, which may imply that it would be difficult for the Company to further raise funds due to the lack of interest from potential investors,

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

(4) Financial effects of the Subscription

(a) Effect on shareholders' equity

Based on the Annual Report 2018, the audited consolidated shareholders' equity of the Group was approximately HK\$556.6 million or approximately HK\$0.10 per Share based on 5,448,152,160 Shares in issue as at 31 March 2018.

Assuming no other changes in the equity and the number of Shares other than the Subscription, it is expected that (i) the shareholder's equity of the Group will increase by the net proceeds of the Subscription of HK\$178.8 million or approximately 32.1%; and (ii) the net asset value per Share will increase by 11.6% to HK\$0.11 per Share, in each case immediately upon completion of the Subscription.

(b) Effect on working capital

Based on the Annual Report 2018, the bank balances and cash of the Group was approximately HK\$144.0 million as at 31 March 2018. As confirmed by the Directors, with the raising of net proceeds of HK\$178.8 million immediately upon completion of the Subscription by Yunnan Baiyao Holdings, it is expected that the working capital of the Group will increase.

(c) Effect on gearing ratio

Based on the Annual Report 2018, the gearing ratio of the Group, calculated based on the total liabilities divided by total assets, was approximately 24.6% as at 31 March 2018.

Assuming no other changes in the assets and liabilities other than net proceeds raised by the Subscription, it is expected that the gearing ratio of the Group will decrease from 24.6% to 19.8% immediately upon completion of the Subscription.

Having considered that, upon the completion of the Subscription, (i) the net asset value will be increased; and (ii) the working capital 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 completion of the Subscription Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(5) Fund raising activities of the Company during the past 12 months

The following table summarizes the equity fund raising activities of the Company for the twelve months immediately preceding the Latest Practicable Date:

Equity fund raising activities	Intended use of proceeds	Actual use of proceeds
<p>Date of announcement: 7 September 2017</p> <p>Nature: allotment and issue of 908,025,360 Shares by the Company to Yunnan Baiyao Holdings under the refreshed general mandate, which was completed on 27 October 2017</p> <p>Subscription price: HK\$0.22 per share, representing a discount of 16.98% and 17.60% when compared to the share price on the date of the agreement and the five days' average share price prior thereto, respectively</p>	<p>The net proceeds of approximately HK\$199 million were originally intended to be used:</p> <p>(a) as to HK\$70 million for the development of personal care products business of the Group;</p> <p>(b) as to HK\$70 million for the money lending business of the Group;</p> <p>(c) as to HK\$30 million for the development of trading business; and</p> <p>(d) as to HK\$29 million for the Group's general working capital.</p>	<p>As at the Latest Practicable Date, the net proceeds were actually used:</p> <p>(a) as to HK\$70 million for the Group's money lending business as intended;</p> <p>(b) as to HK\$30 million for the Group's trading business as intended;</p> <p>(c) due to the delay in business development plan of the Group's personal care products business, approximately HK\$46 million out of HK\$70 million which was originally intended for the development of personal care products business was reallocated for the Group's trading business; and</p> <p>(d) amongst the remaining approximately HK\$53 million, approximately HK\$33 million was utilized for the Group's general working capital up to August 2018 (including approximately HK\$9.5 million for the payment of salaries and remuneration of management and staff, approximately HK\$1.9 million for the payment of bond interest in March 2018, approximately HK\$4.2 million for rental expenses, approximately HK\$3.4 million for professional fees, approximately HK\$4.6 million for tax payment and prepayment, approximately HK\$2 million for the establishment of a new fund management department of the Group, approximately HK\$3 million for business development expenditures and approximately HK\$4.4 million for expenditures incurred in project-sourcing exercises of the Group and other operating expenses), and the remaining HK\$20 million remained unutilized and continued to be set aside for the Group's general working capital until the end of 2018 (including HK\$3.8 million being set aside for salaries and remuneration, HK\$1.9 million for bond interest in September 2018, HK\$1.4 million for rental expenses, HK\$6 million for professional fees and HK\$6.9 million for expenditures of business development and project-sourcing and other operating expenses).</p>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(6) Potential dilution to the Independent Shareholders' interests

Set out below are the shareholding structures of the Company before the Subscription and immediately after the Completion, assuming that there is no other change in the issued share capital of the Company from the date of the Subscription Agreement up to Completion:

Shareholders	Before the Subscription		Immediately after Completion	
	No. of Shares	%	No. of Shares	%
Yunnan Baiyao Holdings	908,025,360	16.67%	1,908,025,360	29.59%
Mr. Chow Wang (Note 1)	495,404,000	9.09%	495,404,000	7.68%
Mr. Fong For (Note 2)	349,068,000	6.40%	349,068,000	5.41%
Public Shareholders	3,695,654,800	67.84%	3,695,654,800	57.32%
Total	5,448,152,160	100.00%	6,448,152,160	100.00%

Notes:

- Mr. Chow Wang is an executive Director, the Chairman and the Chief Executive Officer of the Company.
- Mr. Fong For is a non-executive Director of the Company.

Upon Completion, 1,000,000,000 Subscription Shares will be allotted and issued, representing approximately 18.35% of the issued share capital of the Company as at the Latest Practicable Date and approximately 15.51% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, and the shareholding interests of the existing public Shareholders would be diluted to approximately 57.32%.

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\$0.1819 per Share, HK\$0.1822 per Share and 0.1873%, respectively. Taking into account the fact that the Company was loss-making for the past five years and the minimal dilution effect of 0.1873%, we are of the view that the dilution effect caused by the Subscription is acceptable and more than outweighed by the expected positive impact of the Subscription on the Company's equity and net asset value per Share, working capital and gearing ratio as explained earlier in this letter. Accordingly, we considered the terms of the Subscription is fair and reasonable and in the interest of the Company and the Shareholders as a whole, notwithstanding the dilution to the shareholding interests of the existing public Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that (i) although the entering into of the Subscription Agreement 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 Shareholders as a whole; (ii) the terms of the Subscription are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we 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 together with the transaction contemplated thereunder.

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

Ms. Angel Ip is a licensed person registered with the Securities and Future 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 7 years of experience in corporate finance industry.

*The English translation of the Chinese name(s) in this letter, where indicated with * is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*

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. 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	9.09%
Mr. Fong For	Beneficial owner	349,068,000	6.40%

Note: The percentages are calculated based on the total number of 5,448,152,160 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.

3. 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 filings notified to the Company or revealed 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 Holdings (Note 1)	Beneficial owner	1,908,025,360	35.02%
New Huadu (Note 1)	Interest in controlled corporation	1,908,025,360	35.02%
Yunnan SASAC (Note 1)	Interest in controlled corporation	1,908,025,360	35.02%
Mr. Chen Fa Shu (Note 1)	Interest in controlled corporation	1,908,025,360	35.02%

Notes:

- According to disclosure of interest filings, these 1,908,025,360 Shares comprise (a) 908,025,360 Shares held by Yunnan Baiyao Holdings; (b) 1,000,000,000 Shares to be allotted and issued to Yunnan Baiyao Holdings under the Subscription (which is still subject to fulfillment of conditions and has yet to complete). Yunnan Baiyao Holdings is 45% owned by Yunnan SASAC and 45% owned by New Huadu, and New Huadu is 76.87% owned by Mr. Chen Fa Shu.
- The percentages are calculated based on the total number of 5,448,152,160 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.

4. 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)).

5. 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.

6. 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 2018 (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.

7. 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 2018, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

Save as disclosed below, 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:

- (a) On 13 January 2017, the Company was informed by the management of its indirect subsidiary, 桐柏縣銀地礦業有限責任公司 (Tong Bai County Yin Di Mining Company Limited) (“**Yin Di Mining**”), that it has received a copy of a civil ruling numbered (2017) Yu 1330 Min Chu No. 92 and dated 9 January 2017 (the “**First Civil Ruling**”) issued by Tong Bai County People’s Court (“**Tong Bai Court**”) upon the asset-preserving application by Mr. Wang Huaqing (王華清) and Mr. Huang Suiyin (黃隨雲) on 9 January 2017 in respect of an alleged contractual dispute involving Yin Di Mining. Pursuant to the First Civil Ruling, it was ordered (inter alia) by Tong Bai Court that:
- (i) the entire equity holding of Yin Di Mining be frozen and all transfer procedures involving the entire equity holding of Yin Di Mining be suspended with effect from 9 January 2017 to 8 January 2018;
 - (ii) the mining license numbered C4100002014053220134362 (the “**Mining License**”) owned by Yin Di Mining be frozen and all transfer procedures involving the said Mining License be suspended with effect from 9 January 2017 to 8 January 2018; and
 - (iii) Yin Di Mining shall not sell, pledge, charge or create encumbrance of any nature over the said frozen assets.

The Company has instructed its PRC legal advisers to search the Court papers relating to the First Civil Ruling. Based on the documents revealed by the Company, the monetary amount of the purported disputes leading to the First Civil Ruling appeared to be small, being in the magnitude of approximately RMB500,000. Due to the small disputed sum, the Company has instructed its PRC legal advisers to focus on the Second Civil Judgment but to closely monitor any developments of the First Civil Ruling. Given that the Company has already fully deconsolidated Yin Di Mining and its subsidiaries (the “**De-consolidated Subsidiaries**”) in its financial statements for the year ended 31 March 2017, the Company does not expect the First Civil Ruling to have any further impact on the operations and financial position of the Group. The Company will continue to uphold and protect its legitimate interest through legal actions in China.

- (b) On 13 January 2017, the Company was given to understand that another civil judgment numbered (2016) Yu 01 Min Chu No. 709 and dated 10 October 2016 (the “**Second Civil Judgment**”) was issued by Henan Province Zhengzhou City Intermediate People’s Court (“**Zhengzhou Court**”) in respect of the civil action filed by 河南省桂園實業有限公司 (Henan Guiyuan Industry Co., Ltd.) (“**Henan Guiyuan**”) with Zhengzhou Court on 6 May 2016 relating to an alleged equity transfer dispute involving the equity of Yin Di Mining owned by Zhengzhou Jinfuyuan Mining Company Limited (“**Jinfuyuan Mining**”). As revealed in the Second Civil Judgment, it appeared that Henan Guiyuan might have made allegations to Zhengzhou Court during the course of the litigation that (inter alia):

*“On 28 February 2011, an equity transfer agreement (the “**Equity Transfer Agreement**”) was signed between Henan Guiyuan (as transferor) and Jinfuyuan Mining (as transferee) for the transfer of 95% equity of Yin Di Mining for the consideration of RMB28,000,000 payable in cash, and Henan Guiyuan completed the transfer of the 95% equity of Yin Di Mining to Jinfuyuan Mining in April 2011 in performance of the terms of the agreement. However, Jinfuyuan Mining only paid RMB3,000,000 by way of deposit to Henan Guiyuan between March and November 2011. On 30 May 2011, Henan Guiyuan and Jinfuyuan Mining signed a supplemental agreement such that if Jinfuyuan Mining failed to pay the balance of RMB25,000,000 within 60 days, then it shall (i) retransfer the equity holding in Yin Di Mining to Henan Guiyuan unconditionally; (ii) allow the RMB3,000,000 deposit be forfeited; and (iii) accept liability on breach of contract. Under Clause 8.1 of the Equity Transfer Agreement, the quantum of damages for breach of contract is RMB5,000,000, Despite numerous repayment reminders, the remaining balance of the promised consideration was never paid save and except three small payments totaling RMB50,000 made between January 2013 and November 2014. On 18 December 2015 Jinfuyuan Mining signed a declaration and gave it to Henan Guiyuan, confirming that it owed the outstanding consideration to Henan Guiyuan, voluntarily accepted all civil liabilities and consequence and agreed to retransfer its equity holding in Yin Di Mining to Henan Guiyuan.”*

Based on the allegations of Henan Guiyuan (which the Company, Yin Di Mining and Jinfuyuan Mining intend to deny categorically), Henan Guiyuan requested Zhengzhou Court to order (inter alia) that: (a) the Equity Transfer Agreement be terminated and that all the equity holding in Yin Di Mining held by Jinfuyuan Mining be re-transferred to Henan Guiyuan; (b) loss and damages for breach of contract in the amount of RMB5,000,000 be awarded; and (c) costs to be borne by Jinfuyuan Mining.

As revealed in the Second Civil Judgment, it appears to the Company that certain individuals might have falsely held themselves out to have authority from Jinfuyuan Mining and produced fraudulent documents to the Zhengzhou Court during the course of the litigation in an attempt to reverse the Equity Transfer Agreement and to cause the equity holding in Yin Di Mining to be transferred to Henan Guiyuan without the knowledge of the Company, Yin Di Mining and Jinfuyuan Mining.

Pursuant to the Second Civil Judgment, it was ordered (inter alia) by Zhengzhou Court that:

- (i) the Equity Transfer Agreement be terminated;
- (ii) all equity holding of Yin Di Ming held by Jinfuyuan Mining be re-transferred to Henan Guiyuan;
- (iii) damages of RMB500,000 be awarded to Henan Guiyuan; and
- (iv) costs of RMB211,800 be borne by Jinfuyuan Mining.

Upon searches of public records conducted by the Group's legal advisers, the Company was given to understand that a ruling enforcement order numbered (2016) Yu 01 Zhi No. 1301-1 and dated 23 November 2016 (the "**Enforcement Order**") was issued by the Zhengzhou Court ordering Jinfuyuan Mining to transfer the entire equity holding in Yin Di Ming to Henan Guiyuan. The Company has in January 2017 filed criminal complaints with the Public Security Bureau in China (the "**PSB**") to investigate into any unlawful activities of the any persons and entities who might have given fraudulent evidence and documents to the Court during the course of the litigation. The criminal case was accepted by the PSB on 26 January 2017. The Company has instructed its PRC legal advisers to provide all assistance to the PSB during the course of the criminal investigations.

The Company has in March 2017 commenced legal actions in the PRC to apply for a re-trial of the litigations leading to the Second Civil Judgment and the Enforcement Order (the "**Re-trial Application**") with the view to preserving the Group's position and seeking to recover the control over its 90% equity interest in Yin Di Mining (and hence the Mining License). On 28 September 2017, the Re-trial Application was accepted by the Henan Province High People's Court ("**Henan High Court**"). The Henan High Court rendered a ruling dated 14 May 2018 that the Re-trial Application be rejected. As the carrying amounts of assets and liabilities of, and non-controlling interests in, the De-consolidated Subsidiaries were already de-consolidated and derecognized from the consolidated financial statements of the Group for the year ended 31 March 2017 with effect from 1 April 2016, the rejection of the Re-trial Application is not expected to cause any further impact on the Group's financial results and position. The Company will continue to uphold and protect its legitimate interest through legal actions in China.

9. 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 underwriting agreement dated 14 November 2016 and entered into between the Company and Kingston Securities Limited in relation to the underwriting by Kingston Securities Limited at the underwriting commission of 2.5% of up to 1,302,849,600 rights shares issued by the Company at the subscription price of HK\$0.11 per rights share under a one-for-two rights issue;
- (2) the placing agreement dated 19 January 2017 and entered into between the Company and SR Wealth Securities Limited in relation to the best-effort placing at the placing commission of 2.5% of up to 534,132,000 placing shares issued by the Company at the placing price of HK\$0.11 per share;
- (3) the sale and purchase agreement dated 24 January 2017 and entered into between the Company and Mr. Zhou Zhichang in relation to the disposal by the Company of 51% issued share capital of Choudary Limited for the total cash consideration of HK\$1.75 million;
- (4) the joint venture agreement dated 23 February 2017 and entered into between the Company and 雲南白藥清逸堂實業有限公司 (Yunnan Baiyao Qingyitang Industry Co., Ltd.) (“**Yunnan Baiyao Qingyitang**”) in relation to the establishment of a 60:40 joint venture company with an initial investment size of RMB2 million;
- (5) the conditional subscription agreement dated 7 September 2017 and entered into between the Company and Yunnan Baiyao Holdings in relation to the subscription by Yunnan Baiyao Holdings of 908,025,360 shares issued by the Company at the issue price of HK\$0.22 per share; and
- (6) the Subscription Agreement dated 20 August 2018 and entered into between the Company and Yunnan Baiyao Holdings in relation to the conditional subscription by Yunnan Baiyao Holdings of 1,000,000,000 shares proposed to be issued by the Company at the issue price of HK\$0.180 per share.

10. EXPERT AND CONSENT

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

Name of expert	Qualification
Red Sun Capital	A corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

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 2018 (being the date to which the latest published audited accounts of the Group were made up).

11. CORPORATE INFORMATION OF THE GROUP

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal place of business in Hong Kong	Room 2709-10, 27/F. China Resources Building 26 Harbour Road, Wanchai Hong Kong
Principal share registrar and transfer agent	Computershare Investor Services (Bermuda) Limited Corner House Church and Parliament Street Hamilton HM FX. Bermuda
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited 18th Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong
Company secretary	Ms. Li Wing Sze, associate member of Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators

12. 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 head office and 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 4 to 12 of this circular;
- (c) the “Letter from the Independent Board Committee”, the text of which is set out on page 13 of this circular;
- (d) the “Letter from the Independent Financial Adviser”, the text of which is set out on pages 14 to 36 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; and
- (h) this circular.

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 Basement 2 (B2), The Wharney Guang Dong Hotel, 57-73 Lockhart Road, Wanchai, Hong Kong on Friday, 28 September 2018 at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company held on the same day, whichever is earlier) for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“**THAT:**

- (a) the entering into of the subscription agreement (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) dated 20 August 2018 by Yunnan Baiyao Holdings Co., Ltd. (“**Yunnan Baiyao Holdings**”) as subscriber and the Company as issuer in relation to the subscription by Yunnan Baiyao Holdings for the 1,000,000,000 new ordinary shares (“**Subscription Shares**”) of HK\$0.01 each in the share capital of the Company (“**Shares**”), and all transactions contemplated thereunder and all other matters thereof and incidental thereto and in connection therewith, be and are hereby generally and unconditionally approved, confirmed and ratified in all respects;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Listing Committee**”) granting the listing of, and permission to deal in the Subscription Shares, the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot and issue the Subscription Shares, such Specific Mandate being in addition to and not prejudicing or revoking any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company; and

NOTICE OF SPECIAL GENERAL MEETING

- (c) the Directors be and are hereby generally and unconditionally authorized to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated by the Subscription Agreement and the allotment and issue of the Subscription Shares, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company.”

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

Hong Kong, 7 September 2018

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Unit 2709-10, 27/F.
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

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 articles of association 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. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the meeting will be taken by poll.
4. The register of members will be closed from 24 September 2018 to 28 September 2018, both dates inclusive, during which period 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 21 September 2018.
5. As at the date of this notice, the executive Directors are Mr. Chow Wang (Chairman & Chief Executive Officer), Mr. Chu Ka Wa (Chief Financial Officer) and Mr. Wang Zhaoqing (Chief Operating Officer); the non-executive Director is Mr. Fong For; and the independent non-executive Directors are Mr. Jiang Zhi, Mr. Leung Ka Kui, Johnny and Ms. Wong Chui San, Susan.