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If you have sold or transferred all your shares in Ban Loong Holdings Limited, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

CONTINUING CONNECTED TRANSACTIONS THE FRAMEWORK AGREEMENT AND NOTICE OF SPECIAL GENERAL MEETING

Capitalized terms used in this cover page shall have the same meanings as those defined in this circular unless otherwise stated.

A letter from the Board is set out on pages 6 to 28 of this circular.

A notice convening the special general meeting (“SGM”) of Ban Loong Holdings Limited (the “Company”) to be held at Room 2709-10, 27/F., China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong on Monday, 15 May 2023 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 in this circular. A proxy form for use by the Shareholders at the SGM is enclosed with this circular. If you are not able to attend the SGM in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and delivery of the proxy form will not preclude you from attending and voting in person at the SGM should you so wish.

27 April 2023

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DEFINITIONS

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

“associate(s)”	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 (stock code: 30)
“connected person(s)”	having the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Effective Date”	the date of the SGM which the Framework Agreement became effective
“Framework Agreement”	the framework agreement entered into between Yunnan Baiyao Group and the Company on 13 December 2022, pursuant to which (i) Yunnan Baiyao Group agreed to purchase (a) Product Registration and Promotion Services, (b) Global Supply Chain Integration Services, and (c) Professional Supporting Services from the Group; and (ii) the Parties agreed to cooperate in the sales and distribution of the Products
“Framework Agreement Announcement”	The announcement of the Company dated 13 December 2022 in relation to the Framework Agreement entered into between Yunnan Baiyao Group and the Company
“Global Supply Chain Integration Services”	the provision of services by the Group to Yunnan Baiyao Group to source and integrate raw materials worldwide, including but not limited to, overseas plantation and breeding resources, medical herbs and plant extracts, medical intermediates, cosmeceuticals products, food ingredients, biologics and packaging materials
“Group”	collectively, the Company and its subsidiaries

DEFINITIONS

“Group Products”	health care and food products procured, sourced, manufactured and/or branded by the Group, including but not limited to toothpaste, perfume, oil essence, skincare products, cosmetic products and etc.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited, the Company’s Share registrar in Hong Kong located at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely, Ms. Wong Chui San, Susan, Mr. Leung Ka Kui, Johnny, and Mr. Jiang Zhi which was established to make a recommendation regarding the terms of the Framework Agreement
“Independent Financial Adviser”	Red Sun Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Framework Agreement
“Independent Shareholders”	the Shareholders other than (a) Yunnan Baiyao Group, Yunbaiyao Hong Kong Co., Limited, New Huadu HK and their respective associates, and (b) any other Shareholders who are required by the Listing Rules to abstain from voting on the Ordinary Resolutions
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Latest Practicable Date”	21 April 2023
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“ODM”	original design manufacturer which manufactures pre-designed products that are sold under the brand name of the purchasing company
“OEM”	original equipment manufacturer which manufactures and builds products based on specifications tailored for the purchasing company
“Ordinary Resolution(s)”	the proposed ordinary resolution(s) set out in the notice of SGM
“New Huadu HK”	New Huadu Group (HK) Investment Limited, a company incorporated in Hong Kong with limited liability and an wholly-owned subsidiary of New Huadu Industrial Group Co., Ltd* (新華都實業集團股份有限公司), which was held directly and indirectly as to approximately 93.69% by Mr. Chen Fashu. Mr. Chen Fashu is a director of Yunnan Baiyao Group and together with parties acting in concert with him, held approximately 25.02% of Yunnan Baiyao Group as at the Latest Practicable Date
“Parties”	Yunnan Baiyao Group and the Company
“Placing Agreement”	an subscription agreement entered into between the Company and Sunwah on 14 April 2022 (after trading hours), pursuant to which, Sunwah agreed to subscribe 351,762,000 Shares at an subscription price of HK\$0.285 per Share
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)
“Products”	Group Products and YNBY Products
“Product Registration and Promotion Services”	(i) overseas registration of YNBY Products pursuant to the relevant overseas regulatory and registration requirements; (ii) overseas marketing services for YNBY Products; (iii) assist Yunnan Baiyao Group on intellectual property registration of YNBY Product; and (iv) overseas market expansion services provided to Yunnan Baiyao Group

DEFINITIONS

“Professional Supporting Services”	(i) identification of suitable healthcare products resources for Yunnan Baiyao Group to expand its big health product line (醫藥大健康產品), and (ii) sourcing of suitable ODM and/or OEM for Yunnan Baiyao Group to produce quality healthcare products and provide support to the global marketing of those products under Yunnan Baiyao Group’s name
“Sales and Distribution Services”	On the one hand, the Group will serve as a distributor of Yunnan Baiyao Group and will purchase and distribute YNBY Products to the overseas markets. On the other hand, Yunnan Baiyao Group will serve as a distributor of the Company and will purchase and distribute the Group Products to the PRC
“Services”	Product Registration and Promotion Services, Global Supply Chain Integration Services, Professional Supporting Services, and Sales and Distribution Services
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“SGM”	the special general meeting of the Company to be held at Room 2709-10, 27/F., China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong on Monday, 15 May 2023 at 10:00 a.m., a notice of which is set out on pages SGM-1 to SGM-2 of this circular, or any adjourned meeting thereof
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholders”	having the meaning ascribed thereto under the Listing Rules
“Sunwah”	Sunwah GreatWall Group Limited, a limited liability company established in Hong Kong
“YNBY Products”	including but not limited to personal care and health care products, medical products, Chinese patent medicines, medical machineries, chemical products, and industrial products manufactured and branded by Yunnan Baiyao Group

DEFINITIONS

“Yunnan Baiyao Group” Yunnan Baiyao Group Co., Ltd.* (雲南白藥集團股份有限公司), a joint stock company established in the PRC with limited liability (shares of which are listed on the Shenzhen Stock Exchange with stock code 000538)

“%” per cent

* *for identification purpose only*

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. Dong Ming (*Chairman*)
Mr. Tang Ming (*Chief Executive Officer*)
Mr. Yin Pinyao
Mr. Liu Zhouyang

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Directors:

Mr. Qian Yinghui
Mr. Huang Bin

Principal place of business in

Hong Kong:
Room 2709-10,
27/F China Resources Building
No. 26 Harbour Road
Wanchai, Hong Kong

Independent non-executive Directors:

Ms. Wong Chui San, Susan
Mr. Leung Ka Kui, Johnny
Mr. Jiang Zhi

27 April 2023

To the Shareholders,

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
THE FRAMEWORK AGREEMENT
AND
NOTICE OF SPECIAL GENERAL MEETING**

I. INTRODUCTION

Reference is made to the Framework Agreement Announcement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information regarding the terms of the Framework Agreement; (ii) the letter of recommendation from the Independent Board Committee in relation to the terms of the Framework Agreement; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders in relation to the terms of the Framework Agreement; and (iv) the notice of SGM.

II. THE FRAMEWORK AGREEMENT

As disclosed in the Framework Agreement Announcement, on 13 December 2022, the Company and Yunnan Baiyao Group entered into a Framework Agreement, pursuant to which (i) Yunnan Baiyao Group agreed to purchase (a) Product Registration and Promotion Services, (b) Global Supply Chain Integration Services, and (c) Professional Supporting Services from the Group, and (ii) the Parties agreed to cooperate in the sales and distribution of the Products, in which the Group will distribute YNBY Products overseas and Yunnan Baiyao Group will distribute the Group Products in the PRC. The principal terms of the Framework Agreement are summarized below.

Date	:	13 December 2022
Parties	:	(i) The Company; and (ii) Yunnan Baiyao Group.
Term	:	Subject to the fulfilment of the conditions precedent as stated below, the term of the Framework Agreement shall be for a period of three years commencing on the Effective Date and ending on the third anniversary of the Effective Date.
Subject matter	:	Pursuant to the Framework Agreement, (i) Yunnan Baiyao Group agreed to purchase (a) Product Registration and Promotion Services, (b) Global Supply Chain Integration Services, and (c) Professional Supporting Services from the Group; and (ii) the Parties agreed to cooperate in the sales and distribution of the Products, in which the Group will distribute YNBY Products overseas and Yunnan Baiyao Group will distribute the Group Products in the PRC.

LETTER FROM THE BOARD

Product Registration and Promotion Services

The Group will (i) assist Yunnan Baiyao Group on the registration of YNBY Products pursuant to the relevant overseas regulatory and registration requirements; (ii) assist Yunnan Baiyao Group on intellectual property registration of YNBY Products; (iii) provide overseas marketing services for YNBY Products; and (iv) provide overseas market expansion services to Yunnan Baiyao Group.

Global Supply Chain Integration Services

The Group will provide global supply chain integration services to Yunnan Baiyao Group, in which the Group will assist Yunnan Baiyao Group source and integrate raw materials worldwide, including but not limited to, the procurement of overseas plantation and breeding resources (海外種植養殖資源), medical herbs and plant extracts, medical intermediates, cosmeceuticals products, food ingredients, biologics and packaging materials.

Professional Supporting Services

The Group will identify suitable healthcare products resources for Yunnan Baiyao Group to expand its big health product line (醫藥大健康產品), source suitable ODMs/OEMs for Yunnan Baiyao Group to produce quality healthcare products and provide support to the global marketing of those products under Yunnan Baiyao Group's name.

Sales and Distribution Services

On the one hand, the Group will purchase and distribute YNBY Products to the overseas markets. On the other hand, Yunnan Baiyao Group will purchase and distribute the Group Products to the PRC through online sales platforms and physical distribution channels.

LETTER FROM THE BOARD

Pricing policy : Pursuant to the Framework Agreement, the Group will charge Yunnan Baiyao Group service fees for providing the Product Registration and Promotion Services, Global Supply Chain Integration Services and Professional Supporting Services. The service fees shall be determined i) based on the prevailing market price of similar services at the time of the relevant transaction; and ii) with reference to two or more quotations or tenders received from Independent Third Parties for Services of the same kind.

Under the Product Registration and Promotion Services, based on the Group's market research and after discussions with Yunnan Baiyao Group, the Parties agree that the Group will determine the service fee based on the expected costs incurred by the Group, i.e. prevailing market prices obtained from third-party service providers, plus a 10-15% mark-up for the Group being the agent to monitor the process and to ensure service quality. The market researches conducted by the Group include obtaining quotations from Independent Third Parties that provide services similar to the Product Registration and Promotion Services. Upon comparing the quotations with the costs of the Product Registration and Promotion Services and the historical transactions of the Group, the Group noted that the relevant service providers typically charge service fee with a mark-up of between 10% and 15% on top of the costs, including but not limited to the overhead expenses, labour cost, and registration fees imposed by the relevant authorities. The service fees shall be no less favorable than the service fees offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

LETTER FROM THE BOARD

Under the Professional Supporting Services, based on the Group's market researches and after discussions with Yunnan Baiyao Group, the Parties agree that the Group will determine the service fee based on the expected costs incurred by the Group, i.e. prevailing market prices obtained from third-party service providers, plus a 10-15% mark-up for the Group being the agent to monitor the process and to ensure service quality. The market researches conducted by the Group include obtaining quotations from Independent Third Parties that provide services similar to the Professional Supporting Services. Upon comparing the quotations with the costs of the Professional Supporting Services and the historical transactions of the Group, the Group noted that the ODMs/OEMs typically charge service fee with a mark-up of between 10% and 15% on top of the costs, including but not limited to the overhead expenses, labour cost, and costs for experimenting new ODMs/OEMs products. The service fees shall be no less favorable than the service fees offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

Under the Global Supply Chain Integration Services, the Group will act as principal, but not an agent to source and procure raw materials for Yunnan Baiyao Group and will subsequently sell the raw materials to Yunnan Baiyao Group, who will acquire ownership over the raw materials. The Company will determine the selling price of the raw materials to be sold to Yunnan Baiyao Group based on prevailing market conditions and the pricing from third-party customers, and will earn the difference between the cost of acquiring the raw materials and the selling price of the raw materials to Yunnan Baiyao Group. The Company will, on monthly basis, review the cost of acquiring the raw materials and the price for selling to Independent Third Parties customers, and ensure the selling price offered to Yunnan Baiyao Group for raw materials is no less favorable than the price for selling the same to Independent Third Parties customers. According to the Company's unaudited management accounts for the three months ended 31 December 2022, the Company sold approximately HK\$47 million of raw materials to Independent Third Parties customers, and the difference between the cost of acquiring the raw materials and the selling price of the raw materials sold to Independent Third Parties customers was approximately 6%. When procuring the raw materials to be sold to Yunnan Baiyao Group, the Group will only procure such raw materials if the cost of those raw materials is i) based on the prevailing market price for raw materials of the same kind at the time of the relevant transaction; and ii) determined with reference to two or more quotations or tenders received from Independent Third Parties for raw materials of the same kind.

LETTER FROM THE BOARD

Under the Sales and Distribution Services arrangement, the Group will purchase YNBY Products from Yunnan Baiyao Group and Yunnan Baiyao Group will purchase the Group Products from the Group, respectively.

In respect of the sales and distribution of the Group Products to the PRC, the pricing of such Group Products is i) based on the prevailing market price of products of the same kind at the time of the relevant transaction; and ii) determined with reference to two or more quotations or tenders received from Independent Third Parties for products of the same kind. The price of such products shall be no less favorable than the price offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

In respect of the sales and distribution of the YNBY Products to the overseas markets, the pricing of such YNBY Products is i) based on the prevailing market price of products of the same kind at the time of the relevant transaction; and ii) determined with reference to two or more quotations or tenders received from Independent Third Parties for products of the same kind. The price of such products shall be no less favorable than the price offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

Pricing policy in determining the prevailing market price of the Products

In order to ascertain the prevailing market price of the YNBY Products, the Group will make reference to (i) the price quoted by at least two Independent Third Parties for the supply of the same or similar YNBY Products (if applicable) of comparable quality, ingredients, formula and quantities under normal commercial terms in the ordinary course of business of such Independent Third Parties; (ii) the price list of the same or similar YNBY Products as obtained by the Group from Independent Third Parties from time to time; (iii) the wholesale price list issued by Yunnan Baiyao Group to its distributors with whom it has entered into distributorship agreements with; and/or (iv) the price of the Group Products that shares similar nature with the YNBY Products.

LETTER FROM THE BOARD

In order to ascertain the prevailing market price of the Group Products, the Group will make reference to (i) the price quoted by at least two Independent Third Parties for the supply of the same or similar Group Products (if applicable) of comparable quality, ingredients, formula and quantities under normal commercial terms in the ordinary course of business of such Independent Third Parties; (ii) the price list of the same or similar Group Products as obtained by the Group from Independent Third Parties from time to time; (iii) the average selling price of the relevant Group Product as at the time of the relevant transaction; and/or (iv) the price of the YNBY Products that shares similar nature with the Group Products.

The Group will only approve the relevant transaction if the price payable by the Group will be on normal commercial terms or better, and on terms no less favourable to the Group than those available from Independent Third Parties, and is fair and reasonable and in the interest of the shareholders as a whole.

- Payment terms : For each transaction contemplated under the Framework Agreement, the Parties will enter into a separate agreement to set out the payment terms for the relevant transaction by reference to the terms of the Framework Agreement.
- Condition precedent : The Framework Agreement will only be effective upon the passing of the necessary resolutions at the SGM to approve the execution of the Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Business model under the Framework Agreement

In respect of the services/products to be purchased by Yunnan Baiyao Group, the business model and the business rationale for those Services are as follows:–

Product Registration and Promotion Services

Under the Product Registration and Promotion Service, the Group will source and coordinate with third-party service providers to provide registration services for Yunnan Baiyao Group. After the completion of the relevant product registrations, the Group will make use of its expertise and experience in the trading business and formulate a marketing plan for such products. The Group will also facilitate and supervise the selection of advertising agencies and the execution of the marketing plan and assist in the price negotiation process with the third-party service providers.

As Yunnan Baiyao Group is keen to expand its overseas market share, taking into account of the following factors, the Parties are of the view that (i) it will be more practical, efficient, and cost-effective and in the interests of Yunnan Baiyao Group to engage the Group for the Product Registration and Promotion Services; and (ii) the Group is Yunnan Baiyao Group's most ideal candidate for Yunnan Baiyao Group to procure for the Product Registration and Promotion Services:

1. when registering new products overseas, products that successfully undergo the registration process will usually be registered under the applicant's name. To avoid unauthorized distribution of YNBY Products and to safeguard Yunnan Baiyao Group's interest and reputation, it will be in the best interests of Yunnan Baiyao Group to engage its own subsidiary (i.e. the Group) to conduct the Product Registration and Promotion Services;
2. throughout the years, Yunnan Baiyao Group has been trying to combat counterfeits and unauthorized distributions of YNBY Products in the overseas. Historically, a number of YNBY Products were sold and distributed in some overseas markets without the consent of Yunnan Baiyao Group or approval from the relevant local authorities and the Parties consider that such practice may be inappropriate, unsustainable, and potentially illegal. Quite often local customers in overseas markets are unable to purchase reliable YNBY Products from authorized dealers. These unauthorized products sales in the overseas markets had negatively impacted Yunnan Baiyao Group's brand reputation. Therefore, Yunnan Baiyao Group is keen to rectify the situation and develop its target overseas markets properly;

LETTER FROM THE BOARD

3. product registration is a time-consuming process which requires constant communications and lengthy negotiations with the relevant local authorities, it is important to have a local support team with adequate understanding of the products to be stationed at the relevant countries to address the queries raised by the relevant local authorities and to assist in the product registration process. In addition, product registration services often require (i) discussions, disclosure and sharing of commercial and technical know-how such as formula and ingredients (“**Product Know-hows**”); and (ii) local customizations, such as local disclosure and mark-up requirements, changes of ingredients when required, local testing requirements, local storage requirements, local licenses, and etc. As such, it is Yunnan Baiyao Group’s intention to engage the Group, who Yunnan Baiyao Group shares a close relationship with and has confidence in, to provide the Product Registration and Promotion Services; and

4. as disclosed in Yunnan Baiyao Group’s 2021 annual report, its overseas sales revenue is less than 1% of its domestic sales revenue in the PRC. To the best knowledge of the Company, Yunnan Baiyao Group currently offers over 1,000 types of different products on the market, amongst which, 33 products are locally registered in 8 overseas markets, being part of the targeted overseas markets outside of the PRC. Yunnan Baiyao Group has been searching for a reliable business partner to assist in the expansion of its overseas business, considering the Group (i) has already set up branches and subsidiaries in a number of overseas markets and are still further expanding; (ii) has obtained and will continue to obtain the relevant import and export licenses in the target overseas markets, such as the import and export licenses recently obtained by the Group in Thailand; and (iii) has obtained and will continue to obtain local sales licenses in overseas markets, such as the three local sales licenses for the wholesale of proprietary Chinese medicines and Chinese herbal medicines, and the sales of Chinese herbal medicine respectively from the Department of Health (Chinese Medicine Regulatory Office) in Hong Kong, Yunnan Baiyao Group is of the view that comparing with other service providers, it will be most trustworthy, time-saving, and cost effective for Yunnan Baiyao Group to engage the Group in providing the Product Registration and Promotion Services.

LETTER FROM THE BOARD

Given that (i) the list of products to be offered by Yunnan Baiyao Group is still expanding, and (ii) the Group is the most ideal candidate for Yunnan Baiyao Group to procure the Product Registration and Promotion Services from, the Group expects that Yunnan Baiyao Group will continue to engage the Group for product registration services in respect of their existing and new products, and it is expected that it will take years for the Group to gradually complete the required registration for various types of current and future YNBY Products. Therefore, the Company is of the view that the Product Registration and Promotion Services will be recurring in nature for the foreseeable future.

The provision of Product Registration and Promotion Services involves the purchase of services from third-party service providers and the onward sales of such services to Yunnan Baiyao Group. The Group will charge Yunnan Baiyao Group a 10-15% mark-up on top of the cost incurred by the Group. As the relevant services will first be acquired by the Group as the principal, and not as an agent, and later sold to Yunnan Baiyao Group, the Group will control the selection of services providers and monitor the registration progress and marketing plan. Yunnan Baiyao Group's total purchase price payable to the Group will be recognized as revenue to be received by the Group pursuant to the guidance set out in Hong Kong Financial Reporting Standard 15 (Revenue from Contracts with Customers).

Global Supply Chain Integration Services

As Yunnan Baiyao Group is procuring raw materials in the overseas, the cooperation with the Group will allow Yunnan Baiyao Group to discover new source of raw materials from the overseas. The Group will make use of its expertise and experience in the trading business, and identify, source and procure raw materials from the overseas suppliers that align with Yunnan Baiyao Group's business needs and objectives. Once Yunnan Baiyao Group has confirmed an order, the Group will facilitate the delivery of the raw materials to Yunnan Baiyao Group, which include the arrangement of the raw materials to go through customs inspection and clearance and engagement of third-party providers to conduct quality inspection and deliver the raw materials to a storage area designated by Yunnan Baiyao Group in the PRC.

The Group is of the view that many of the raw materials required by Yunnan Baiyao Group are similar in nature with the ones the Group is supplying or will supply to other third-party customers. By engaging the Group to provide raw materials to Yunnan Baiyao Group, Yunnan Baiyao Group could further enhance its current portfolio of suppliers.

LETTER FROM THE BOARD

In addition, the provision of the Global Supply Chain Integration Services involves the purchase of raw materials from suppliers by the Group and the onward sale of raw materials to Yunnan Baiyao Group. As control over the sourced raw materials will first be acquired by the Group, and later transferred to Yunnan Baiyao Group upon the sale of such raw materials, the Group is acting as a principal and not as an agent when such raw materials are being sourced, and it bears risks and possible loss if the Group is unable to sell such raw materials or if such raw materials are destroyed during the process. Accordingly, Yunnan Baiyao Group's total purchase price payable to the Group will be recognized as the revenue to be received by the Group pursuant to the guidance set out in Hong Kong Financial Reporting Standard 15 (Revenue from Contracts with Customers).

Professional Supporting Services

To minimize Yunnan Baiyao Group's exporting cost in distributing YNBY Products overseas, the Group will utilize its expertise and experience in the trading business and identify and source suitable ODM and/or OEM in the overseas to produce quality products on behalf of Yunnan Baiyao Group. As Yunnan Baiyao Group has limited access to reliable ODMs and/or OEMs in the overseas, the Group will make use of its business connections, attend negotiations with the ODMs and/or OEMs and supervise the production process for Yunnan Baiyao Group.

ODMs/OEMs often require (i) discussions, disclosure and sharing of commercial and technical Product Know-hows; and (ii) local customizations, such as local disclosure and mark-up requirements, changes of ingredients when required, local testing requirements, local storage requirements, and local licenses, etc. As such, it is Yunnan Baiyao Group's intention to engage the Group, who Yunnan Baiyao Group shares a close relationship with and has confidence in, to provide the Professional Supporting Services.

In addition, depending on the type of products and the volume of goods sold in the target overseas markets, Yunnan Baiyao Group may need to incur substantial costs and expenses in exporting quality YNBY Products, including freight costs, inspection costs, taxes and customs fees for goods to be sent abroad, etc. It may therefore be more cost-effective for Yunnan Baiyao Group if they could produce its products by engaging overseas ODMs/OEMs to manufacture the relevant YNBY Products in the overseas on its behalf. As the Group already has experience in engaging ODMs/OEMs to produce Group Products, the Group can offer the perfect solution to Yunnan Baiyao Group by providing a trustworthy, time-saving, cost-effective and one-stop services to them.

LETTER FROM THE BOARD

Similar to the Product Registration and Promotion Services, Yunnan Baiyao Group requires a local support team to manage the worldwide ODMs/OEMs. Yunnan Baiyao Group is in need of a local support team that is able to (i) work closely with the ODMs/OEMs; (ii) contribute, adjust and improve the manufacturing formula; and (iii) conduct quality inspection from time to time in order to meet the needs of the target customers.

Yunnan Baiyao Group currently offers more than 1,000 types of different products on the market and to the best of the Group's knowledge, the list of products offered by Yunnan Baiyao Group will continue to expand, while only a small number of products can be practically launched in a small number of target overseas markets every year. Further, the Group understands that Yunnan Baiyao Group intends to promote many of its products to the overseas markets in the future, it is expected that the provision of Professional Supporting Services will be recurring in the foreseeable future.

The provision of Professional Supporting Services involves the purchase of services from third-party service providers and the onward sales of such services to Yunnan Baiyao Group. The relevant services will first be acquired by the Group, and later sold to Yunnan Baiyao Group and the Group will charge Yunnan Baiyao Group a 10-15% mark-up on top of the cost incurred by the Group. The Group will control the selection of services providers and will monitor performance and delivery on its own. The Group is therefore acting as a principal and not as an agent when the Professional Supporting Services are being sourced, and Yunnan Baiyao Group's total purchase price payable to the Group will be recognized as the revenue to be received by the Group pursuant to the guidance set out in Hong Kong Financial Reporting Standard 15 (Revenue from Contracts with Customers).

LETTER FROM THE BOARD

Sales and distribution of Group Products

The Group has been primarily engaged in the sales and trading of the Group Products in the PRC and overseas. Yunnan Baiyao Group, being one of the Forbes Global 2000 companies, and one of the largest conglomerates in the PRC, has extensive off-line sales and distribution networks in the PRC. In order to better utilize the sales and distribution network of Yunnan Baiyao Group in PRC, the Group will sell the Group Products which align with the Yunnan Baiyao Group's business needs to Yunnan Baiyao Group. Yunnan Baiyao Group will formulate a sales plan based on the number of YNBY Products, which share similar nature and use with the Group Products, that were sold or exported to the PRC in the past ("**YNBY Sales Plan**") and place a purchase order with the Group based on the YNBY Sales Plan. After the Group has received the purchase order, the Group will arrange the Group Products to go through customs inspection and clearance, and facilitate the delivery of the Group Products to the storage space designated by Yunnan Baiyao Group. Yunnan Baiyao Group will then conduct quality inspection on the Group Products. Should the relevant Group Products fail the quality inspection, Yunnan Baiyao Group is entitled to return the relevant Group Products and request the Group to provide an exchange or refund for the relevant Group Products. After the Group Products have passed the quality inspection, Yunnan Baiyao Group will subsequently distribute the Group Products via their sales and distribution network in PRC.

LETTER FROM THE BOARD

In respect of the services/products to be purchased by the Group, the business model and the business rationale for the Sales and Distribution Services are as follows:-

Sales and distribution of YNBY Products

Yunnan Baiyao Group is primarily engaged in the sales and trading of personal care and health care products, Chinese patent medicine and medical herbs and plant extracts in the PRC. In order to assist Yunnan Baiyao Group to expand its market share in the overseas markets and to diversify the products range of the Group's trading business, the Group will formulate a sales plan based on a number of considerations, including but not limited to making reference to (i) its own market study and research, and (ii) the number of Group Products, which share similar nature and use with the YNBY Products, that were sold or exported to the overseas in the past and etc ("**Group Sales Plan**"). After the Group has secured a sale and the Group's customers have confirmed the relevant YNBY Products sales order, the Group will place a purchase order with Yunnan Baiyao Group based on the Group Sales Plan. Yunnan Baiyao Group will then confirm the purchase order and deliver the relevant YNBY Products to the Group's designated storage place in the PRC. Once the relevant YNBY Products have reached the Group's designated storage place, the Group will then (i) conduct quality inspection, facilitate the delivery of the products to the overseas markets, and arrange the products to go through customs inspection and clearance. Should the relevant YNBY Products fail the Group's quality inspection, the Group will return the relevant YNBY Products to Yunnan Baiyao Group and request Yunnan Baiyao Group for an exchange or refund; (ii) formulate an overseas marketing plan based on its experience and expertise in the trading business; (iii) cooperate with its business partners to market and distribute the relevant YNBY Products to the overseas; (iv) monitor the sales trend for such products; and (v) reformulate the Group's sales plan based on the sales trend of such YNBY Products in the relevant overseas markets.

LETTER FROM THE BOARD

Proposed annual caps and the basis of the annual caps

The following table sets out the proposed annual caps under the Framework Agreement respectively:

	Proposed annual caps			
	From the	For the	For the	From
	Effective Date	year ending	year ending	1 April 2026
	to 31 March	31 March	31 March	to the third anniversary of the Effective Date
	2024	2025	2026	Effective Date
	(HK\$)	(HK\$)	(HK\$)	(HK\$)
<i>Services/products to be purchased by Yunnan Baiyao Group</i>				
Product Registration and Promotion Services	20.83 million	25 million	25 million	4.17 million
Global Supply Chain Integration Services	250 million	300 million	300 million	50 million
Professional Supporting Services	20.83 million	25 million	25 million	4.17 million
Sales and distribution of Group Products to the PRC	41.67 million	50 million	50 million	8.33 million
	<u>333.33 million</u>	<u>400 million</u>	<u>400 million</u>	<u>66.67 million</u>
Total	<u>333.33 million</u>	<u>400 million</u>	<u>400 million</u>	<u>66.67 million</u>

As there were no historical transactions between the Parties in respect of the Services to be purchased by Yunnan Baiyao Group, the proposed annual caps for such Services are determined after taking into consideration of, among others, the following:

Product Registration and Promotion Services: The annual caps of the Product Registration and Promotion Services were determined based on the revenue that the Group may receive from the sales and distribution of YNBY Products. The revenue for Product Registration and Promotion Services is derived from the 12.5% service fee charged to the total sales of the sales and distribution of YNBY Products i.e. HK\$200 million. Accordingly, the maximum annual revenue that the Group may receive from the Product Registration and Promotion Service is proposed to be HK\$25 million. Based on the Group's experience in Product Registration and Promotion Services, the Group estimates that with the annual caps of HK\$25 million, the Group will be able to provide 24 times of Product Registration and Promotion Services to Yunnan Baiyao Group in the target overseas markets per year, being a conservative estimate of the Group, as the Group has just begun the cooperation with Yunnan Baiyao Group. To the best of the Company's knowledge, Yunnan Baiyao Group currently offers over 1,000 types of products on the market, with 33 products registered in 8 overseas markets. In light of Yunnan Baiyao Group's intention to expand their market shares in these 8 overseas markets, and given the large amount of products they contemplate to introduce to these markets, the Group envisages that Yunnan Baiyao Group will demand the Group to provide more than 24 times of Product Registration and Promotion Services per year.

LETTER FROM THE BOARD

Based on the above, the Group is of the view that the proposed annual caps for the Product Registration and Promotion Services are fair and reasonable, not excessive, and is in the interest of the Shareholders as a whole.

Global Supply Chain Integration Services: According to the annual reports of Yunnan Baiyao Group for the three years ended 31 December 2021, the average cost of Yunnan Baiyao Group for procurement of raw materials (“**Raw Material Cost**”) for the past three years amounted to approximately RMB364 million (approximately HK\$420 million). After various discussions and negotiations with Yunnan Baiyao Group, it has agreed to procure approximately 70% of its Raw Material Cost from the Group for the next three years. Accordingly, the Group used the above basis to determine the annual caps of the Global Supply Chain Integration Services. Based on the Group’s unaudited management accounts, it has recorded revenue of approximately HK\$47 million from the sales of raw materials to Independent Third Parties customers for the three months ended on 31 December 2022, and the Group expects that sales of raw materials to Independent Third Parties customers will be approximately HK\$188 million for the financial year ending on 31 March 2024. As such, the Group is of the view that the proposed annual caps for the Global Supply Chain Integration Services are in line with the existing size of the Group’s existing operations, are fair and reasonable, and in the interest of the Shareholders as a whole.

Professional Supporting Services: The annual caps for the Professional Supporting Services were determined based on the Group’s discussions with Yunnan Baiyao Group. Given that the Group is experienced in sourcing ODMs and OEMs, Yunnan Baiyao Group has agreed to engage the Group to provide such services and the parties have determined that the annual caps for provision of such services are set as 12.5% of maximum sales of products manufactured by OEMs and/or ODMs, which will be the annual cap amount of the sales and distribution of YNBY Products i.e. HK\$200 million per annum. Accordingly, the maximum annual revenue that the Group may receive from the Professional Supporting Service is proposed to be HK\$25 million. Based on the Group’s experience in sourcing ODMs and OEMs, the Group estimates that with the annual caps of HK\$25 million, the Group will be able to conduct 20 projects (approximately 5 projects per quarter) under the Professional Supporting Services in the target overseas markets, being a conservative estimate of the Group, as the Group has just begun the cooperation with Yunnan Baiyao Group. In light of Yunnan Baiyao Group’s intention to expand their market shares in the target overseas markets by introducing a number of their products produced by the ODMs/OEMs to those markets, the Group envisages that Yunnan Baiyao Group will demand the Group to provide more than 20 times of Professional Supporting Services on Yunnan Baiyao Group’s behalf. In light of the above, the Group is of the view that the proposed annual caps for the Professional Supporting Services are fair and reasonable, not excessive, and in the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

Sales and Distribution of Group Products: The annual caps were determined based on (i) the number of YNBY Products that share similar nature and uses with the Group Products being sold or exported to the PRC in the past; (ii) the volume of Group Products which Yunnan Baiyao Group is expected to procure based on its business plan; and (iii) the market trend and demand for health care and food products in general and Group Products for the upcoming three years. Based on the Group's unaudited management accounts, the revenue derived from the trading of Group Products amounted to approximately HK\$119 million for the three months ended 31 December 2022. The annual caps for the sales and distribution of the Group Products in the PRC is a conservative estimate as the Group has just begun the cooperation with Yunnan Baiyao Group regarding the sales and distribution of the Group Products through Yunnan Baiyao Group to the PRC, and is approximately 40% of the revenue derived from the trading of Group Products in the three months ended 31 December 2022.

Based on the reasons set out above, the Group is of the view that the proposed annual caps for the Sales and Distribution Services of the Group Products are fair and reasonable, and are in the interest of the Shareholders as a whole.

	Proposed annual caps			From
From the	For the	For the	For the	1 April 2026
Effective Date	year ending	year ending	year ending	to the third
to 31 March	31 March	31 March	31 March	anniversary
2024	2025	2026	2026	of the
(HK\$)	(HK\$)	(HK\$)	(HK\$)	Effective Date
(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)
<i>Service/Products to be purchased by the Group</i>				
Sales and distribution of YNBY				
Products to the overseas markets	166.66 million	200 million	200 million	33.34 million
	<u>166.66 million</u>	<u>200 million</u>	<u>200 million</u>	<u>33.34 million</u>
Total	<u>166.66 million</u>	<u>200 million</u>	<u>200 million</u>	<u>33.34 million</u>

As there were no historical transactions between the Parties in respect of the Sales and Distribution Services to be purchased by the Group, the proposed annual caps for such services are determined after taking into consideration of, among others, the following:

LETTER FROM THE BOARD

Sales and Distribution of YNBY Products: The Group has determined the annual caps based on (i) the number of Group Products that share similar nature and uses with YNBY Products that was sold or exported to the overseas markets in the past; (ii) the volume of sales of YNBY Products which the Group is expected to procure based on Yunnan Baiyao Group's business plan for the expansion of market shares in the overseas markets; and (iii) the market trend and demand for products that share similar nature and uses with YNBY Products for the upcoming three years. According to the annual report of Yunnan Baiyao Group for the three years ended 31 December 2021, the average overseas sales for YNBY Products for the past three years amounted to approximately RMB379 million (approximately HK\$437 million). The annual caps for the sales and distribution of the YNBY Products in the overseas markets are a conservative estimate as the Group has just begun the cooperation with Yunnan Baiyao Group regarding the sales and distribution of YNBY Products through the Group to the overseas markets, and on average, is about 50% of the average overseas sales for YNBY Products in the past three years ended 31 December 2021.

Based on the reasons set out above, the Group is of the view that the proposed annual caps for the Sales and Distribution Services of the YNBY Products are fair and reasonable, and are in the interest of the Shareholders as a whole.

Reasons for and benefits of entering into the Framework Agreement

Yunnan Baiyao Group is an established pharmaceutical company specialized in, among others, Chinese medicine, health products and herbal medicine. Yunnan Baiyao Group's operations also cover the entire supply chain ranging from the research and development, cultivation, extraction, laboratory testing, sourcing, distribution, logistics, import and export. Leveraging on Yunnan Baiyao Group's expertise and reputation in the PRC, the Company is of the view that, by strategically cooperating with Yunnan Baiyao Group in the sales and distribution of each other's products, it will enhance the Group's influence and brand recognition in the PRC, which is essential to the future expansion of the Group's business. In addition, the Group will be able to generate new revenue stream through providing the Services to Yunnan Baiyao Group pursuant to the Framework Agreement. On the other hand, the implementation of the Framework Agreement is in line with Yunnan Baiyao Group's globalization strategies. Yunnan Baiyao Group shall benefit from the Group's international trading expertise and be able to expand its market share in the overseas markets, which in turn will enhance Yunnan Baiyao Group's reputation overseas.

LETTER FROM THE BOARD

In light of the above, the Board (including the independent non-executive Directors, whose view is set out in the letter from the Independent Board Committee, page 29 to 30 of this circular, after taking into account the advice of the Independent Financial Adviser) considers that the terms of the Framework Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Information of the parties

The Group

The Company is an investment holding company. The Group is principally engaged in trading of goods and commodities and cannabidiol (CBD) isolate.

Yunnan Baiyao Group

Yunnan Baiyao Group is a joint-stock company established in the PRC. The A-shares of Yunnan Baiyao Group are listed on Shenzhen Stock Exchange with stock code: 000538. The principal businesses of Yunnan Baiyao Group include pharmaceutical products, health products, Chinese medicine resources and pharmaceutical logistics. As at the Latest Practicable Date, (a) Yunnan Baiyao Group, together with Yunbaiyao Hong Kong Co., Limited, are the controlling Shareholders of the Company holding 5,009,936,360 Shares, representing approximately 73.68% of the issued share capital of the Company, and (b) Yunnan Baiyao Group, together with Yunbaiyao Hong Kong Co., Limited and New Huadu HK, hold an aggregate of 5,065,936,360 Shares, representing approximately 74.50% of the issued share capital of the Company.

Implication under the Listing Rules

As at the Latest Practicable Date, Yunnan Baiyao Group, together with Yunbaiyao Hong Kong, are the controlling shareholders of the Company holding 5,009,936,360 Shares, representing approximately 73.68% of the issued share capital of the Company. As Yunnan Baiyao Group is a connected person of the Company, the implementation of the transactions contemplated under the Framework Agreement constitutes a continuing connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual caps under the Framework Agreement exceeds 5%, the implementation of the transactions contemplated under the Framework Agreement are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Yunnan Baiyao Group, Yunbaiyao Hong Kong Co., Limited, and New Huadu HK, held approximately of 5,065,936,360 Shares, representing approximately 74.50% of the issued share capital of the Company, accordingly, Yunnan Baiyao Group, Yunbaiyao Hong Kong Co., Limited, and New Huadu HK have a material interest in the transactions contemplated under Framework Agreement and shall abstain from voting on the Ordinary Resolutions.

Further, given that Mr. Dong Ming, Mr. Yin Pinyao, Mr. Qian Yinghui, and Mr. Liu Zhouyang are shareholders or employees of Yunnan Baiyao Group, it is considered that they may have a material interest in the transactions contemplated under the Framework Agreement and have therefore abstained from voting on the resolutions regarding the approval of the Framework Agreement and the transactions contemplated thereunder at the relevant Board meeting. Save for the disclosed above, as at the date when the Board considered the abovementioned resolution, no other Directors have any material interest in the transactions contemplated under the Framework Agreement and therefore no other Directors have abstained from voting on such resolution of the Board.

Independent Board Committee and Independent Financial Adviser

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Wong Chui San, Susan, Mr. Leung Ka Kui, Johnny, and Mr. Jiang Zhi, has been established to consider the terms of the Framework Agreement, and to advise the Independent Shareholders as to whether the terms of the Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders (i) in relation to the terms of the Framework Agreement, and (ii) whether the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

WARNINGS: The execution of the Framework Agreement is subject to Independent Shareholders' approval at the SGM, the transactions contemplated thereunder may or may not proceed.

LETTER FROM THE BOARD

Trading in the Company's shares on the Stock Exchange has been suspended since 21 June 2022. One of the resumption guidance is that the Company is required to demonstrate its compliance with Rule 13.24 of the Listing Rules regarding sufficient operation and assets to warrant the continued listing of the Company. Shareholders and potential investors of the Company are reminded that the publication of this circular should not be viewed as the Stock Exchange being satisfied that the Company has fulfilled any resumption guidance, including Rule 13.24. Pursuant to Rule 6.01A (1) of the Listing Rules, the Stock Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, the 18-month period will expire on 20 December 2023. If the Company fails to fulfill all the resumption guidance issued by the Stock Exchange, fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in its shares by 20 December 2023, the Listing Division will recommend the Listing Committee to proceed with the cancellation of the Company's listing. Pursuant to Rules 6.01 and 6.10 of the Listing Rules, the Stock Exchange also has the right to impose a shorter specific remedial period, where appropriate.

III. SGM

A notice convening the SGM with the resolutions is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you are able to attend the meeting or any adjourned meeting, you are requested to complete the accompanying form of proxy and return it to the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you wish to do so.

Yunnan Baiyao Group, Yunbaiyao Hong Kong Co., Limited, and New Huadu HK, holding approximately of 5,065,936,360 Shares, representing approximately 74.50% of the issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting at the SGM on the Ordinary Resolutions. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, other than Yunnan Baiyao Group, Yunbaiyao Hong Kong Co., Limited, and New Huadu HK, no other Shareholder has a material interest in the Framework Agreement and has to abstain from voting on the Ordinary Resolutions.

LETTER FROM THE BOARD

For determining the eligibility to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 10 May 2023 to Monday, 15 May 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, all transfer of Shares, accompanied by the relevant Share certificates, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 9 May 2023.

IV. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation from the Independent Board Committee to the Independent Shareholders regarding the Ordinary Resolutions; and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Framework Agreement and the transactions as contemplated thereunder.

The Board, including the Independent Board Committee, after having considered the advice of the Independent Financial Adviser, considers that the terms of the Framework Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. The Board recommends that the Independent Shareholders vote in favour of all the Ordinary Resolutions at the SGM.

V. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any resolution put to the vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the general 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. Accordingly, each of the resolutions set out in the notice of SGM will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote need not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

LETTER FROM THE BOARD

VI. GENERAL

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,
For and on behalf of
The Board of Directors of
Ban Loong Holdings Limited
Tang Ming
Executive Director
&
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Framework Agreement and all transactions as contemplated thereunder, for the purpose of inclusion in this circular.



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

27 April 2023

To the Independent Shareholder,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS THE FRAMEWORK AGREEMENT

We refer to the Framework Agreement Announcement. Unless otherwise specified, terms defined in this circular shall have the same meanings in this letter.

We have been appointed by the Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the terms of the Framework Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in this circular.

Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Details of the advice and the principal factors and reasons that the Independent Financial Adviser has taken into consideration in giving such advice, are set out in the “Letter from the Independent Financial Adviser” in this circular. Your attention is also drawn to the “Letter from the Board” in this circular and the additional information as set out in Appendix I of this circular.

After taking the advice of the Independent Financial Adviser as set out in the “Letter from the Independent Financial Adviser” in this circular, we consider that the terms of the Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better, and fair and reasonable so far as the Independent Shareholders are concerned. We consider that the entering into the Framework Agreement is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Independent Shareholders as a whole.

We, therefore, recommend that you vote in favour of all the Ordinary Resolutions at the SGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Ms. Wong Chui San, Susan

Independent non-executive

Director

Mr. Leung Ka Kui, Johnny

Independent non-executive

Director

Mr. Jiang Zhi

Independent non-executive

Director

LETTER OF 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.



紅日資本有限公司
RED SUN CAPITAL LIMITED

Room 310, Floor 3
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong
Tel: (852) 2857 9208
Fax: (852) 2857 9100

27 April 2023

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS THE FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 27 April 2023 (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.

On 13 December 2022, the Company and Yunnan Baiyao Group entered into a Framework Agreement, pursuant to which, (i) Yunnan Baiyao Group agreed to purchase (a) Product Registration and Promotion Services, (b) Global Supply Chain Integration Services, and (c) Professional Supporting Services from the Group, and (ii) the Parties agreed to cooperate in the sales and distribution of the Products, in which the Group will distribute YNBY Products overseas and Yunnan Baiyao Group will distribute the Group Products in the PRC.

As at the Latest Practicable Date, Yunnan Baiyao Group, together with Yunbaiyao Hong Kong, are the controlling shareholders of the Company holding 5,009,936,360 Shares, representing approximately 73.68% of the issued share capital of the Company. As Yunnan Baiyao Group is a connected person of our Company, the implementation of the transactions contemplated under the Framework Agreement constitutes a continuing connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

LETTER OF THE INDEPENDENT FINANCIAL ADVISER

As one or more of the applicable percentage ratios in respect of the annual caps under the Framework Agreement exceeds 5%, the implementation of the transactions contemplated under the Framework Agreement are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

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

Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to whether or not (i) the Framework 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 Framework Agreement and the transactions contemplated thereunder at the SGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the Independent Financial Adviser to the independent board committee of the Company with regard to (i) the mandatory conditional cash offer whose composite document (including out letter from independent financial adviser) was published on 15 December 2021 and to the independent board committee and the independent shareholders of the Company with regard to the subscription of convertible bonds whose circular (including out letter from independent financial adviser) was published on 11 September 2020; and (ii) the connected transaction in relation to the extension of maturity date of convertible bonds whose announcement was published on 5 December 2022. Apart from the abovementioned Independent Financial Adviser roles and acting as the Independent Financial Adviser in relation to the Proposed Extension and transactions contemplated thereunder, we have not acted in any other capacity for the Company in the past two years.

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

LETTER OF THE INDEPENDENT FINANCIAL ADVISER

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

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

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

LETTER OF THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Principal business and financial information of the Group

a) Background information of the Group

The Company is an investment holding company. The Group was principally engaged in trading of goods and commodities and cannabidiol (CBD) isolate. The following table summarises the consolidated financial results of the Group (i) for the years ended 31 March 2020 and 2021, which are extracted from the Company's annual report for the year ended 31 March 2021 (the "2021 Annual Report"); and (ii) for the six months ended 30 September 2020 and 2021, which are extracted from the Company's interim report for the six months ended 30 September 2021 (the "2022 Interim Report"):

Table 1: Consolidated financial result of the Group

	For the six months ended		For the year ended	
	30 September		31 March	
	2021	2020	2021	2020
	HK\$	HK\$	HK\$	HK\$
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	457,632,630	614,479,742	1,216,714,366	1,162,153,635
Gross profit	38,703,227	49,888,423	96,395,162	108,083,580
(Loss)/profit before tax	(91,561,085)	24,559,302	20,234,531	60,102,905
Net (loss)/profit	(83,424,900)	19,519,687	13,210,253	49,568,862

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Financial performance for the six months ended 30 September 2021 and the six months ended 30 September 2020

As disclosed in the 2022 Interim Report, for the six months ended 30 September 2021, the Group's revenue decreased by approximately HK\$156.9 million or 25.5% from approximately HK\$614.5 million for the six months ended 30 September 2020 to approximately HK\$457.6 million for the six months ended 30 September 2021. Such decrease was mainly attributable to the (i) decrease in income from money lending segment due to maturity of certain loans and there was no new lending made during the six months ended 30 September 2021; and (ii) decrease in income from trading segment mainly due to the decrease in revenue from the trading of cosmetics and personal care products has attributed to lower sales volume.

As set out in 2022 Interim Report, the Group recorded a turnaround in profit which the Group changed from net profit of approximately HK\$19.5 million in the year ended 30 September 2020 to net loss of approximately HK\$83.4 million for the six months ended 30 September 2021. Such change was mainly attributable to the increase in net allowance for expected credit losses of approximately HK\$90.3 million for loan and other receivables.

Financial performance for the year ended 31 March 2021 and the year ended 31 March 2020

According to the 2021 Annual Report, the Group's revenue increased by approximately HK\$54.5 million or 4.7% from approximately HK\$1,162.2 million for the year ended 31 March 2020 to approximately HK\$1,216.7 million in the year ended 31 March 2021. Such increase was mainly attributable to the increase in revenue from trading segment due to the increase in purchase orders placed by the Group's trading customers and partly offset by the decrease in revenue in money lending segment from approximately HK\$89.7 million in the year ended 31 March 2020 to approximately HK\$87.8 million in the year ended 31 March 2021.

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According to the 2021 Annual Report, the Group's profit decreased by approximately HK\$36.4 million or 73.4% from approximately HK\$49.6 million for the year ended 31 March 2020 to approximately HK\$13.2 million for the year ended 31 March 2021. The decrease in profit was principally due to the increase in selling and distribution expenses which intended to attract potential customers and the low margin of the trading of Cannabidiol (CBD) isolate at the initial stage.

Table 2: Consolidated financial position of the Group

	As at	As at 31 March	
	30 September	2021	2020
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(unaudited)	(audited)	(audited)
Non-current assets	28,558,213	19,904,572	17,726,205
Current assets	1,344,491,026	1,422,699,746	949,272,146
Total assets	1,373,049,239	1,442,604,318	969,998,351
Non-current liabilities	(503,055,656)	(490,239,990)	(5,047,097)
Current liabilities	(96,844,653)	(100,285,189)	(161,222,273)
Total liabilities	(599,900,309)	(590,525,179)	(166,269,370)
Net assets	773,148,930	852,079,139	800,728,981
Equity attributable to			
owners of the Company	772,225,946	851,155,911	799,808,772
Non-controlling interests	922,984	923,228	920,209
Bank balances and cash	181,582,897	251,236,954	7,027,960

As disclosed in the 2022 Interim Report, as at 30 September 2021, the Group recorded bank balances and cash of approximately HK\$181.6 million, representing a decrease of approximately HK\$69.6 million as compared to approximately HK\$251.2 million recorded as at 31 March 2021.

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The Group has yet to announce its audited results for the year ended 31 March 2022 but the Board has announced the operating statistics (the “**Operating Statistics**”) of the Group for the year ended 31 March 2022 and for the three months ended 30 June 2022 on 29 August 2022 and the details are set out as below:

Table 3: Operating Statistics of the Group for the three months ended 30 June 2022 and for the year ended 31 March 2022

	For the three months ended 30 June 2022 HK\$ (unaudited)	For the year ended 31 March 2022 HK\$ (unaudited)
Revenue	53,360,413	177,718,993
Loss before tax	(91,691,725)	(799,116,837)
Loss for the period/year	(91,148,362)	(805,028,943)
Non-current assets	7,940,886	10,111,571
Current assets	350,024,943	284,463,976
Total assets	357,965,829	294,575,547
Non-current liabilities	(497,351,954)	(491,269,282)
Current liabilities	(166,183,651)	(105,628,420)
Total liabilities	(663,535,605)	(596,897,702)
Net liabilities	(305,569,776)	(302,322,155)

We note the Group recorded unaudited net liabilities of approximately HK\$305.6 million as at 30 June 2022. Accordingly, it is expected that the Company will not have sufficient cash in hand to redeem the Convertible Bonds in full on or before the Expiry Date.

b) *Background information of Yunnan Baiyao Group*

Yunnan Baiyao Group is a joint-stock company established in the PRC. The A-shares of Yunnan Baiyao Group are listed on Shenzhen Stock Exchange with stock code: 000538. The principal businesses of Yunnan Baiyao Group include pharmaceutical products, health products, Chinese medicine resources and pharmaceutical logistics. As at the date of this announcement, Yunnan Baiyao Group, together with Yunbaiyao Hong Kong, are the controlling shareholders of the Company holding 5,009,936,360 Shares, representing approximately 73.68% of the issued share capital of the Company.

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2. Reasons for and benefits of entering into the Framework Agreement

With reference to the Letter from the Board, Yunnan Baiyao Group is an established pharmaceutical company specialized in, among others, Chinese medicine, health products and herbal medicine. Yunnan Baiyao Group's operations also cover the entire supply chain ranging from the research and development, cultivation, extraction, laboratory testing, sourcing, distribution, logistics, import and export. Leveraging on Yunnan Baiyao Group's expertise and reputation in the PRC, the Company is of the view that, by strategically cooperating with Yunnan Baiyao Group in the sales and distribution of each other's products, it will enhance the Group's influence and brand recognition in the PRC, which is essential to the future expansion of the Group's business. In addition, the Group will be able to generate new revenue stream through providing the Services to Yunnan Baiyao Group pursuant to the Framework Agreement. On the other hand, the implementation of the Framework Agreement is in line with Yunnan Baiyao Group's globalization strategies. Yunnan Baiyao Group shall benefit from the Group's international trading expertise and be able to expand its market share in the overseas market, which in turn will enhance Yunnan Baiyao Group's reputation overseas.

3. Principal terms of the Framework Agreement

Major terms of the Framework Agreement are set out as follows, details of which are set out under the section headed "II. THE FRAMEWORK AGREEMENT" of the Letter from the Board:

Date	:	13 December 2022
Parties	:	(i) The Company; and (ii) Yunnan Baiyao Group.
Term	:	Subject to the fulfilment of the conditions precedent as stated below, the term of the Framework Agreement shall be for a period of three years commencing on the Effective Date and ending on the third anniversary of the Effective Date.
Subject matter	:	Pursuant to the Framework Agreement, (i) Yunnan Baiyao Group agreed to purchase (a) Product Registration and Promotion Services, (b) Global Supply Chain Integration Services, and (c) Professional Supporting Services from the Group; and (ii) the Parties agreed to cooperate in the sales and distribution of the Products, in which the Group will distribute YNBY Products overseas and Yunnan Baiyao Group will distribute the Group Products in the PRC.

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Product Registration and Promotion Services

The Group will (i) assist Yunnan Baiyao Group on the registration of the YNBY Product pursuant to the relevant overseas regulatory and registration requirements; (ii) assist Yunnan Baiyao Group on intellectual property registration of YNBY Products; (iii) provide overseas marketing services for YNBY Products; and (iv) provide overseas market expansion services to Yunnan Baiyao Group.

Global Supply Chain Integration Services

The Group will provide global supply chain integration services to Yunnan Baiyao Group, in which the Group will assist Yunnan Baiyao Group to source and integrate raw materials worldwide, including but not limited to, overseas plantation and breeding resources (海外種植養殖資源), medical herbs and plant extracts, medical intermediates, cosmeceuticals products, food ingredients, biologics and packaging materials.

Professional Supporting Services

The Group will identify suitable healthcare products resources for Yunnan Baiyao Group to expand its big health product line (醫藥大健康產品), source suitable ODM and/or OEM for Yunnan Baiyao Group to produce quality healthcare products and provide support to the global marketing of those products under Yunnan Baiyao Group's name.

Sales and Distribution Services

On the one hand, the Group will purchase and distribute YNBY Products to the overseas markets. On the other hand, Yunnan Baiyao Group will purchase and distribute the Group Products to the PRC through online sales platforms and physical distribution channels.

Pricing policy : Pursuant to the Framework Agreement, the Group will charge Yunnan Baiyao Group service fees for providing the Product Registration and Promotion Services, Global Supply Chain Integration Services and Professional Supporting Services. The service fees shall be determined i) based on the prevailing market price of similar services at the time of the relevant transaction; and ii) with reference to two or more quotations or tenders received from Independent Third Parties for Services of the same kind.

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Under the Product Registration and Promotion Services, based on the Group's market research and after discussions with Yunnan Baiyao Group, the Parties agree that the Group will determine the service fee based on the expected costs incurred by the Group, i.e. prevailing market prices obtained from third-party service providers, plus a 10-15% mark-up for the Group being the agent to monitor the process and to ensure service quality. The market researches conducted by the Group include obtaining quotations from Independent Third Parties that provide services similar to the Product Registration and Promotion Services. Upon comparing the quotations with the costs of the Product Registration and Promotion Services and the historical transactions of the Group, the Group noted that the relevant service providers typically charge service fee with a mark-up of between 10% and 15% on top of the costs, including but not limited to the overhead expenses, labour cost, and registration fees imposed by the relevant authorities. The service fees shall be no less favorable than the service fees offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

Under the Professional Supporting Services, based on the Group's market researches and after discussions with Yunnan Baiyao Group, the Parties agree that the Group will determine the service fee based on the expected costs incurred by the Group, i.e. prevailing market prices obtained from third-party service providers, plus a 10-15% mark-up for the Group being the agent to monitor the process and to ensure service quality. The market researches conducted by the Group include obtaining quotations from Independent Third Parties that provide services similar to the Professional Supporting Services. Upon comparing the quotations with the costs of the Professional Supporting Services and the historical transactions of the Group, the Group noted that the ODMs/OEMs typically charge service fee with a mark-up of between 10% and 15% on top of the costs, including but not limited to the overhead expenses, labour cost, and costs for experimenting new ODMs/OEMs products. The service fees shall be no less favorable than the service fees offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

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Under the Global Supply Chain Integration Services, the Group will act as principal, but not an agent to source and procure raw materials for Yunnan Baiyao Group and will subsequently sell the raw materials to Yunnan Baiyao Group, who will acquire ownership over the raw materials. The Company will determine the selling price of the raw materials to be sold to Yunnan Baiyao Group based on prevailing market conditions and the pricing from third-party customers, and will earn the difference between the cost of acquiring the raw materials and the selling price of the raw material to Yunnan Baiyao Group. The Company will, on monthly basis, review the cost of acquiring the raw materials and the price for selling to Independent Third Parties customers, and ensure the selling price offered to Yunnan Baiyao Group for raw materials is no less favorable than the price for selling the same to Independent Third Parties customers. According to the Company's unaudited management accounts for the three months ended 31 December 2022, the Company sold approximately HK\$47 million of raw materials to Independent Third Parties customers, and the difference between the cost of acquiring the raw materials and the selling price of the raw materials sold to Independent Third Parties customers was approximately 6%. When procuring the raw materials to be sold to Yunnan Baiyao Group, the Group will only procure such raw materials if the cost of those raw materials is i) based on the prevailing market price for raw materials of the same kind at the time of the relevant transaction; and ii) determined with reference to two or more quotations or tenders received from Independent Third Parties for raw materials of the same kind.

Under the Sales and Distribution Services arrangement, the Group will purchase YNBY Products from Yunnan Baiyao Group and Yunnan Baiyao Group will purchase the Group Products from the Group, respectively.

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In respect of the sales and distribution of the Group Products to the PRC, the pricing of such Group Products i) based on the prevailing market price of products of the same kind at the time of the relevant transaction; and ii) determined with reference to two or more quotations or tenders received from Independent Third Parties for products of the same kind. The price of such products shall be no less favorable than the price offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

In respect of the sales and distribution of the YNBY Products to the overseas markets, the pricing of such YNBY Products is i) based on the prevailing market price of products of the same kind at the time of the relevant transaction; and ii) determined with reference to two or more quotations or tenders received from Independent Third Parties for products of the same kind. The price of such products shall be no less favorable than the price offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong.

Pricing policy in determining the prevailing market price of the Products

In order to ascertain the prevailing market price of the YNBY Products, the Group will make reference to (i) the price quoted by at least two Independent Third Parties for the supply of the same or similar YNBY Products (if applicable) of comparable quality, ingredients, formula and quantities under normal commercial terms in the ordinary course of business of such Independent Third Parties; (ii) the price list of the same or similar YNBY Products as obtained by the Group from Independent Third Parties from time to time; (iii) the wholesale price list issued by Yunnan Baiyao Group to its distributors with whom it has entered into distributorship agreements with; and/or (iv) the price of the Group Products that shares similar nature with the YNBY Products.

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In order to ascertain the prevailing market price of the Group Products, the Group will make reference to (i) the price quoted by at least two Independent Third Parties for the supply of the same or similar Group Products (if applicable) of comparable quality, ingredients, formula and quantities under normal commercial terms in the ordinary course of business of such Independent Third Parties; (ii) the price list of the same or similar Group Products as obtained by the Group from Independent Third Parties from time to time; (iii) the average selling price of the relevant Group Product as at the time of the relevant transaction; and/or (iv) the price of the YNBY Products that shares similar nature with the Group Products.

The Group will only approve the relevant transaction if the price payable by the Group will be on normal commercial terms or better, and on terms no less favourable to the Group than those available from Independent Third Parties, and is fair and reasonable and in the interest of the shareholders as a whole.

- Payment terms : For each transaction contemplated under the Framework Agreement, the Parties will enter into a separate agreement to set out the payment terms for the relevant transaction by reference to the terms of the Framework Agreement.
- Condition precedent : The Framework Agreement will only be effective upon the passing of the necessary resolutions at the SGM to approve the execution of the Framework Agreement and the transactions contemplated thereunder.

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Business model under the Framework Agreement

In respect of the service/products to be purchased by Yunnan Baiyao Group, the business model and the business rationale for those Services are as follows as extracted from the Letter from the Board:

Product Registration and Promotion Services

Under the Product Registration and Promotion Service, the Group will source and coordinate with third-party service providers to provide registration services for Yunnan Baiyao Group. After the completion of the relevant product registrations, the Group will make use of its expertise and experience in the trading business and formulate a marketing plan for such products. The Group will also facilitate and supervise the selection of advertising agencies and the execution of the marketing plan and assist in the price negotiation process with the third-party service providers.

As Yunnan Baiyao Group is keen to expand its overseas market share, taking into account of the following factors, the Parties are of the view that (i) it will be more practical, efficient, and cost-effective and in the interests of Yunnan Baiyao Group to engage the Group for the Product Registration and Promotion Services; and (ii) the Group is the Yunnan Baiyao Group's most ideal candidate to procure for the Product Registration and Promotion Services:

1. when registering new products overseas, products that successfully undergo the registration process will usually be registered under the applicant's name. To avoid unauthorized distribution of YNBY Products and to safeguard Yunnan Baiyao Group's interest and reputation, it will be in the best interests of Yunnan Baiyao Group to engage its own subsidiary (i.e. the Group) to conduct the Product Registration and Promotion Services;

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2. throughout the years, Yunnan Baiyao Group has been trying to combat counterfeits and unauthorized distributions of YNBY Products in the overseas. Historically, a number of YNBY Products were sold and distributed in some overseas markets without the consent of Yunnan Baiyao Group or approval from the relevant local authorities and the Parties consider that such practice maybe inappropriate, unsustainable, and potentially illegal. Quite often local customers in overseas markets are unable to purchase reliable YNBY Products from authorized dealers. These unauthorized products sales in the overseas markets had negatively impacted Yunnan Baiyao Group's brand reputation. Therefore, Yunnan Baiyao Group is keen to rectify the situation and develop its target overseas markets properly;

3. product registration is a time-consuming process which requires constant communications and lengthy negotiations with the relevant local authorities, it is important to have a local support team with adequate understanding of the products to be stationed at the relevant country to address the queries raised by the relevant local authority and to assist in the product registration process. In addition, product registration services often require (i) discussions, disclosure and sharing of commercial and technical know-how such as formula and ingredients ("**Product Know-hows**"); and (ii) local customizations, such as local disclosure and mark-up requirements, changes of ingredients when required, local testing requirements, local storage requirements, local licenses, and etc. As such, it is Yunnan Baiyao Group's intention to engage the Group, who Yunnan Baiyao Group shares a close relationship with and has confidence in, to provide the Product Registration and Promotion Services; and

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4. as disclosed in Yunnan Baiyao Group's 2021 annual report, its overseas sales revenue amounts to less than 1% of its domestic sales revenue in the PRC. To the best knowledge of the Company, Yunnan Baiyao Group currently offers over 1,000 types of products on the market, amongst which, 33 products are locally registered in 8 overseas markets, being part of the targeted overseas markets outside of the PRC. Yunnan Baiyao Group has been searching for a reliable business partner to assist in the expansion of its overseas business, considering the Group (i) has already set up branches and subsidiaries in a number of overseas markets and are still further expanding; (ii) has obtained and will continue to obtain the relevant import and export licenses in the target overseas markets, such as the import and export license recently obtained by the Group in Thailand; and (iii) has obtained and will continue to obtain local sales licenses in overseas markets, such as the three local sales licenses for the wholesale of proprietary Chinese medicines and Chinese herbal medicines, and the sales of Chinese herbal medicine respectively from the Department of Health (Chinese Medicine Regulatory Office) in Hong Kong, Yunnan Baiyao Group is of the view that comparing with other service providers, it will be most trustworthy, time-saving, and cost effective for Yunnan Baiyao Group to engage the Group in providing the Product Registration and Promotion Services.

Given that (i) the list of products to be offered by Yunnan Baiyao Group is still expanding, and (ii) the Group is the most ideal candidate for Yunnan Baiyao Group to procure the Product Registration and Promotion Services from, the Group expected that Yunnan Baiyao Group will continue to engage the Group for product registration services in respect of their existing and new products, and it shall takes years for Yunnan Baiyao Group to gradually complete the required registration for various types of current and future YNBY Products. Therefore, the Company is of the view that the Product Registration and Promotion Services will be recurring in the foreseeable future.

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The provision of Product Registration and Promotion Services involves the purchase of services from third-party service providers and the onward sales of such services to Yunnan Baiyao Group. The Group will charge Yunnan Baiyao Group a 10-15% mark-up on top of the cost incurred by the Group. As the relevant services will first be acquired by the Group as the principal, and not as an agent, and later sold to Yunnan Baiyao Group, the Group will control the selection of services providers and monitor the registration progress and marketing plan. Yunnan Baiyao Group's total purchase price payable to the Group will be recognized as revenue to be received by the Group pursuant to the guidance set out in Hong Kong Financial Reporting Standard 15 (Revenue from Contracts with Customers).

Global Supply Chain Integration Services

As Yunnan Baiyao Group is always keen on procuring raw materials in the overseas, the cooperation with the Group will allow Yunnan Baiyao Group to discover new source of raw materials from the overseas. The Group will make use of its expertise and experience in the trading business, and identify, source and procure raw materials from the overseas suppliers that aligns with Yunnan Baiyao Group business needs and objectives. Once Yunnan Baiyao Group has confirmed an order, the Group will facilitate the delivery of the raw materials to Yunnan Baiyao Group, which include the arrangement of the raw materials through customs inspection and clearance and engagement of third-party providers to conduct quality inspection and deliver the raw materials to a storage area designated by Yunnan Baiyao Group in the PRC.

The Group is of the view that many of the raw materials required by Yunnan Baiyao Group are similar in nature with the ones the Group is supplying or will supply to other third-party customers. By engaging the Group to provide raw materials to Yunnan Baiyao Group, Yunnan Baiyao Group could further enhance its current portfolio of suppliers.

In addition, the provision of the Global Supply Chain Integration Services involves the purchase of the raw materials from suppliers by the Group and the onward sale of the raw materials to Yunnan Baiyao Group. As control over the sourced raw materials will first be acquired by the Group, and later transferred to Yunnan Baiyao Group upon the sale of such raw materials, the Group is in fact acting as a principal and not as agent when such raw materials are being sourced, and it bears risks and possible loss if the Group is unable to sell such raw materials or if such raw materials are being destructed during the process. Accordingly, Yunnan Baiyao Group's total purchase price payable to the Group will be recognised as the revenue to be received by the Group pursuant to the guidance set out in Hong Kong Financial Reporting Standard 15 (Revenue from Contracts with Customers).

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Professional Supporting Services

To minimize Yunnan Baiyao Group's exporting cost in distributing YNBY Products overseas, the Group will utilize its expertise and experience in the trading business and identify and source suitable ODM and/or OEM in the overseas to produce quality products on behalf of Yunnan Baiyao Group. As Yunnan Baiyao Group has limited access to reliable ODMs and/or OEMs in the overseas, the Group will make use of its business connections, attend negotiations with the ODMs and/or OEMs and supervise the production process for Yunnan Baiyao Group.

ODMs/OEMs often require (i) discussions, disclosure and sharing of commercial and Product Know-hows; and (ii) local customizations, such as local disclosure and mark-up requirements, changes of ingredients when required, local testing requirements, local storage requirements, and local licenses, etc. As such, it is Yunnan Baiyao Group's intention to engage the Group, who Yunnan Baiyao Group shares a close relationship with and has confidence in, to provide the Professional Supporting Services.

In addition, depending on the type of products and the volumes of goods sold in the target overseas markets, Yunnan Baiyao Group may need to incur substantial costs and expenses in exporting quality YNBY Products, such costs include freight costs, inspection costs, taxes and customs fees for goods to be sent abroad, and etc. It may therefore be more cost-effective for Yunnan Baiyao Group if they could produce its products by engaging overseas ODMs/OEMs to manufacture the relevant YNBY Products in the overseas on its behalf. As the Group already has experience in engaging ODMs/OEMs to produce Group Products, the Group can offer the perfect solution to Yunnan Baiyao Group by providing a trustworthy, time-saving, cost-effective and one-stop services to them.

Similar to the Product Registration and Promotion Services, Yunnan Baiyao Group requires a local support team to manage the worldwide ODMs/OEMs. Yunnan Baiyao Group is in need of a local support team that would be able to (i) work closely with the ODMs/OEMs; (ii) contribute, adjust and improve the manufacture formula; and (iii) conduct quality inspection from time to time in order to meet the needs of the target customers.

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Yunnan Baiyao Group currently offers more than 1,000 types of different products on the market and to the best of the Group's knowledge, the list of products offered by Yunnan Baiyao Group will continue to expand, while only a small number of products can be practically launched in a small number of target overseas markets every year. Further, the Group understands that Yunnan Baiyao Group intends to promote many of its products to the overseas markets in the future, it is expected that the provision of Professional Supporting Services will be recurring in the foreseeable future.

The provision of Professional Supporting Services involves the purchase of services from third-party service providers and the onward sales of such services to Yunnan Baiyao Group. The relevant services will first be acquired by the Group, and later sold to Yunnan Baiyao Group and the Group will charge Yunnan Baiyao Group a 10-15% mark-up on top of the cost incurred by the Group. The Group will control the selection of services providers and will monitor performance and delivery on its own. The Group is therefore acting as a principal and not as an agent when the Professional Supporting Services are being sourced, and Yunnan Baiyao Group's total purchase price payable to the Group will be recognised as the revenue to be received by the Group pursuant to the guidance set out in Hong Kong Financial Reporting Standard 15 (Revenue from Contracts with Customers).

Sales and Distribution of Group Products

The Group has been primarily engaged in the sales and trading of the Group Products in the PRC and overseas. Yunnan Baiyao Group, being one of the Forbes Global 2000 companies, and one of the largest conglomerates in the PRC, has extensive offline sales and distribution networks in the PRC. In order to better utilise the sales and distribution network of Yunnan Baiyao Group in PRC, the Group will sell the Group Products which align with the Yunnan Baiyao Group's business needs to Yunnan Baiyao Group. Yunnan Baiyao Group will formulate a sales plan based on the number of YNBY Products, which share similar nature and use with the Group Products, that were sold or exported to the PRC in the past ("**YNBY Sales Plan**") and place a purchase order with the Group based on the YNBY Sales Plan. After the Group has received the purchase order, the Group will arrange the Group Products to go through customs inspection and clearance, and facilitate the delivery of the Group Products to the storage space designated by Yunnan Baiyao Group. Yunnan Baiyao Group will then conduct quality inspection on the Group Products. Should the relevant Group Products fail the quality inspection, Yunnan Baiyao Group is entitled to return the relevant Group Products and request the Group to provide an exchange of or refund the relevant Group Products. After the Group Products have passed the quality inspection, Yunnan Baiyao Group will subsequently distribute the Group Products via their sales and distribution network in PRC.

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In respect of the services/products to be purchased by the Group, the business model and the business rationale for the Sales and Distribution Services are as follows as extracted from the Letter from the Board:

Sales and Distribution of YNBY Products

Yunnan Baiyao Group is primarily engaged in the sales and trading of personal care and health care products, Chinese patent medicine and medical herbs and plant extracts in the PRC. In order to assist Yunnan Baiyao Group to expand its market share in the overseas markets and to diversify the products range of the Group's trading business, the Group will formulate a sales plan based on a number of considerations, including but not limited to making reference to (i) its own market study and research, and (ii) the number of Group Products, which share similar nature and use with the YNBY Products, that were sold or exported to the overseas in the past and etc ("**Group Sales Plan**"). After the Group has secured a sale and the Group's customers have confirmed the relevant YNBY Products sales order, the Group will place a purchase order with Yunnan Baiyao Group based on the Group Sales Plan. Yunnan Baiyao Group will then confirm the purchase order and deliver the relevant YNBY Products to the Group's designated storage place in the PRC. Once the relevant YNBY Products have reached the Group's designated storage place, the Group will then (i) conduct quality inspection, facilitate the delivery of the products to the overseas markets, and arrange the products to go through customs inspection and clearance. Should the relevant YNBY Products fail the Group's quality inspection, the Group will return the relevant YNBY Products to Yunnan Baiyao Group and request Yunnan Baiyao Group for an exchange or refund; (ii) formulate an overseas marketing plan based on its experience and expertise in the trading business; (iii) cooperate with its business partners to market and distribute the relevant YNBY Products to the overseas; (iv) monitor the sales trend for such products; and (v) reformulate the Group's sales plan based on the sales trend of such YNBY Products in the relevant overseas markets.

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We have obtained and reviewed (i) a list of responsible staffs in different countries around the world; (ii) documents records in relation to product trademark registration; (iii) relevant export and import, wholesaler and retailer licenses in Thailand and Hong Kong; and (iv) internal transaction documents in relation to the outsourcing and engagement of ODMs/OEMs. We therefore further discussed with the Management in relation to the business model under the Framework Agreement after reviewing the relevant documents, considering (i) the Group already have existing subsidiaries in target overseas markets for the Product Registration and Promotion Services; (ii) products undergo registration process overseas will usually be registered under the applicant's name which would be more suitable to be under the Company's name to safeguard Yunnan Baiyao Group's interest and reputation; (iii) the Company has the local support team in relevant countries and required product know-hows required for better communication with local authorities under the product registration process; (iv) Yunnan Baiyao Group could make use of the Group's import and export licenses and local distribution licenses to tap into the overseas market; (v) the Group's previous experience in outsourcing marketing activities; (vi) the Group had commenced the raw materials sourcing business in early 2022; (vii) part of the raw materials required by Yunnan Baiyao Group are similar in nature with those supplying to other third party customers; (viii) the Group's portfolio of suppliers can further enhance Yunnan Baiyao Group's portfolio of suppliers; (ix) the product know-hows possessed by the Company in sourcing the suitable ODMs/OEMs; (x) the Company had experience in engaging ODMs/OEMs to produce the Group's products; (xi) the Company would formulate overseas marketing plan based on its expertise and experience in the trading business; (xii) the Group will make use of its expertise and experience in the trading business throughout different services under the Framework Agreement; and (xiii) Yunnan Baiyao Group can assist the Group to expand its market share in the PRC markets, we concur with the Directors' view that the business model under the Framework Agreement is fair and reasonable and in the interests of the Company and Shareholders.

The Management expertise and scale of staff or manpower

The Company has a strong management team to oversee and support its global trading business ("**Trading Team**"). Currently, the Company's Trading Team has around 40 employees and consultants based in various locations in the world, including but not limited to Hong Kong, PRC, Thailand, Laos, Japan, Korea, North America, and Europe. Trading business of the Company is supervised by Mr. Tang Ming ("**Mr. Tang**"), the chief executive officer of the Company, and Mr. Liu Huaiyu ("**Mr. Liu**"), the chief financial officer of the Company.

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Prior to joining the Company, Mr. Tang had more than 25 years of marketing & sales experience in global market. He was in charge of the Asia-Pacific consulting business of Verizon Enterprise Business from May 2010 to July 2016, he provided solutions for many global pharmaceutical and healthcare product companies, such as Johnson & Johnson, Novo Nordisk, etc. When he was working in Huawei Technologies Ltd., he was (i) responsible for the global business, consulting business; and (ii) the head of the automotive business unit in Europe. He built and expanded the European team and business from scratch, and have entered into a series of strategic cooperation with major European OEMs, such as PSA, Volkswagen, BMW, etc. The European team he managed is responsible for marketing, sales, solutions, and services. Mr. Tang obtained an MBA degree from Cornell University, and a Certificate of Biochemistry, Immunology, and Genetics from Harvard Medical School. The Directors believe that with Mr. Tang's education background, experiences in global marketing and sales, and expertise in healthcare industry, he will bring positive impact to the Company's business.

Mr. Liu has over 25 years of experience in finance and management segment where he served as a director, the company secretary and the chief financial officer at various large multinational corporations and listed companies. Mr. Liu's experiences in those multinational corporations enable him to possess the relevant skills in (i) building effective infrastructures for companies in the overseas; (ii) overseeing day-to-day business operations; and (iii) implementing effective internal controls within an organization. With Mr. Liu's knowledge and experience in finance, management, internal control and marketing, the Directors are of the view that his advice will benefit the Company's trading business and future overseas expansion.

To assist the expansion of the Company's trading business, the Company will continue to recruit experienced professionals to join the Group.

For our due diligence purpose, we have reviewed and enquired into (i) the curriculum vitae of Mr. Tang and Mr. Liu; and (ii) Mr. Tang and Mr. Liu's qualification and experience in relation to the relevant business. From the curriculum vitae provided by Mr. Tang and Mr. Liu and based on our interview with each of them, we are satisfied with their qualifications and experiences for the relevant business.

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Further details in relation to the pricing policy is listed as below:

The Group and Yunnan Baiyao Group are able to determine the price of the Products by making reference to (i) the prevailing market price of products of the same kind at the time of the relevant transaction; and (ii) two or more quotations or tenders received from Independent Third Parties for products of the same kind.

a. The Group's services to Yunnan Baiyao Group

(i) Product Registration and Promotion Services

The Group has been engaging in product registration and promotion of self-branded products, and thus the Group is able to determine the prevailing market prices by obtaining two or more quotations from the market. The prevailing marketing prices for Product Registration and Promotion Services will be sought from the market. The Company has experience in finding relevant service providers and seeking relevant quotations when working with self-branded products before.

Once the Company has sought appropriate quotations from the relevant service provider, they will charge Yunnan Baiyao Group on a cost-plus approach with a mark-up of 10% to 15%, upon discussion and confirmation with them.

(ii) Global Supply Chain Integration Services

The Group has been engaging in the raw material trading services. Based on the unaudited management accounts for the three months ended 31 December 2022, the Group had already accumulated of approximately HK\$47 million revenue from various Independent Third Parties customers through raw materials trading. Therefore, the Group is able to determine the prevailing market prices by obtaining two or more quotations from the Group's existing and future customers.

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(iii) Professional Supporting Services

The Group had been cooperating with OEM since 2021. And the current management team of the Group also has extensive experience in providing or sourcing professional supporting services. Therefore, the Group is able to determine the prevailing market prices by obtaining two or more quotations from the market.

Once the relevant cost in managing operation of OEM/ODMs has been incurred, they will charge Yunnan Baiyao Group on a cost-plus approach with a mark-up of 10% to 15%, upon discussion and confirmation with them.

(iv) Sales and Distribution of YNBY products

The Group has been engaging in the sales and distribution of Group Products throughout the years. Based on the unaudited management accounts for the three months ended 31 December 2022, the Group had already accumulated of approximately HK\$119 million revenue from third-party customers. Therefore, the Group is able to determine the prevailing market prices by obtaining two or more quotations from the Group's existing and potential suppliers.

- b. Yunnan Baiyao Group's sales and distribution of Group products:

The Group has been selling Group Products to various customers, and based on the unaudited management accounts for the three months ended 31 December 2022, the Group's revenue amounts to approximately HK\$119 million. Therefore, the Group is able to determine the prevailing market prices by obtaining two or more quotations from the Group's existing and potential customers.

Having considered that (i) the determination of service fees under the Framework Agreement and the pricing under the Sales and Distribution Services arrangement will be with reference to the prevailing market rate of the same kind of services or products; and (ii) with reference to two or more quotations or tenders from Independent Third Parties which are widely adopted as pricing policies for continuing connected transactions of other listed companies on the Stock Exchange, we are of the view that the pricing policy for the Framework Agreement and the Sales and Distribution Services arrangement is fair and reasonable.

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We have further discussed and understood from the Management that the execution of the Framework Agreement does not involve the entry into a new type of business of the Company and that the Company having existing experience in the marketing of products that are similar to YNBY Products. We have also obtained and reviewed of no less than 10 agreements from the current business of the Group for comparison purpose, we noted that the nature of services and service scope, including but not limited to the registration services, the types of promotional services, cooperation with OEM, trading of personal care and health care products set out thereunder are broadly in line with the nature of services and service scope under the Framework Agreement. In view of the above, we concur with the Directors' view that the nature of services and service scope under the Framework Agreement does not involve the entry into a new type of business of the Company and that the Company having existing experience in the marketing of products that are similar to YNBY Products.

For the pricing policy of Product Registration and Promotion Services with the cost-plus approach with a mark-up of 10% to 15%, we have obtained (i) a service contract entered into by the Company and an independent third party service provider; and (ii) the cost breakdown for the registration service. We have reviewed in particular the part of registration service in the service contract and compared the service price with the cost breakdown provided by the Company for registration service and noted that the mark-up by the independent third party service provider as compared to the Company's cost breakdown falls within the range of 10% to 15%.

Considering the Company's cost-plus approach with a mark-up of 10% to 15% which falls within the above range of comparison with independent third party service provider, we consider that the pricing policy of Product Registration and Promotion Services is fair and reasonable.

For the pricing policy of Professional Supporting Services with the cost-plus approach with a mark-up of 10% to 15%, we have obtained (i) a service contract in relation to supporting services entered into by the Company and an independent third party consultant; and (ii) the cost breakdown for the supporting services (including but not limited to travelling expenses, staff costs). We have reviewed the service contract and compared the service price with the cost breakdown provided by the Company for supporting services and noted that the mark-up by the independent third party consultant as compared to the Company's cost breakdown falls within the range of 10% to 15%. Considering the Company's cost-plus approach with a mark-up of 10% to 15% which falls within the above range of comparison with independent third party consultant, we consider that the pricing policy of Professional Supporting Services is fair and reasonable.

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For the pricing policy of Global Supply Chain Integration Services, we have obtained (i) documents of performing historical review on the cost of acquiring the raw materials and the price for selling to Independent Third Parties customers; and (ii) the cost breakdown for acquiring the raw materials and the selling price of the raw materials sold to Independent Third Parties customers. We have reviewed the documents of performing historical review and the cost breakdown provided by the Company and noted that the difference was approximately 6%. Considering the Company will determine the price based on the prevailing market price for the raw materials of the same kind at the time of the relevant transaction, with reference to two or more quotations or tenders received from Independent Third Parties for raw materials of the same kind, we consider that the pricing policy of Global Supply Chain Integration Services is fair and reasonable.

The role and relationship with key business stakeholders

The Company has entered into the Framework Agreement with Yunnan Baiyao Group, whereby on the one hand, the Group will assist Yunnan Baiyao Group in the globalisation of its products, and on the other hand, Yunnan Baiyao Group will assist the Group in the marketing and selling of its products in the PRC. Furthermore, the Company will also provide Product Registration and Promotion Services, Global Supply Chain Integration Services and Professional Supporting Services to Yunnan Baiyao Group.

Both the Group's sales and distribution of YNBY products and Yunnan Baiyao Group's sales and distribution of Group products, are examples of typical trading business. The Group is one of Yunnan Baiyao Group's customers, when purchasing YNBY products to sell and distribute in oversea markets. On the other hand, Yunnan Baiyao Group is one of the Group's customers, when they purchase Group Products to sell and distribute in the PRC market.

While the Product Registration and Promotion Services, Global Supply Chain Integration Services and Professional Supporting Services have not been separately offered or marketed by the Group previously as a "service", the Directors are of the strong view that such services or products have been part and parcel of the Group's existing trading business. The following cited track records and elaborations exemplify the Group's views and the role and relationship of key business stakeholders.

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(i) Product Registration and Promotion Services

The Company has been selling a CBD product registered in Switzerland in 2021. Historically, the Company had engaged different service providers, including but not limited to, (i) Laboratoires Biologiques Arval SA, an independent third party based in Switzerland, to provide assistance in R&D of and conduct allergies testing for our CBD products, so that the Company's products could pass the local regulatory requirements; (ii) MADE Creative Limited, an independent third party based in Hong Kong, to provide assistance in branding and marketing of the Group's Products; and (iii) Kalliste Consulting Ltd, an independent third party based in Hong Kong, to provide assistance in branding promotion, product shooting and social media promotion of the Group's Products.

(ii) Global Supply Chain Integration Services

The Company has been engaged in the sourcing of raw materials for manufacturing since early 2022, which involved the purchase of raw materials for products packaging and etc. For the Stock Exchange's reference, based on the Company's unaudited management accounts for the three months ended 31 December 2022, the Company has already accumulated for approximately HK\$47 million revenue from its raw material trading segment. The Global Supply Chain Integration Services represents a modest extension of the current services offered by the Group, whereby the Group no longer passively source products required by the Group's clients, but take on a more active role in supplies management, through integration and cooperation with Yunnan Baiyao Group.

The Directors are of the view that through the cooperation with Yunnan Baiyao Group, the Group can replicate and provide the same Services to other customers of the Group, which will in turn improve the Group's revenue and profitability.

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(iii) Professional Supporting Services

The Company has been cooperating with an OEM in Switzerland since 2021. In May 2022, the Company has further broadened the categories of its products and cooperated with an independent third party, Alpex Pharma SA, a company headquartered in Switzerland, for the production and development of a new CBD product. In light of the above, the Professional Supporting Services has always been part of the Company's expertise and the Company has been offering such services to the Group since 2021.

We noted that the above information is in line with the information as disclosed in the 2021 Annual Report and the 2022 Interim Report, we therefore concur with the Directors' view that the role and relationship with key business stakeholders as disclosed above are true and accurate.

The infrastructure and other functions in support of the operations

The Company has years of experience on trading business. To facilitate the expansion of the Group's trading business, the Group has further upgraded the internal systems and control recently, including but not limited to the following:

- sourcing and purchasing team are further strengthened internationally;
- internal control on purchase and payable cycles are further implemented;
- focus on inventory control, with particular focus on the risks of inventory loss;
- ensure that the Company's sales and receivable cycle are being closely monitored to assure the quality of customer services and cash flow safety;
- full-time internal control team has been engaged, and detailed internal system have been placed;
- enterprise resource planning software (ERP) and other digital measures are being introduced and implemented to further accommodate the rapid growth of trading business.

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To the best knowledge of the Management, the internal system and control and other infrastructure are within industry norm, and relevant standards. We have further discussed with the Management whether the internal system and control and other infrastructure are within industry norm, and relevant standards, we have conducted a comparison between the Company and market practice that (i) both of the Company and the market will conduct monthly review on monitoring the annual caps; (ii) both of the Company and the market practice on the purchase price of the products brought from connected parties is aligned with the market price from the Independent Third Parties; (iii) both of the Company and market practice that the finance department monitor the payment to connected parties to ensure the payment in accordance with the payment terms; (iv) both of the Company and market practice that the internal audit function conducts independent review on compliance of pricing policies and payment terms regularly; (v) both of the Company and market practice would closely monitor the inventory ageing control to ensure no over-aged inventory; (vi) both of the Company and market practice would make a provision for the slow-moving inventory. The inventory purchased from connected parties and inventory purchased from Independent Third Parties are treated equally; (vii) both of the Company and market practice for the selling price of the products to connected parties is aligned with the market price from the Independent Third Parties; (viii) both of the finance departments monitor the payment from connected parties to ensure the payment in accordance with the payment terms and closely monitor the outstanding balances due from the connected parties to minimize credit risk of the connected parties; (x) both of the internal audit functions conduct independent review on compliance of pricing policies and payment terms regularly; and (xi) the Company implements the ERP system to monitor the inventory movement, receivables and payables cycles while the market practice implements the SAP system to monitor the inventory movement, receivables and payables cycles.

Considering (i) the Company has years of experience on trading business; (ii) the Group has further upgraded the internal systems and control to facilitate the expansion of the Group's trading business; and (iii) the comparison table as shown above demonstrated that the internal systems and controls are within market practice and industry norm, we are satisfied with the infrastructure and other functions in support of the operations for the relevant business.

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4. The proposed annual caps

Set out below the proposed annual caps for the services/products to be purchased by Yunnan Baiyao Group (i) from the Effective Date to 31 March 2024 (the “**2024 Period**”); (ii) for the year ending 31 March 2025 (the “**2025 Period**”); (iii) for the year ending 31 March 2026 (the “**2026 Period**”); and (iv) from 1 April 2026 to the third anniversary of the Effective Date (the “**Remaining Period**”, collectively, the “**Periods**”):

a) Services/products to be purchased by Yunnan Baiyao Group (the “Framework Sales Agreement”)

	Proposed annual caps			
	From the Effective Date to 31 March 2024 (HK\$)	For the year ending 31 March 2025 (HK\$)	For the year ending 31 March 2026 (HK\$)	From 1 April 2026 to the third anniversary of the Effective Date (HK\$)
Product Registration and Promotion Services	20.83 million	25 million	25 million	4.17 million
Global Supply Chain Integration Services	250 million	300 million	300 million	50 million
Professional Supporting Services	20.83 million	25 million	25 million	4.17 million
Purchase and distribute the Group’s products to the PRC	41.67 million	50 million	50 million	8.33 million
Total	333.33 million	400 million	400 million	66.67 million

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As stated in the Letter from the Board, since there were no historical transactions between the Parties in respect of the Services to be purchased by Yunnan Baiyao Group, the proposed annual caps for such Services were determined after taking into consideration of, among other things, (i) the number of YNBY Products that share similar nature and use with the Group Products being sold or exported to the PRC in the past; (ii) the volume of Services which Yunnan Baiyao Group is expected to procure based on its business plan for the expansion of market shares in the overseas markets; and (iii) the market trend and demand for health care and food products in general and Group Products for the upcoming three years.

To assess the fairness and reasonableness of the proposed annual cap for the period of three years commencing on the Effective Date and ending on third anniversary of the Effective Date (the “Caps”), we obtained the calculation of the Caps and conducted the following works and analyses:

Product Registration and Promotion Services: The annual caps for the Product Registration and Promotion Services were determined based on the revenue that the Group may receive from the sales and distribution of YNBY Products. The revenue for Product Registration and Promotion Services is derived from the 12.5% service fee charged to the total sales of the sales and distribution of YNBY Products i.e. HK\$200 million. Other than determination of the annual caps based on the Group’s discussions with Yunnan Baiyao Group, according to the calculation, the estimated amount of the Product Registration and Promotion Services was mainly incurred from (i) registration of relevant overseas regulatory; (ii) the intellectual property registration; (iii) overseas marketing; and (iv) overseas market expansion. We further understood that the annual caps for Product Registration and Promotion Services were also based on (a) the estimated service fee based on experience and relevant records for similar projects in the past for each of the service mentioned above; (b) estimated number of registrations and marketing activities of approximately 6 times per quarter; and (c) mark-up of approximately 10% to 15% for the registrations and marketing activities. Considering the Group has been engaging in product registration and promotion of self-branded products, we have obtained and reviewed (i) the historical service fee for the relevant service; (ii) the average time needed for the historical registrations and marketing activities based on historical records; and (iii) the average cost and mark-up for the historical registrations and marketing activities based on historical records. Based on the information of cost and mark-up for relevant registrations and marketing activities as provided by the Company, with the estimated number of registrations and marketing activities, we consider the annual caps for the Product Registration and Promotion Services to be justifiable.

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Global Supply Chain Integration Services: according to the discussion between Yunnan Baiyao Group and the Company on the oversea materials sourcing, Yunnan Baiyao Group would like to diversify and enhance the source of the raw materials by adding the Company into their current portfolio of suppliers. Yunnan Baiyao Group agrees with the Company to set the annual cap at around 70% of overseas supplies of raw materials and at around 1% of total supplies of raw materials and confident that the Company would become one of the major oversea sourcing channels of materials for Yunnan Baiyao Group, based on our further discussion with the Company and noted that the Group had further discussed with Yunnan Baiyao Group and given Yunnan Baiyao Group is the controlling shareholder of the Group, and is the strategic arrangement by the Yunnan Baiyao Group to outsource this work to be carried out by the Company after considering the Company's experience, expertise and scale of manpower. Based on the historical sales record on the e-commerce business of no less than HK\$25 million per month as provided by the Company and the strategic arrangement by Yunnan Baiyao Group to set the annual cap at around 70% of overseas suppliers of raw materials, we consider the annual caps for the Global Supply Chain Integration Services to be justifiable.

Professional Supporting Services: The annual caps for the Professional Supporting Services were determined based on the Group's discussions with Yunnan Baiyao Group. Given that the Group is experienced in sourcing ODMs and OEMs, Yunnan Baiyao Group has agreed to engage the Group to provide such services and the parties have determined that the annual caps for provision of such services are set as 12.5% of maximum sales of products manufactured by OEMs and/or ODMs, which will be the annual cap amount of the sales and distribution of YNBY Products i.e. HK\$200 million per annum. Other than determination of the annual caps based on the Group's discussions with Yunnan Baiyao Group, according to the calculation, the estimated amount of the Professional Supporting Services was mainly incurred from the cost of sourcing of suitable ODM, OEM, CRO or CDMO for Yunnan Baiyao Group, based on our further discussion with the Company and noted that the Group had further discussed with Yunnan Baiyao Group and given Yunnan Baiyao Group is the controlling shareholder of the Group, and is the strategic arrangement by the Yunnan Baiyao Group to outsource this work to be carried out by the Company after considering the Company's experience, expertise and scale of manpower. We further understood that the annual caps for Professional Supporting Services were also based on a quarterly budget of sourcing generated from the historical data of sales department, in order to further understand the reason of generating the quarterly budget based on the historical data, we have further obtained the quarterly historical data including cost structure and compare with the quarterly budget and noted that the assumptions on relevant costs are in line with the historical data and are reasonable. As confirmed by the Management, the Professional Supporting Services was in relation to the Group's sourcing of suitable ODM and/or OEM, thus, the historical data is suitable as the reference on producing the monthly budget. We understood that the annual caps for Professional Supporting Services were determined based on (a) the estimated costs based on historical data for similar projects in the past; (b) estimated number of projects of approximately 5 projects per quarter; and (c) mark-up of approximately 10% to 15% for the supporting services. Based on the quarterly budget and the historical data provided by the Company, which was based on a prudent approach and the estimation was in line with the historical data, we consider the annual caps for the Professional Supporting Services to be justifiable.

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Sales and Distribution Services: according to the calculation, the estimated amount of the Sales and Distribution Services was based on the sales revenue of the Company's existing trading business, only products which were relevant to the existing products of Yunnan Baiyao Group were selected as reference, the annual sales amounted to HK\$51 million for the year ended 31 March 2021, the quarterly sales amounted to approximately HK\$119 million for the relevant products, the quarterly sales was on an increasing trend, but the Company would not consider based on prudent approach, it is expected that the quarterly sales with Yunnan Baiyao Group will achieve a similar amount with the Group historical quarterly sales. Considering (i) both the Group's sales and distribution of YNBY products and Yunnan Baiyao Group's sales and distribution of Group products, are examples of typical trading business; (ii) the YNBY Products and Group products are different in brand but with similar natures (i.e. health care products and raw materials for the health care products) and therefore the Group has the relevant experience. The Group is one of Yunnan Baiyao Group's customer, when purchasing YNBY products to sell and distribute in oversea markets. On the other hand, Yunnan Baiyao Group is one of the Group's customers, when they purchase Group Products to sell and distribute in the PRC market, we consider such Sales and Distribution Services is in the interests of the Company and Shareholders as a whole. We have also obtained the quarterly sales report in 2022 from the Company and noted that the profit margin in the estimated amount was similar and no less favourable to the average profit margin of the selected relevant products from the Company's existing e-commerce business. Based on the estimated amount Sales and Distribution Services and the sales report provided by the Company, which was based on the prudent approach and the estimated profit margins were in line with the average profit margin based on the historical data, we consider the annual caps for the Sales and Distribution Services to be justifiable.

We have discussed with the Management and noted that in order to ensure that the prices and terms offered to the Yunnan Baiyao Group are on normal commercial terms and no less favourable to the Group than terms offered available to or from the Independent Third Parties, the Group will determine the prevailing market prices for the products after considering through (i) the market conditions at the relevant time; (ii) the size of orders and the technical conditions; and (iii) the relevant costs and prices offered to Independent Third Party customers, and in any event shall be comparable to those offered by the Group to Independent Third Party customers.

In light of the above factors, we consider the Caps to be fair and reasonable.

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We understand from the discussion with the Management that the Company will continue to closely monitor the Caps of the transactions and, in the event that any adjustment to an annual cap becomes foreseeable, will take prompt action to make necessary disclosure and obtain the Independent Shareholders' approval. We are of the view that the Company has adopted adequate internal control measures with respect to the supervision and monitoring of the annual caps of the transactions contemplated under the Framework Agreement.

Set out below the proposed annual caps for the services/products to be purchased by the Group for (i) the 2024 Period; (ii) the 2025 Period; (iii) the 2026 Period; and the Remaining Period:

b) Services/products to be purchased by the Group (the “Framework Purchases Agreement”)

	Proposed annual caps			From 1 April 2026 to the third anniversary of the Effective Date (HK\$)
	From the Effective Date to 31 March 2024 (HK\$)	For the year ending 31 March 2025 (HK\$)	For the year ending 31 March 2026 (HK\$)	
Purchase and distribute YNBY Products to the overseas markets	166.66 million	200 million	200 million	33.34 million
Total	<u>166.66 million</u>	<u>200 million</u>	<u>200 million</u>	<u>33.34 million</u>

As stated in the Letter from the Board, since there were no historical transactions between the Parties in respect of the Services and Distribution Services to be purchased by the Group, the proposed annual caps for such services were determined after taking into consideration of, among other things, (i) the number of Group Products that share similar nature with YNBY Products that was sold or exported to the overseas markets in the past; (ii) the volume of sales of YNBY Products which the Group is expected to procure based on Yunnan Baiyao Group's business plan for the expansion of market shares in the overseas markets; and (iii) the market trend and demand for products that share similarities with YNBY Products for the upcoming three years.

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As elaborated above, the Group has been selling internationally branded products to various customers, and managed to have a revenue of approximately HK\$119 million based on unaudited management accounts for the three months ended 31 December 2022. The Group has concluded with Yunnan Baiyao Group of an annual cap of HK\$200 million. Considering the basis mentioned above and the Company would take a prudent approach at the initial stage of cooperation with Yunnan Baiyao Group regarding the purchase and distribute YNBY Products to the overseas markets, the proposed annual caps have been set at RMB200 million for each of the two years ending 31 March 2025 and 2026 even the average overseas sales of Yunnan Baiyao Group was approximately RMB379 million for the last three years.

We have discussed with the Management regarding the information regarding the end customers of the YNBY Products and noted that local retailers are the main target of the customers, therefore we concur with the Directors that the Company possesses sufficient resources and network to carry out the distribution service.

To assess the fairness and reasonableness of the proposed annual cap for the period of three years commencing on the Effective Date and ending on third anniversary of the Effective Date (the “**Purchase Caps**”), we obtained the calculation of the Purchase Caps and conducted the works and analyses as below:

According to the calculation, the estimated amount under the Sales and Distribution Services arrangement was with reference to the data of overseas purchase as disclosed in the annual report of Yunnan Baiyao Group for the years ended 31 December 2021 and 2020, of which the average overseas purchase of Yunnan Baiyao Group was approximately RMB364 million for the last three years. As advised by the Management, they have discussed with Yunnan Baiyao Group on the overseas sales and distribution and confident that the Company would become one of the major overseas distribution channels of YNBY Products. Based on the estimated cost on purchasing YNBY Products and estimated sales, we consider the Purchase Caps to be justifiable.

We have discussed with the Management and noted that in order to ensure that the prices and terms offered to the Yunnan Baiyao Group are on normal commercial terms and no less favourable to the Group than terms offered available to or from other Independent Third Parties, the pricing of YNBY Products and the Group Products will be based on (i) prevailing market price of products of the same kind at the time of the relevant transaction; and (ii) with reference to two or more quotations or tenders received from Independent Third Parties for products of the same kind.

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In light of the above factors, we consider the Purchase Caps to be fair and reasonable.

Shareholders should note that as the Caps and the Purchase Caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to third anniversary of the Effective Date, and they do not represent forecasts of the costs arising from the transactions under the Framework Sales Agreement and the Sales and Distribution Services arrangement. Consequently, we express no opinion as to how closely the actual costs arising from the transactions under the Framework Sales Agreement and the Sales and Distribution Services arrangement will correspond with the Caps.

5. Internal control measures within the Group

In order to ensure that the transactions contemplated under the Framework Sales Agreement and the Sales and Distribution Services arrangement will be conducted on normal commercial terms or better, the Group adopted certain internal control policies.

Having considered that according to the internal control policies, (i) the Group's Internal Audit Department will supervise and monitor the individual agreements to be entered into between the Group and the Yunnan Baiyao Group to ensure they will be entered into in accordance with the pricing policy under the Framework Sales Agreement and the Sales and Distribution Services arrangement; and (ii) the Group's Finance Department will review and compare at least two quotes from independent third parties with the services fees to be charged under the Framework Sales Agreement and the pricing of YNBY Products and the Group Products under the Sales and Distribution Services arrangement when determining the relevant services fees and pricings whether they are fair and reasonable, we are of the view that the effective implementation of the internal control policies would help to ensure fair pricing of the transactions under the Framework Sales Agreement and the Sales and Distribution Services arrangement.

In addition, we also noted that the Group's Finance Department will monitor the transaction amounts under the Framework Sales Agreement and the Sales and Distribution Services arrangement by preparing designated management accounts for the continuing connected transactions therein on a monthly basis to make sure that the actual contract amounts do not exceed the relevant annual caps. In addition, before entering into any individual agreements, the Group's Finance Department will assess whether the contract value of such individual agreement together with actual contract amounts (based on the latest monthly designated management accounts for continuing connected transactions) will exceed the proposed annual caps for relevant periods.

LETTER OF THE INDEPENDENT FINANCIAL ADVISER

We have also obtained 3 sets of documents demonstrating that the relevant internal approval procedures were carried out, such as each transaction, together with the relevant terms thereunder (i.e. the transaction background, the necessities of the transaction, the purpose of the transaction, quantity amount of the transaction, payment arrangement and service fees and pricing basis of the products), were reviewed and approved by the sales department and finance department of the Group. We have also reviewed the approval records demonstrating the transactions of the 3 sets of sample documents obtained were approved by the representative of the sales department and representative of the finance department of the Group. We also noted that the internal audit department would conduct independent periodic checks on the compliance of control procedures. Therefore, we are of the view that the Group is able to comply with the internal control measures and appropriate approval procedures by the relevant departments of the Company.

In view of the above, in particular, we understand from the Management that the internal control procedures implemented by the Group in relation to the services fees and pricing of the products to be charged of each transaction shall be determined based on the prevailing market price of similar services at the time of the relevant transaction and with reference to two or more quotations or tenders received from Independent Third Parties for Services of the same kind. Having considered that the service fees shall be no less favorable than the service fees offered to/from other Independent Third Parties under the same terms and conditions and in compliance with the relevant laws and regulations in the PRC and Hong Kong, the service fees and pricing of the products to be charged are fair and reasonable.

In view of the above and our work performed, we are of the view that the effective implementation of the pricing policies and internal control procedures shall ensure the service fees and pricing of the products to be charged of each transaction contemplated under the Framework Agreement are fair and reasonable.

LETTER OF THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that (i) the terms under the Framework Agreement are on normal commercial terms and are fair and reasonable; and (ii) the transactions under the Framework Agreement are conducted in the ordinary and usual course of business of the Company 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 Framework Agreement (including the annual caps) together with the transactions contemplated thereunder.

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

Note: Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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. DIRECTORS' INTERESTS

Directors' and chief executives' interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company and their respective associates in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or chief executive of the Company was taken or is deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	Nature of interest (Note 1)	Number of Shares	Approximate percentage of interest in the issued Shares
Huang Bin	Interest of a controlled corporation (Note 2)	351,762,000	5.17%

Notes:

- All interests stated are long position.
- These 351,762,000 shares were held by Sunwah. Sunwah is indirectly owned by Huang Bin and Huang Bin shall be deemed to be interested in the shares held by Sunwah.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive had any other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under provisions of the SFO) or the Model Code.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Framework Agreement, 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 interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2021, being the date to which the latest published audited financial statements of the Company were made up.

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors nor any of their close associates had interest in any business apart from the Group's business which competed or would likely to compete, either directly or indirectly, with the businesses of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the any member of the Group which was not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

The following contracts, not being contract entered into in the ordinary course of business, had been entered into by members of the Group after the date falling two years prior to the issue of this circular and up to the Latest Practicable Date and which are or may be material:

- (i) the Placing Agreement; and
- (ii) the extension supplemental agreement entered into between the Company and Yunnan Baiyao Group on 5 December 2022 in relation to, among others, the proposed extension of maturity date, from 31 October 2022 to 30 October 2024, of the convertible bonds issued by the Company to Yunnan Baiyao Group, on 30 October 2020 in the aggregated principal amount of HK\$500,000,000.

7. MATERIAL ADVERSE CHANGE

As disclosed in:

- (i) the announcement of the Company dated 19 November 2021 and the interim result announcement of the Company for the six months ended 30 September 2021 dated 26 November 2021, the Group recorded a net loss attributable to owners of the Company of HK\$83.4 million due to the increase in net allowance for expected credit losses of approximately HK\$90.3 million for loan and interest receivables and trade and other receivables for the six months ended 30 September 2021. The Board considered that the expected consolidated loss is mainly attributable to default of certain loans and other receivables by the Group's customers during the six months ended 30 September 2021;
- (ii) the announcement of the Company dated 21 January 2022, the Group recorded net allowance for expected credit losses of approximately HK\$90.3 million (the "**Impairment Loss**") in respect of financial assets, which mainly consists of approximately HK\$71.9 million for loan and interest receivables and approximately HK\$17.9 million for other receivables, deposits and prepayments for the six month ended 30 September 2021. The recognition of the Impairment Loss was mainly due to the defaults (the "**Defaults**") of the loans (the "**Loans**") made to ten loan borrowers (the "**Borrowers**") and advances (the "**Advances**") made to an entity (the "**Entity**", together with the Borrowers as the "**Customers**") who are independent third parties during the period. The reason for the Defaults is that the Customers have failed and/or refused to repay the respective Loans and Advances during the period;
- (iii) the announcement of the Company dated 21 June 2022, the trading in the Shares of the Company was suspended at 9:00 a.m. on 21 June 2022; and
- (iv) the announcement of the Company dated 29 August 2022, the Company disclosed certain operating statistics of the Group for the year ended 31 March 2022 and the three months ended 30 June 2022.

Saved as disclosed above, as at the Latest Practicable Date, the Directors confirmed there has not been any material adverse change in the financial or trading position of the Group since 31 March 2021 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

8. QUALIFICATION AND CONSENT OF EXPERT

- (a) The following sets out the qualifications of the expert who has given its opinions or advice or statements as contained in this circular:

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

- (b) As at the Latest Practicable Date, the above expert had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, the above expert had no direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 March 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be so acquired, disposed of or leased to any member of the Group.
- (d) 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, reports or its name in the form and context in which they respectively appear.

9. MISCELLANEOUS

In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE ON DISPLAY

A copy of the Framework Agreement will be published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and on the website of the Company (<https://www.0030hk.com>) for not less than 14 days before the date of the SGM and a copy of the Framework Agreement shall be available for inspection at the SGM.

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 (“**SGM**”) of Ban Loong Holdings Limited (the “**Company**”) will be convened and held at Room 2709-10, 27/F., China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong on Monday, 15 May, 2023 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendment(s) the following resolutions of the Company:

ORDINARY RESOLUTIONS

“THAT

1. (a) the entering into of the Framework Agreement dated 13 December 2022 (as defined in the circular of the Company dated 27 April 2023 (the “**Circular**”)) between the Company and Yunnan Baiyao Group Co., Ltd. (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), and the transactions contemplated thereunder with the relevant proposed annual caps in relation to such transactions from the Effective Date (as defined in the Circular) to the third anniversary of the Effective Date as set out in the Circular, be and are hereby approved, confirmed and ratified; and
- (b) any one or more directors (“**Director(s)**”) of the Company (the “**Board**”) be and is/are hereby authorised for and on behalf of the Company to execute all such documents, agreements and do all such acts and things, as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of in connection with the implementation of or giving effect to the Framework Agreement and all matters incidental thereto or in connection therewith.”

By Order of the Board
Ban Loong Holdings Limited
Tang Ming
Executive Director
&
Chief Executive Officer

Hong Kong, 27 April 2023

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (i) any shareholder of the Company (“**Shareholder(s)**”) entitled to attend and vote at the SGM is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A Shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his/her behalf. A proxy need not be a Shareholder.
- (ii) In the case of joint holders of any share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto. However, if more than one of such joint holders be present at the above SGM personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (iii) In order to be valid, a form of proxy must be completed, signed and returned to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. The completion and return of the form of proxy shall not preclude the Shareholders from attending and voting in person at the SGM (or any adjourned meeting thereof) if they so wish.
- (iv) For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 10 May 2023 to Monday, 15 May 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 9 May 2023.
- (v) If typhoon signal No. 8 or above, or “extreme conditions” caused by super typhoons, or a “black” rainstorm warning is in effect any time and remains in force 2 hours before the time of the SGM, the meeting will be postponed. The Company will post an announcement on the websites of Company at www.0030hk.com and on The Stock Exchange of Hong Kong Limited’s website at www.hkexnews.hk to notify Shareholders of the date, time, and place of the rescheduled meeting.