DIWANG INDUSTRIAL HOLDINGS LIMITED

帝王實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1950)

Executive Directors:
Mr. Chen Hua
Mr. Lam Kam Kong Nathaniel
Mr. Tse Chun Chung
Mr. Sun Jingang

Independent non-executive Directors:
Mr. Ho Ho Tung Armen
Mr. Au Hei Ching
Mr. Lee Cheung Yuet Horace
Mr. Zheng Yu
Ms. Zhou Xiaochun

Registered office:
Ogier Global (Cayman) Limited
89 Nexus Way, Camana Bay
Grand Cayman KY1-9009
Cayman Islands

Head Office and Principal Place of Business in the PRC:
No.2, Jiangshan Road
Meicheng Town
Jiande County
Hangzhou City
Zhejiang Province
PRC

Principal Place of Business in Hong Kong:
Suites 4404-10, 44/F
One Island East
18 Westlands Road, Taikoo Place
Hong Kong

5 May 2023

To the Shareholders

Dear Sir or Madam,

(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(3) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) CONSOLIDATED SHARES HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with, among other things, (i) details of the Share Consolidation; (ii) details of the Increase in Authorised Share Capital; (iii) further information regarding the Rights Issue and the transactions contemplated thereunder; (iv) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (v) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue; (vi) other information required under the Listing Rules; and (vii) the notice of the EGM.

PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation on the basis that every five (5) issued and unissued Existing Shares of US$0.0005 each will be consolidated into one (1) Consolidated Share of US$0.0025 each. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as none of the Shareholders or their associates would have material interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution relating to the Share Consolidation at the EGM.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is US$1,000,000 divided into 2,000,000,000 Existing Shares of par value of US$0.0005 each, of which 1,440,000,000 Existing Shares have been allotted and issued as fully paid or credited as fully paid. Upon the Share Consolidation becoming effective and assuming that no further Existing Shares will be allotted and issued or repurchased prior thereto, the authorised share capital of the Company shall become approximately US$1,000,000 divided into 400,000,000 Consolidated Shares with par value of US$0.0025 each, of which 288,000,000 Consolidated Shares will be in issue and fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective, the Consolidated Shares shall rank *pari passu* in all respects with each other.

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

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following conditions:

(i) the passing of an ordinary resolution by the Shareholders by way of poll to approve the Share Consolidation at the EGM;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective; and

(iii) the compliance with all relevant procedures and requirements under the applicable laws of the Cayman Islands and the Listing Rules to effect the Share Consolidation.

Subject to the fulfilment of the conditions of the Share Consolidation, the effective date of the Share Consolidation is expected to be on Tuesday, 30 May 2023, being the second Business Day after the fulfilment of the above conditions.

Application for listing of the Consolidated Shares

An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective.

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

None of the Existing Shares are listed or dealt in any other stock exchange other than the Stock Exchange, and at the time the Share Consolidation becoming effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

Fractional entitlement to the Consolidated Shares

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

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, during the specified period, submit share certificates for Existing Shares to the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, to exchange, at the expense of the Company, for new share certificates for the Consolidated Shares.

Thereafter, share certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for Existing Shares cancelled or each new share certificate issued for Consolidated Shares, whichever number of share certificates cancelled/issued is higher.

The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Tuesday, 4 July 2023, and thereafter will not be accepted for delivery, trading and settlement purposes. However, the existing share certificates will continue to be good evidence of title to the Consolidated Shares on the basis of five (5) Existing Shares for one (1) Consolidated Share. The new share certificates for the Consolidated Shares will be issued in yellow colour in order to distinguish them from the share certificates for the Existing Shares which are in pink colour.

Other securities of the Company

The Company has adopted a share option scheme on 10 February 2020 pursuant to which the total number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 100,000,000 Existing Shares (equivalent to 20,000,000 Consolidated Shares assuming the Share Consolidation has become effective). The scheme mandate limit had not been refreshed and no options were granted since the date of adoption of the Share Option Scheme.

Save as abovementioned, as at the Latest Practicable Date, the Company does not have any other derivatives, options, warrants, other securities or conversion rights or other similar rights which are convertible or exchangeable into, any Existing Shares or Consolidated Shares, as the case may be.

No change in board lot size

The Existing Shares are currently traded on the Stock Exchange in board lot size of 4,000 Existing Shares. Upon the Share Consolidation becoming effective, the board lot size for trading in the Consolidated Shares will remain unchanged at 4,000 Consolidated Shares per board lot.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Cheong Lee Securities Limited as the designated broker to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares during the period from 9:00 a.m. on Tuesday, 13 June 2023 to 4:00 p.m. on Tuesday, 4 July June 2023 (both dates inclusive). Shareholders who wish to take advantage of this service should contact Ms. Yu of Cheong Lee Securities Limited at Room 16B, 16/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (telephone number: (852) 3426 6338) during office hours of such period. Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

Shareholders or potential investors should note that (i) odd lots will be created after the Share Consolidation; (ii) odd lot arrangements do not guarantee successful matching of all odd lots at the relevant market price; and (iii) odd lots might be sold below the market price.

REASONS FOR THE SHARE CONSOLIDATION

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK$0.01 or HK$9,995, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with consolidation or splitting of its securities. Further, the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Hong Kong Exchanges and Clearing Limited has further stated that (i) the market price of the Shares at a level less than HK$0.10 each will be considered as trading at extremity as referred to under Rule 13.64 of the Listing Rules; and (ii) taking into account the minimum transaction costs for a securities trade, the expected value per board lot should be greater than HK$2,000.

Based on the closing price of HK$0.105 per Existing Share as at Latest Practicable Date, the value per board lot of 4,000 Existing Shares is HK$420 which is less than HK$2,000. In view of the above, the Board resolved to propose the Share Consolidation, resulting in HK$0.525 per Consolidated Share and HK$2,100 per board lot of 4,000 Consolidated Shares with the view to complying with the trading requirements under the Listing Rules, which can facilitate the Rights Issue to achieve the Company's fund-raising needs as well as for any future fund-raising activities.

In addition, the Directors consider that the Share Consolidation will bring about a corresponding upward adjustment in the trading price per Consolidated Share on the Stock Exchange. Furthermore, the Share Consolidation would reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, since most of the banks/securities houses will charge a minimum transaction cost for each securities trade. It is also hoped that the Share Consolidation will make investing in the Shares more attractive to a broader range of investors, in particular to institutional investors whose house rules might otherwise prohibit or restrict trading in securities that are priced below a prescribed floor, and thus help to further broaden the shareholder base of the Company.

As at the Latest Practicable Date, the Company has (i) no intention to carry out other corporate actions in the next 12 months which may have an effect of undermining or negating the intended purpose of the Share Consolidation and (ii) does not have any agreement, arrangement, understanding or negotiation (either concluded or in process) on any potential fund-raising activities which will involve issue of shares of the Company and save for the Rights Issue, the Company has no intention or plan to conduct other equity fund-raising activities in the next 12 months upon completion of the Rights Issue. However, if there shall arise any change of the Group's current circumstances and existing business plans and that the net proceeds from the Rights Issue may not satisfy such upcoming financing needs, the Board does not rule out the possibility that the Company may conduct further equity fund-raising exercises to support such future developments of the Group. The Company will make further announcement(s) in this regard in accordance with the Listing Rules as and when appropriate.

In view of the above reasons, the Company considers the Share Consolidation is justifiable notwithstanding of the potential costs and impact arising from the creation of odd lots to Shareholders. Accordingly, the Board is of the view that the Share Consolidation is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

PROPOSED INCREASE IN AUTHROISED SHARE CAPITAL

The Board proposes to increase the authorised share capital of the Company from US$1,000,000 divided into 2,000,000,000 Existing Shares to US$5,000,000 divided into 10,000,000,000 Existing Shares (or 2,000,000,000 Consolidated Shares upon the Share Consolidation becoming effective). The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

In order to accommodate the future growth of the Group and to provide the Company with greater flexibility to raise funds from the Rights Issue, the Board considers the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole.

PROPOSED RIGHTS ISSUE

Subject to, among other things, the Share Consolidation and the Increase in Authorised Share Capital having become effective, the Board proposes to conduct the Rights Issue on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held on the Record Date. Set out below are the details of the Rights Issue statistics:

Rights Issue Statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every two (2) Consolidated Shares held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK$0.67 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	1,440,000,000 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	288,000,000 Consolidated Shares (assuming there is no further allotment and issue or repurchase of Existing Shares up to the effective date of the Share Consolidation)
Maximum number of Rights Shares	:	432,000,000 Rights Shares (assuming there is no other change in the total number of issued Shares on or before the Record Date), representing (i) 150% of the total issued Consolidated Shares upon the Share Consolidation becoming effective; and (ii) 60% of the total number of issued Shares as enlarged immediately upon completion of the Rights Issue. The aggregate nominal value of the maximum number of Rights Shares will be US$1,080,000
Maximum gross proceeds to be raised from the Rights Issue	:	Approximately HK$289.44 million

No irrevocable commitments

As at the Latest Practicable Date, the Company has not received any irrevocable commitments from any Shareholder to accept or reject the Rights Shares to be allotted and issued to them under the Rights Issue.

The Subscription Price

The Subscription Price is HK$0.67 per Rights Share, which shall be payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

(i) a premium of approximately 27.62% over the adjusted closing price of HK$0.525 per Consolidated Share (based on the closing price of HK$0.105 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation);

(ii) a premium of approximately 1.52% over the adjusted closing price of HK$0.66 per Consolidated Share (based on the closing price of HK$0.132 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);

(iii) a discount of approximately 6.94% to the adjusted average closing price of approximately HK$0.72 per Consolidated Share (based on the average closing price of approximately HK$0.144 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);

(iv) a discount of approximately 12.42% to the adjusted average closing price of HK$0.765 per Consolidated Share (based on the average closing price of approximately HK$0.153 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);

(v) a premium of approximately 0.60% over the theoretical ex-entitlement price of approximately HK$0.666 per Consolidated Share (based on the closing price of HK$0.132 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares and adjusted for the effect of the Share Consolidation);

(vi) theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 6.76%, represented by the theoretical diluted price of approximately HK$0.704 per Share to the benchmarked price of approximately HK$0.755 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Existing Shares as quoted on the Stock Exchange on the Last Trading Day and (ii) the average of the closing prices of the Existing Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of the Announcement and adjusted for the effect of the Share Consolidation);

(vii) a discount of approximately 37.44% to the consolidated net asset value per Consolidated Share attributable to the Shareholders as at 30 June 2022 of approximately HK$1.071 per Consolidated Share calculated based on the unaudited consolidated net assets of the Group attributable to the owners of the Company of approximately RMB271,429,000 (equivalent to approximately HK$308,442,045) as at 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022 and 288,000,000 Consolidated Shares in issue as at the date of the Announcement after adjusted for the effect of the Share Consolidation; and

(viii) a discount of approximately 48.85% to the consolidated net asset value per Consolidated Share attributable to the Shareholders as at 31 December 2022 of approximately HK$1.31 per Consolidated Share calculated based on the audited consolidated net assets of the Group attributable to the owners of the Company of approximately RMB331,141,000 (equivalent to approximately HK$376,296,591) as at 31 December 2022 as set out in the 2022 Annual Report and 288,000,000 Consolidated Shares in issue as at the date of the Announcement after adjusted for the effect of the Share Consolidation.

The Subscription Price was determined by the Company with reference to (i) the recent fluctuated downward trend of the prevailing market prices of the Existing Shares; (ii) the latest financial position of the Group; and (iii) the reasons for the Rights Issue and the use of proceeds as set out in the section headed "Letter from the Board – Reasons for the Rights Issue, the Placing and the Use of Proceeds" in this circular.

In determining the Subscription Price, the Directors consider that the Subscription Price shall not be set at a deep discount to the prevailing market prices of the Shares as (i) the intended use of the net proceeds from the Rights Issue will be mainly for the future development of the Group's existing businesses which is expected to create positive value for the Shareholders in the future; and (ii) the market prices of the Shares has already been showing a fluctuated downward trend since January 2023 and 36 trading days of the closing price of the Shares out of a total of 41 trading days for the period from 1 January 2023 up to the Last Trading Day were closed equal to or above the closing price of the Shares on the Last Trading Day.

Notwithstanding that the Subscription Price was set at a slight premium of approximately 1.52% and 0.60% over the closing price of the Share on the Last Trading Day and the theoretical ex-entitlement price of the Shares respectively, the Subscription Price represented a discount of approximately 6.94% and 12.42% when compared with the 5-day-average and 10-day-average closing price of the Shares up to the Last Trading Day, which the Directors consider to be more representative in reflecting the prevailing share prices performance of the Shares.

The Company noted that there was a continuous drop in the Share prices subsequent to the publication of the Announcement on 5 March 2023 and the Subscription Price represents a premium of approximately 27.62% over the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation. Although the Share price was traded at a further discount to the Subscription Price subsequent to the period from publication of the Announcement on 5 March 2023 up to the Latest Practicable Date, the Directors consider that the Subscription Price is fair and reasonable having taken into account the intended use of the net proceeds from the Rights Issue will be mainly for the future development of the Group's existing businesses which is expected to create positive value for the Shareholders in the future.

The Directors noted that the Subscription Price represents a discount of approximately 37.44% and 48.85% to the consolidated net asset value per Consolidated Share attributable to owners of the Company as at 30 June 2022 and 31 December 2022 respectively. However, it was also noted that the prevailing share price of the Existing Shares had been in general traded at a substantial discount to the consolidated net assets attributable to owners of the Company per Existing Share over the past three months immediately preceding the Latest Practicable Date. Therefore, the Directors consider that the current market price of the Existing Shares in fact reflects the value of the Existing Shares that is generally perceived by the market having taken into account all business segments of the Group as well as the prevailing market conditions. Accordingly, the net asset value per Existing Share is not a meaningful benchmark to assess the Subscription Price, instead, the prevailing market price of the Existing Shares would be a more appropriate reference in determining the Subscription Price in this regard.

In view of the above, the Directors (of the Independent Board Committee, whose opinion is set forth in the letter from the Independent Board Committee in this circular after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Rights Issue, including the Subscription Price which has been set at a discount to the recent closing prices of the Existing Shares with an objective to encourage Qualifying Shareholders to take up their entitlements so as to participate in the potential growth of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, any Untaken Shares together with the NQS Unsold Shares will be placed on a best efforts basis by the Placing Agent to independent placees under the Placing. Any Untaken Shares and/or NQS Unsold Shares remain unplaced under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no applicable statutory requirements regarding minimum subscription levels in respect of the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, a Shareholder who applies to take up all or part of his/her/its entitlement under the PAL may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules.

Conditions of the Rights Issue

The Rights Issue is conditional on each of the following conditions being fulfilled:

(i) the passing of all necessary resolutions to be proposed at the EGM for the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Issue) by the Shareholders (other than those who are required to abstain from voting according to the Listing Rules or other applicable laws and regulations if necessary);

(ii) the Share Consolidation and the Increase in Authorised Share Capital having become effective;

(iii) the issue by the Stock Exchange of a certificate authorising the registration of, and the registration with the Companies Registry, respectively, of one copy of each of the Prospectus Documents not later than the Posting Date and otherwise in compliance with the Listing Rules and the Companies (WUMP) Ordinance;

(iv) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus bearing a "For Information Only" stamp to the Non-Qualifying Shareholders, if any, for information purpose only on or before the Posting Date;

(v) the granting by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully paid forms (subject to customary conditions) and such approval not having been withdrawn or revoked;

(vi) the Placing Agreement not having been terminated in accordance with the provisions thereof, including force majeure events; and

(vii) the compliance with any other mandatory requirements under the applicable laws and regulations of Hong Kong and the Cayman Islands.

The above conditions are incapable of being waived. If any of the above conditions are not satisfied at or prior to the respective time stipulated therein or 4:00 p.m. on the Rights Issue Settlement Date (as the case may be), the Rights Issue will not proceed.

Status of the Rights Shares

The Rights Shares, when issued and fully-paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank *pari passu* in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of allotment of the Rights Shares.

Qualifying Shareholders and Non-Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only. For the Non-Qualifying Shareholders, the Company will send copies of the Prospectus to them for their information only, but no PAL will be sent to the Non-Qualifying Shareholders.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and a Qualifying Shareholder.

In order to be registered as members of the Company on the Record Date, all transfers of Consolidated Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:30 p.m. on Thursday, 1 June 2023.

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted.

Basis of provisional allotment

Under the Rights Issue, the basis of the provisional allotment shall be three (3) Rights Shares (in nil-paid form) for every two (2) Consolidated Shares held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Prospectus Documents.

Application for all or any part of a Qualifying Shareholder's provisional allotment of Rights Shares should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar at or before the Latest Time for Acceptance.

No fractional entitlements to the Rights Shares and odd lot matching service

No fractional entitlements to the Rights Shares shall be issued to the Shareholders and no entitlements of the Non-Qualifying Shareholders to the Rights Shares shall be issued to the Non-Qualifying Shareholders. All fractions of the Rights Shares shall be rounded down to the nearest whole number of Rights Shares and aggregated and, if a premium (net of expenses) can be achieved, sold in the market by the Company.

There will be no excess application arrangements in relation to the Rights Issue.

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

If there are Overseas Shareholders at the close of business on the Record Date, the Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below. The Board will make enquiries regarding the feasibility of extending the Rights Issue to Overseas Shareholders. If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to Overseas Shareholders on account of either the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in such relevant jurisdiction, the Rights Issue will not be extended to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus.

To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send PALs to them. The Non-Qualifying Shareholders will not be entitled to any provisional allotment under the Rights Issue.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the Rights Shares in their nil-paid form commence and before dealings in the Rights Shares in their nil-paid form end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK$100 will be paid to the Non-Qualifying Shareholders pro rata to their shareholdings held on the Record Date. In light of administrative costs, the Company will retain individual amounts of HK$100 or less for its own benefit.

Any NQS Unsold Shares will be placed by the Placing Agent at the price not less than the Subscription Price under the Placing together with the Untaken Shares. The proceeds of the sale as described above, less expenses and in the case of being sold by the Placing Agent, also less the Subscription Price and the Placing Agent's commission, will be paid pro-rata (but rounded down to the nearest cent) to the relevant Non-Qualifying Shareholders' and the No Action Shareholders' shareholdings held on the Record Date on the basis of all NQS Unsold Shares and Untaken Shares in Hong Kong dollars. Any Untaken Shares and the NQS Unsold Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Overseas Shareholders should note that they may or may not be entitled to participate in the Rights Issue, subject to the results of the enquiries to be made by the Company. The Company reserves the right to treat as invalid any acceptances of, or applications for, the Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their own professional advisers.

As at the Latest Practicable Date, there was 1 Overseas Shareholder with registered addresses in the PRC, who hold 21,640,000 Shares, representing approximately 1.50% of the issued share capital of the Company. In compliance with Rule 13.36(2)(a) of the Listing Rules, the Company has made enquiries regarding the feasibility of extending the Rights Issue to such Overseas Shareholder. Based on the advice of the legal adviser as to the laws of the PRC, as at the Latest Practicable Date, the laws of the PRC imposed no restrictions on extending the Rights Issue to such Overseas Shareholders with registered addresses in the PRC, and the Company is not required to obtain any approvals from the relevant authorities in the PRC for the despatch of the Prospectus Documents to such Overseas Shareholder nor is the Company required to register or file the Prospectus Documents with the relevant authorities in the PRC. Accordingly, there was no Non-Qualifying Shareholder as at the Latest Practicable Date.

The Company will continue to ascertain whether there are any other Overseas Shareholders on the Record Date and will, if necessary, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Rights Issue to such other Overseas Shareholders registered as a member of the Company on the Record Date and make relevant disclosures in the Prospectus.

Share certificates and refund cheques for the Rights Shares

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted by Friday, 28 July 2023 to those entitled to them at their registered addresses by ordinary post at their own risk.

Refund cheques, if the Rights Issue is terminated, are expected to be posted on or before Friday, 28 July 2023 by ordinary post, at the respective Shareholders' own risk, to their registered addresses.

Application for listing and dealing arrangements of the Rights Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange. The nil-paid and fully-paid Rights Shares will be traded in board lots of 4,000 Shares.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, the Securities and Futures Commission of Hong Kong transaction levy, investor compensation levy and other applicable fees and charges in Hong Kong.

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stock brokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Procedures in respect of the Untaken Shares and the NQS Unsold Shares and the Placing

The Company will make arrangements described in Rule 7.21(1)(b) of the Listing Rule to dispose of the Untaken Shares and the NQS Unsold Shares by offering the Untaken Shares and the NQS Unsold Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue.

The Company therefore appointed the Placing Agent to place the Untaken Shares and the NQS Unsold Shares to independent placees on a best effort basis after the number of the Untaken Shares and the NQS Unsold Shares that are subject to the Placing Arrangement has been announced. Any premium over, the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related expenses/fees), that is realised will be paid to the No Action Shareholders and the Non-Qualifying Shareholders on a pro-rata basis. The Placing Agent will on a best effort basis, procure, by not later than 6:00 p.m. on the Placing End Date, acquirers for all (or as many as possible) of those Untaken Shares and the NQS Unsold Shares if a premium over the Subscription Price and the expenses of procuring such acquirers (including any related commissions and any other related expenses/fees) can be obtained. Any Untaken Shares and the NQS Unsold Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Net Gain (if any) will be paid (without interest) on pro-rata basis (on the basis of all Untaken Shares and NQS Unsold Shares) to the No Action Shareholders and the Non-Qualifying Shareholders (but rounded down to the nearest cent). It is proposed that Net Gain to any of the No Action Shareholder(s) or the Non-Qualifying Shareholders of HK$100 or more will be paid to them in Hong Kong Dollars only and the Company will retain individual amounts of less than HK$100 for its own benefit. Shareholders are reminded that Net Gain may or may not be realised, and accordingly the No Action Shareholders and the Non-Qualifying Shareholders may or may not receive any Net Gain.

The Placing

On 3 March 2023 (after trading hours of the Stock Exchange), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, placees to subscribe for the Placing Shares (i.e. the Untaken Shares and/or the NQS Unsold Share during the Rights Issue) on the terms and subject to the conditions set out in the Placing Agreement. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue through the PAL(s), the Placing will not proceed.

The Placing Agreement

The principal terms of the Placing Agreement are summarised below:

Date	:	3 March 2023 (after trading hours of the Stock Exchange)
Placing Agent	:	CNI Securities Group Limited To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner(s) are Independent Third Parties.
Placing commission and expenses	:	0.5% of the gross proceeds from the subscription of the Placing Shares successfully placed by the Placing Agent multiplied by the placing price under the Placing Agreement and reimbursed for the expenses in relation to the Placing (including but not limited to all out-of-pocket expenses actually incurred by the Placing Agent for placing the Placing Shares), which the Placing Agent is authorised to deduct from the payment to be made by the Placing Agent to the company at the Placing End Date.
Placing price	:	The placing price of each of the Untaken Share and/or the NQS Unsold Share (as the case maybe) shall be not less than the Subscription Price. The final price determination will be depended on the demand and market conditions of the Untaken Shares and the NQS Unsold Shares during the process of Placing.
Placing Period	:	The Placing Period shall commence on Tuesday, 4 July 2023, and end on the Placing End Date or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Placing.

Placees	:	The Placing Agent shall ensure that the Placing Shares are placed (i) only to institutional, corporate or individual investors who and whose ultimate beneficial owner(s) shall be Independent Third Parties; (ii) such that no placee shall become a substantial Shareholder immediately following the Placing; (iii) such that the Placing will not have any implications under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing; and (iv) such that the Placing will not result in the Company incapable to comply with the public float requirements under the Listing Rules immediately following the Placing.
Ranking	:	The Placing Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves with the Consolidated Shares in issue as at the date of allotment and issue of the Placing Shares.

Conditions of the Placing

The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon the following conditions being fulfilled:

(i) the grant by the Listing Committee of the Stock Exchange of the approval for the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms (subject to customary conditions) and such approval not having been withdrawn or revoked;

(ii) approval of the Rights Issue by Independent Shareholders at the EGM;

(iii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained;

(iv) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion of the Placing Agreement; and

(v) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events on or before the Placing Long Stop Date or such other date as the Company may announce.

The Placing Agent may, in its absolute discretion, waive the fulfilment of all or any or any part of the conditions (other than those set out in paragraphs (i) to (iii) above) by notice in writing to the Company.

The timetable of the Placing is driven by the timetable of the Rights Issue. Under the term of the Placing Agreement, the Placing Period shall commence on Tuesday, 4 July 2023, or such other date as the Company may announce. The Placing Period shall end on Friday, 14 July 2023, or such other date as the Company may announce.

The long stop date for the fulfilment of conditions of the Placing Agreement shall be 4:10 p.m. on Monday, 17 July 2023 (being the next Business Day after the Placing End Date) or such later date as may be announced by the Company. The Company shall use its reasonable endeavours to procure the fulfilment of the conditions and if the said conditions are not fulfilled on or before the Placing Long Stop Date, the Placing Agreement will lapse and become null and void and the Company and the Placing Agent shall be released from all rights and obligations under the Placing Agreement, save the liabilities for any antecedent breaches thereof.

Termination

The Placing Agreement can only be terminated by mutual written confirmations by the Company and the Placing Agent.

Completion of the Placing

Subject to the fulfilment of conditions of the Placing as set out in the section headed "Letter from the Board – Conditions of the Placing" of this circular, the completion of the Placing is expected to take place within seven (7) Business Days after the Placing Long Stop Date (or such later date as the Company may announce).

The engagement between the Company and the Placing Agent of the Untaken Shares and the NQS Unsold Shares was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms. In particular, the Directors, taking into account the range of placing commissions for recent rights issues conducted by issuers listed on the Main Board of the Stock Exchange for the six months period immediately prior to the Last Trading Day where the placing commission under the Placing Agreement falls within the range of the comparable transactions and is below the mean and median placing commission rate of the comparable transactions, consider that the terms of the Placing Agreement, including the placing commission, are normal commercial terms. Given that the Placing would provide (i) a distribution channel of the Untaken Shares and the NQS Unsold Shares; and (ii) a compensatory mechanism for the No Action Shareholders and Non-Qualified Shareholders, the Directors consider that the Placing Agreement is fair and reasonable and in the interest of the Company and its shareholders as a whole.

REASONS FOR THE RIGHTS ISSUE, THE PLACING AND THE USE OF PROCEEDS

The Group is an established faux leather chemicals manufacturer in the PRC principally engaged in (i) the research and development, manufacturing and sale of coating agents and synthetic resins under its own brand; and (ii) the manufacturing and sale of Chinese baijiu products in the PRC.

Assuming a maximum of 432,000,000 Rights Shares will be issued under the Rights Issue, the estimated gross proceeds of the Rights Issue will be approximately HK$289.44 million. The estimated expenses in relation to the Rights Issue will amount to approximately HK$2.89 million and the estimated maximum net proceeds of the Rights Issue will be approximately HK$286.55 million. The net subscription price per Rights Share is expected to be approximately HK$0.663.

The Company intends to apply the net proceeds from the proposed Rights Issue as follows:

(a) approximately HK$228.55 million (representing approximately 79.8% of the net proceeds) for the development of the Chinese Liquor Business of which (i) approximately HK$20 million (representing approximately 7% of the net proceeds) in setting up four ancient-Chinese-style bistros in the PRC; (ii) approximately HK$8.55 million (representing approximately 3% of the net proceeds) for the working capital in operating the above-mentioned four bistros upon their opening; (iii) approximately HK$100 million (representing approximately 34.9% of the net proceeds) for building the brand of the Group's Chinese baijiu products by launching sizeable advertising campaigns across different districts in the PRC; and (iv) approximately HK$100 million (representing approximately 34.9% of the net proceeds) for payment of manufacturing costs to the wine factory including (a) cost of raw materials; (b) processing fee; and (c) packaging fee for the production of the Group's Chinese baijiu products; and

(b) approximately HK$58 million (representing approximately 20.2% of the net proceeds) to support the Faux Leather Chemicals Business.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

Details on the use of proceeds to be applied towards the Chinese Liquor Business

Business model, financial performance and Company's plans on the Chinese Liquor Business

The principal business activity of Chinese Liquor Business comprises the manufacturing and sale of Chinese baijiu products.

In operating the Chinese Liquor Business, Guizhou Dichiwang focuses on the development of drinking formula, design and brand-building strategy of the baijiu products and as such, Guizhou Dichiwang procures all necessary raw materials via the materials procurement services provided by an independent wine factory in accordance with the specifications requested by Guizhou Dichiwang in producing the Chinese baijiu products and outsources the manufacturing process to such independent wine factory to produce the Chinese baijiu products via an original equipment manufacturer arrangement. The main cost of the Chinese Liquor Business comprises manufacturing costs paid to the wine factory including (a) cost of raw materials; (b) processing fee; and (c) packaging fee and advertising cost. Raw materials and processing cost and advertising cost accounted for approximately 58% and 40% of the total operating cost of the Chinese Liquor Business respectively. The Chinese baijiu products of Guizhou Dichiwang comprise a comprehensive range of aromatic-flavour baijiu products formulated by Guizhou Dichiwang with varied packaging, alcohol content, design, taste, etc. with competitive prices targeting the young to middle-aged public to middle class consumer market in the PRC. Guizhou Dichiwang's Chinese baijiu products are sold under the "Diwang Chi" (帝王池) label.

Under the Chinese Liquor Business, Guizhou Dichiwang generates its revenue from the wholesale of "Diwang Chi" (帝王池) label Chinese baijiu products mainly to wine distributors in the PRC. As at 31 December 2022, Guizhou Dichiwang has a customer base of 10 distributors in the PRC and to the best knowledge, information and belief having made reasonable enquiries with and obtained information from those distributors, those distributors have an aggregate customer base of over 200 customers for our liquor products. The Company considers that a precise marketing and brand-building strategy is key to succeeding in the Chinese liquor market, and therefore, Guizhou Dichiwang has employed a sales team of over 15 staff to explore sales channels for Guizhou Dichiwang's Chinese baijiu products.

As disclosed in the paragraph headed "REASONS FOR THE RIGHTS ISSUE, THE PLACING AND THE USE OF PROCEEDS" in this circular, the Company intends to apply the net proceeds from the Rights Issue, among other things, setting up four ancient-Chinese-style bistros in the PRC. The objective of setting up bistros in the PRC is to promote the public awareness of our Chinese baijiu products in order to explore sales channel, enhance customer satisfaction and retention of customers via provision of value-added services including (i) allowing customers to experience drinking and leisure experience in the bistros; (ii) construing baijiu culture and providing recommendation services; and (iii) launching tasting events.

As disclosed in the 2022 Interim Report, the Chinese Liquor Business recorded revenue of approximately RMB66.71 million for the six months ended 30 June 2022. The gross profit and segment profit of the Chinese Liquor Business for the six months ended 30 June 2022 was approximately RMB38.62 million and approximately RMB28.92 million respectively. As disclosed in the 2022 Annual Report, the Chinese Liquor Business recorded revenue of approximately RMB241,192,000. The gross profit and segment profit of the Chinese Liquor Business for the year ended 31 December 2022 was approximately RMB152,938,000 and approximately RMB82,813,000 respectively.

The operation of the Chinese Liquor Business is currently managed by a management team of five members led by Mr. Sun Jingang (孫金剛先生), the executive Director who is responsible for the overall management and brand building strategy of the Chinese Liquor Business. The other four members of the management team of Guizhou Dichiwang are (i) Ms. Feng Xiaoning (馮小寧女士) who is responsible for product development, procurement and quality assurance of liquor products; (ii) Mr. Zhu Guo Hua (朱國華先生) who is responsible for the sales management of the Chinese Liquor Business; (iii) Mr. Wu Jia Shu (武家樹先生) who is responsible for production and factory management; and (iv) Ms. Li Li (李利女士) who is responsible for the daily administrative management of Guizhou Dichiwang. The composition of the management team consists of experienced professionals in sales and marketing, business management, operation and management of production plant and alcohol-related research and technology, quality management and wine tasting. The key personnel of the management team are Mr. Sun Jingang and Ms. Feng Xiaoning. The leader of the Chinese Liquor Business Mr. Sun Jingang has over 10 years of experience in company promotion and company brand planning including but not limited to health products. Mr. Sun Jingang has also been serving as senior management position in various enterprises for more than 10 years. Ms. Feng Xiaoning is the vice president and the liquor hooking chief designer of Guizhou Dichiwang. Ms. Feng Xiaoning has over 40 years of experience in alcohol-related research and technology, quality management and wine tasting. Ms. Feng Xiaoning worked in the Distillery of China Guizhou Maotai Group at the age of 17. In 1989, she became a national-level sommelier and a wine evaluation committee member of Guizhou Province. In 2014, she was hired by the Wine Industry Association of Renhuai, Guizhou Province as the chief engineer. In 2015, she was hired as an evaluation expert by Renhuai Municipal Government. In 2016, she was appointed as a member of the wine tasting expert committee by Zunyi and Renhuai wine industry associations. In 2022, she won the awards of sauce wine craft inheritance and outstanding expert issued by Zunyi and Renhuai Wine Industry Association. Mr. Zhu Guo Hua has over 10 years of experience in sales and marketing planning works of liquor and health products in the PRC. Mr. Wu Jia Shu has over 10 years of experience in operation and management of production plants. Ms. Li Li has over 10 years of experience in the administrative and accounting industry.

Currently, Guizhou Dichiwang has more than 25 staff. The Group has a well-established organizational structure to operate the Chinese Liquor Business which includes sales department, supply chain department, planning department, e-commerce department and administrative and finance department.

As disclosed in the announcement of the Company dated 18 July 2022, the expected original capital requirement of the Chinese Liquor Business for the next twelve months was approximately HK$68 million. However, given the fact that the PRC government has unexpectedly lifted most of the COVID-19 restrictions including the cancellation of the vaccine pass and the resumption of cross-border travel since early 2023, resulting in dramatic recovery of economic activities and social flow in the PRC, the Company considers it appropriate to increase the investment in the Chinese Liquor Business to approximately HK$228.55 million in order to grasp the opportunity to penetrate the Group’s Chinese baijiu products into the market as follows:

Launching sizeable advertising campaigns across different districts in the PRC

The Company considers that the promising business performance of the Chinese Liquor Business was a result of the precise marketing and brand-building strategy implemented by the Company including (i) placing advertisements at airports, train stations and online media platforms; and (ii) hosting wine tasting events and various wine exhibitions and wine trade fairs in the PRC.

In light of the much-faster-than-expected lifting of most of the COVID-19 restrictions including the cancellation of the vaccine pass and the resumption of cross-border travel between the PRC and Hong Kong by the PRC government since early 2023, the Company believes that the most difficult period has passed and that the Chinese Liquor Business will definitely be further benefited from the rebound of market sentiments. Therefore, the Company considers it is appropriate to promote the brand of the Chinese baijiu products to the whole of China and plans to apply approximately HK$100 million of the net proceeds from the Rights Issue for building the brand of the Group's Chinese baijiu products by launching sizeable advertising campaigns across different districts in the PRC pursuant to which the Company has scheduled to place large electronic advertisements at airports in 3 municipalities and 31 cities in 21 provinces within the next 12 months upon completion of the Rights Issue.

Payment of Manufacturing Costs

In light of the solid growth of the Chinese Liquor Business and the expected rebound of market sentiments after the much-faster-than-expected lifting of most of the COVID-19 restrictions including the cancellation of the vaccine pass and the resumption of cross-border travel, the Company plans to apply approximately HK$100 million of the net proceeds from the Rights Issue for payment of the Manufacturing Costs to cope with the expected increase in demand of the Chinese baijiu products. Based on historical Manufacturing Costs of approximately RMB87 million (equivalent to approximately HK$99 million for the period from the commencement of business in May 2022 up to 31 December 2022 which had achieved sales amount of approximately RMB241 million (equivalent to approximately HK$274 million) for the same period and the expected growth of the Chinese Liquor Business of approximately 20% in year 2023 on the basis that (i) the average revenue per month of the Chinese Liquor Business for the two months ended 28 February 2023 represented an increase of over 20% when compared with the average revenue per month of the Chinese Liquor Business for the period since the commencement of business in May 2022 up to 31 December 2022; and (ii) apart from the contract term of majority of the existing customers of Guizhou Dichiwang are 2-3 years which could secure a stable income source for the Chinese Liquor Business, Guizhou Dichiwang has also continued to successfully explored new customers in 2023 and after considering the expected rebound in the market sentiment after relaxation of COVID-19 measures in the PRC since early 2023 and the expected continuous increase in public awareness of "Diwang Chi" brand across the PRC resulted in the implemented and to be implemented marketing plan by Guizhou Dichiwang, the payment of the Manufacturing Costs is expected to satisfy the sales demand for more or less a half year period in year 2023.

Setting up ancient-Chinese-style bistros in the PRC

Apart from launching advertising campaigns to explore sales channels, the Company, after research and assessment on the current market practice in the PRC wine industry, plans to establish four ancient-Chinese-style bistros in the PRC, as a one-stop establishment with bar setting for catering and retail shop for selling Chinese baijiu products. The purpose of the bistros is, by allowing customers to experience drinking and leisure experience which is similar to returning to an ancient Chinese environment, to attract public awareness of the brand of the Group's Chinese baijiu products.

The Company plans to establish four bistros with sizes ranging from approximately 500 square meters to approximately 800 square meters each in the PRC of which (i) one bistro shall be established in Nanchang of Jiangxi within three months upon the Rights Issue Completion; (ii) one bistro shall be established in Fuzhou of Fujian within three months upon the Rights Issue Completion; (iii) one bistro shall be established in Nanjing of Jiangsu within six months upon the Rights Issue Completion; and (iv) one bistro shall be established in Xiamen of Fujian within six months upon the Rights Issue Completion. The bistros will be operated in the scale of approximately 20 tables with 20-25 staff per bistro which could serve a maximum of approximately 100 customers at one time slot. Each bistro will be serving food and beverages, such as snacks, juice, the Group's Chinese baijiu products and other alcoholic drinks etc. The Company plans to apply (i) approximately HK$20 million in setting up four ancient-Chinese-style bistros in the PRC including expenses to be spent on decoration, furniture and equipment necessary for the operation of the bistros; and (ii) approximately HK$8.55 million for the working capital required in operating the above-mentioned four bistros upon their opening including but not limited to staff cost, rental expenses and other overheads necessary for the operation of the bistros for approximately two months.

Details on the use of proceeds to be applied towards the Faux Leather Chemicals Business

As disclosed in the 2022 Annual Report, revenue generated from the Faux Leather Chemicals Business increased by approximately RMB26,300,000 or 11.2% from approximately RMB233,945,000 for the year ended 31 December 2021 to approximately RMB260,245,000 for the year ended 31 December 2022, primarily due to the gradual recovery of the global economy from the COVID-19 pandemic and the increase of consumer demands in various major industries. During the year ended 31 December 2022, despite factors such as the high oil price, the international and domestic epidemics and blocked export logistics which created downward pressure on the product margins, the turnover recorded an increase for the whole year 2022. The gross profit of the Faux Leather Chemicals Business for the year ended 31 December 2022 was approximately RMB40,760,000, representing an increase of approximately 4.85% when compared with the same period in 2021 of approximately RMB38,875,000. However, the gross profit margin decreased from approximately 16.6% in 2021 to approximately 15.7% in 2022, which was mainly attributable to the increase in the price of raw materials because of the high oil price during the year ended 31 December 2022.

Repayment of bank borrowings

As at the Latest Practicable Date, 浙江深藍新材料科技有限公司 (Zhejiang Sunlight Material Technology Co., Ltd*), an indirect wholly-owned subsidiary of the Company operating the Faux Leather Chemicals Business has interest-bearing short-term bank borrowings of RMB10 million.

Principal terms of the bank borrowings are as follows:

Term	:	From 6 January 2023 to 5 January 2024.
Loan principal	:	RMB10 million (equivalent to approximately HK$11.36 million).
Interest rate	:	One-year Loan Prime Rate (LPR) minus 45 basis points per annum, payable on a monthly basis.
Security	:	Secured by the pledge of certain right-of-use assets of the Group.
Purpose	:	For the purpose of daily production and operation.
Repayment	:	The outstanding principal amount of the loan shall be repaid at the end of the term of the loan.

The Company plans to apply approximately HK$11.5 million of the net proceeds from the Rights Issue for repayment of the bank borrowings in order to retain more financial resources to provide flexibility for business operation of the Faux Leather Chemicals Business. As no penalty clause is attached to the above-mentioned bank borrowings on early repayment, the Company has the intention to early repay the aforesaid borrowings upon completion of the Rights Issue in order to minimise interest costs.

Investment in automation system in production

Due to (i) the continuing increase in price of raw materials; and (ii) the shift of demand to lower-priced products because of the sluggish demand amid the COVID-19 pandemic since 2020 which has had a negative impact on the global consumer markets, the gross profit margin of the Faux Leather Chemicals Business continued to decrease from 33.9% for the year ended 31 December 2019 to 13.9% for the six months ended 30 June 2022.

* *For identification purposes only*

As disclosed in the 2021 Annual Report, it was the Company's business strategy to strengthen its cost management and improve production efficiency. In 2021, the inventory control and accounting modules of the Group have been integrated into the Kingdee Cloud (金蝶雲) system, which was a cornerstone for the Company's development. The Company plans to apply approximately HK$11 million of the net proceeds from the Rights Issue to further advance the automation information platform with an aim to improve industrial safety and production efficiency of the Faux Leather Chemicals Business.

Addition of production facilities and improvement in product quality

As disclosed in the 2022 Interim Report, due to the gradual recovery of downstream and consumer demands in various major industries from COVID-19, revenue from the Faux Leather Chemicals Business has experienced an increase of approximately 42.2% as compared to the same period in 2021. In light of the lifting of most of the COVID-19 restrictions including the cancellation of the vaccine pass and the resumption of cross-border travel between the PRC and Hong Kong by the PRC government since early 2023, the Company believes that the most difficult period has passed and that the Faux Leather Chemicals Business will definitely benefit from the rebound of market sentiments.

The Company therefore plans to apply approximately HK$17 million of the net proceeds from the Rights Issue to procure new production facilities with an aim to increase productivity to cope with the expected increase in sales orders and approximately HK$3.5 million for research and development of the products to improve product quality in order to maintain the Faux Leather Chemical Business' competitiveness in the market.

Increase in procurement of raw materials

To cope with the expected rebound of market sentiments after the passing of the most difficult period caused by the COVID-19 pandemic, the Company plans to apply approximately HK$9.2 million of the net proceeds from the Rights Issue to increase the raw materials inventory level to cope with the expected increase in consumer demands from the Faux Leather Chemical Business. Meanwhile, the Company plans to apply approximately HK$5.8 million of the net proceeds from the Rights Issue in order to retain financial resources to negotiate with suppliers for better procurement terms by placing more prepayment payment with the suppliers at the beginning of the sale contracts with the suppliers first in order to receive better discounts from them during the whole procurement process of raw materials for the Faux Leather Chemicals Business.

Given the fact that the PRC government has unexpectedly lifted most of the COVID-19 restrictions including the cancellation of the vaccine pass and the resumption of cross-border travel since early 2023, resulting in dramatic recovery of economic activities and social flow in the PRC, the Company considers the Chinese Liquor Business and the Faux Leather Chemicals Business would definitively be benefitted and it is expected that the business performance of the Chinese Liquor Business and the Faux Leather Chemicals Business would be better than year 2022. As such, it is appropriate to grasp the opportunity to penetrate the Group's Chinese baijiu products into the market and to optimise the operation of the Faux Leather Chemicals Business. As at 28 February 2023, the Group had bank balances and cash of approximately HK$31.63 million, which is not sufficient to execute the intended use of proceeds as above-mentioned to and there are imminent funding needs for our expected business expansion of the Chinese Liquor Business and the Faux Leather Chemicals Business to support the expected business growth.

Other Fund-raising Alternatives

Other than the Rights Issue, the Company has considered other debt/equity fund-raising alternatives such as bank borrowings, placing or an open offer. The Company had contacted certain banks for securing bank loan facilities. However, the Company could not reach favourable financing terms with the banks similar to the size of the Rights Issue upon discussion and as such, the Board considers that debt financing will result in an additional interest burden and a higher gearing ratio of the Group and could not be achievable on favourable terms or may require pledge of other kind of assets or securities which may reduce the Group's flexibility.

Reference is made to the announcement of the Company dated 11 November 2022 in relation to the placing of bonds of the Company. As reported by the placing agent of the bonds placing, the response for the bonds placing is not favourable and no bond could be placed by the placing agent of the bonds placing since the commencement of bonds placing period on 11 November 2022.

In addition, the Company had also contacted certain securities houses for the feasibility of conducting underwritten fund-raising exercise but had received negative feedbacks from those securities houses for conducting such fund-raising activities in view of the volatile price performance of the Shares. As for equity fund-raising, such as placing of new Shares, it is relatively smaller in scale as compared to fund-raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. As for open offer, while it is similar to a rights issue offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market.

Having considered the above-mentioned alternatives, the Directors (excluding the members of the Independent Board Committee, whose opinion is set forth in the letter from the Independent Board Committee in this circular after taking into account the advice of the Independent Financial Adviser) consider raising funds by way of the Rights Issue is more appropriate as the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position for future development, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole.

EQUITY FUND-RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company had carried out the following equity fund-raising activities in the 12 months immediately preceding the Latest Practicable Date:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
29 August 2022	Placing of new Shares under general mandate	Approximately HK$42,580,000	(i) HK$21,290,000 for the general working capital of the Group including (a) HK$11,290,000 for staff cost; (b) HK$5,000,000 for selling and distribution expenses; and (c) HK$5,000,000 for other office overhead and general corporate purposes; and (ii) the remaining of the net proceeds for the business development of the Chinese Liquor Business as to (a) approximately HK$10,000,000 for launching similar Chinese baijiu products tasting and recommendation events in different districts in the PRC in the upcoming twelve months for expanding customer base and sales network; and (b) approximately HK$11,290,000 for procurement of raw materials to manufacture the Group's Chinese baijiu products	(i)approximately HK$19,590,000 has been utilized for the general working capital of the Group including (a) approximately HK$11,290,000 for staff cost; (b) approximately HK$5,000,000 for selling and distribution expenses; and (c) approximately HK$3,600,000 for other office overhead and general corporate purposes; (ii) HK$21,290,000 has been utilized for the business development of the Chinese Liquor Business as intended; and (iii) the remaining unutilised proceeds of approximately HK$1,400,000 will be utilised as intended by 31 August 2023.

Save as disclosed above, the Company had not conducted any equity fund-raising activities in the past twelve months immediately preceding the Latest Practicable Date.

TAXATION

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

EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation; and (iii) immediately after the Share Consolidation and the Rights Issue Completion in different scenarios as set out in below table, in each case assuming there is no change in the issued share capital of the Company as at the Latest Practicable Date and up to and including the Record Date:

Shareholder	As at the Latest Practicable Date		Immediately after the Share Consolidation		Immediately after the Share Consolidation and upon the Rights Issue Completion assuming full acceptance by all Shareholders under the Rights Issue		Immediately after the Share Consolidation and upon the Rights Issue Completion assuming (a) no subscription by the Shareholders; and (b) all the Placing Shares are placed to Independent Third Parties under the Placing	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Zheng Xieyue *(Note 1)*	260,000,000	18.06	52,000,000	18.06	130,000,000	18.06	52,000,000	7.22
Sunlight Global Investment Limited *(Note 2)*	18,002,000	1.25	3,600,400	1.25	9,001,000	1.25	3,600,400	0.50
Lilian Global Investment Limited *(Note 2)*	12,002,000	0.83	2,400,400	0.83	6,001,000	0.83	2,400,400	0.33
Public Shareholders:								
Placees	–	–	–	–	–	–	432,000,000	60.00
Other public Shareholders	1,149,996,000	79.86	229,999,200	79.86	574,998,000	79.86	229,999,200	31.95
TOTAL	**1,440,000,000**	**100.00**	**288,000,000**	**100.00**	**720,000,000**	**100.00**	**720,000,000**	**100.00**

Notes:

1. *A substantial shareholder (as defined in the Listing Rules) of the Company.*

2. *As at the Latest Practicable Date and immediately before the Share Consolidation and Rights Issue Completion, to the best knowledge of the Directors, Sunlight Global Investment Limited ("**Sunlight Global**") and Lilian Global Investment Limited ("**Lilian Global**") held approximately 1.25% and approximately 0.83%, respectively, of the total issued share capital of the Company. Sunlight Global is owned as to 61.20% by Mr. Chen Hua, 13.24% by Ms. Zhu Jianqin, 13.24% by Mr. Li Xiangyu, 9.24% by Mr. He Zhangcai, 2.14% by Mr. Chen Yong, 0.54% by Mr. Cai Jianming and 0.40% by Mr. Zhao Xuesheng. Lilian Global is wholly-owned by Ms. Liu Jing, the spouse of Mr. Chen Hua. Ms. Liu is therefore deemed to be interested in the Shares in which Lilian Global is interested under the SFO. Immediately before the Share Consolidation and Rights Issue Completion, Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong are entitled to exercise or control the exercise of approximately 1.25% of the voting power at general meetings of our Company through exercising or controlling the exercise of the entire voting power at general meetings of Sunlight Global, and therefore they are deemed to be interested in the Shares in which Sunlight Global is interested under the SFO. Mr. Chen Hua is an executive Director and Ms. Zhu Jianqin was a former executive Director who had resigned on 3 March 2023. Mr. Chen Hua and Ms. Liu Jing are spouses to each other and therefore, each of them is deemed to be interested in the Shares in which he or she is interested under the SFO.*

If a Qualifying Shareholder does not accept the Rights Shares provisionally allotted to him/her/it in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

LISTING RULES IMPLICATIONS

The Share Consolidation

The Share Consolidation is conditional upon, among other things, the passing of an ordinary resolution by the Shareholders by way of poll at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as none of the Shareholders or their associates would have any interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Share Consolidation at the EGM.

The Increase in Authorised Share Capital

The Increase in Authorised Share Capital is conditional upon, among other things, the passing of an ordinary resolution by the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as none of the Shareholders or their associates would have any interest in the Increase in Authorised Share Capital, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Increase in Authorised Share Capital at the EGM.

The Rights Issue

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the date of the Announcement (after taking into account the effect of the Share Consolidation), the Rights Issue is conditional upon the minority Shareholders' approval at the EGM, and any Controlling Shareholders and their associates, or where there are no Controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM.

As at the Latest Practicable Date, the Company has no Controlling Shareholder as defined under the Listing Rules. Sunlight Global Investment Limited (a corporation interested in 18,002,000 Shares, representing approximately 1.25% of the total issued share capital of the Company as at the Latest Practicable Date and is controlled by Mr. Chen Hua, an executive Director and Ms. Zhu Jianqin, a former executive Director who had resigned on 3 March 2023) and Lilian Global Investment Limited (a corporation interested in and 12,002,000 Shares, representing approximately 0.83% of the total issued share capital of the Company as at the Latest Practicable Date and is wholly owned by Ms. Liu Jing, the spouse of Mr. Chen Hua) and their respective associates shall abstain from voting in respect of the resolution(s) relating to the Rights Issue at the EGM. Save as disclosed above, no other Shareholder is required to abstain from voting at the EGM. No Shareholder has informed the Company that he/she/it intends to vote in favour of or against the proposed resolutions in connection with the Rights Issue as at the Latest Practicable Date.

DESPATCH OF PROSPECTUS DOCUMENTS

Subject to the approval of the Share Consolidation by the Shareholders and the Rights Issue by the Independent Shareholders at the EGM, the Prospectus containing further information in relation to the Rights Issue and financial and other information relating to the Group is expected to be despatched by the Company together with the PAL on or before Friday, 9 June 2023. A copy of the Prospectus will also be made available on the websites of the Company (http://www.slkj.cn/) and the Stock Exchange (www.hkexnews.hk). To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to Non-Qualifying Shareholders for their information only but will not send the PAL to them.

WARNING OF THE RISKS OF DEALING IN THE SHARES, THE CONSOLIDATED SHARES AND/OR THE NIL-PAID RIGHTS SHARES

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY SHOULD NOTE THAT THE RIGHTS ISSUE AND THE PLACING ARE CONDITIONAL UPON, AMONG OTHERS, CONDITIONS SET OUT IN THE SECTIONS HEADED "LETTER FROM THE BOARD – PROPOSED RIGHTS ISSUE – CONDITIONS OF THE RIGHTS ISSUE" AND "LETTER FROM THE BOARD – PROPOSED RIGHTS ISSUE – CONDITIONS OF THE PLACING" IN THIS CIRCULAR, RESPECTIVELY.

ACCORDINGLY, THE RIGHTS ISSUE AND/OR THE PLACING MAY OR MAY NOT PROCEED. ANY DEALINGS IN THE SHARES, THE CONSOLIDATED SHARES AND/OR THE NIL-PAID RIGHTS SHARES UP TO THE DATE ON WHICH ALL THE CONDITIONS OF THE RIGHTS ISSUE AND THE PLACING ARE FULFILLED WILL BEAR THE RISK THAT THE RIGHTS ISSUE AND/OR THE PLACING M AY NOT BECOME UNCONDITIONAL OR MAY NOT PROCEED.

SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY, AND IF THEY ARE IN ANY DOUBT ABOUT THEIR POSITION, THEY SHOULD CONSULT THEIR OWN PROFESSIONAL ADVISERS.

GENERAL

The EGM will be convened and held at which resolution(s) will be proposed to consider, and, if thought fit, to approve, among other things, the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue and the Placing Agreement. The register of members of the Company will be closed from Friday, 19 May 2023 to Thursday, 25 May 2023 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

In order to be registered as members of the Company on the Record Date, all transfers of Consolidated Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:30 p.m. on Thursday, 18 May 2023.

The notice convening the EGM to be held at Golden Restaurant (East Wing) at 1st Floor, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong on Thursday, 25 May 2023 at 11:00 a.m. is set out on pages EGM-1 to EGM-5 of this circular.

A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Tricor Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 11:00 a.m. on Tuesday, 23 May 2023, Hong Kong time or less than 48 hours before the time appointed for holding any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

In compliance with the Listing Rules, all the resolution(s) to be proposed at the EGM will be voted on by way of poll at the EGM.

RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM on the relevant resolution(s). Sorrento Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee set out on page 45 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 46 to 73 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors consider that the terms of the Share Consolidation are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Further, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Shareholders and the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Diwang Industrial Holdings Limited
Sun Jingang
Executive Director