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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Diwang Industrial Holdings Limited you should at once hand this circular, and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

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## 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)**

- (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**

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



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Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 12 to 44 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 45 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 46 to 73 of this circular.

It should be noted that the Shares will be dealt in on an ex-entitlement basis from Wednesday, 31 May 2023. Dealings in the Rights Shares in nil-paid form are expected to take place from Tuesday, 13 June 2023 to Tuesday, 20 June 2023 (both days inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Tuesday, 13 June 2023 to Tuesday, 20 June 2023 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares, the Consolidated Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its own professional advisers.

A 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 in the Notice of EGM in this circular. A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are to attend the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Registrar, Tricor Investor Services Limited, 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. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

**The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares and is subject to the fulfilment of conditions. Please refer to the section headed “Letter from the Board – Conditions of the Rights Issue” in this circular. In the event that the Rights Issue is not fully subscribed, any Untaken Shares together with the NQS Unsold Shares will be placed to independent placees on a best effort basis under the Placing. Any Untaken Shares or NQS Unsold Shares which are not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, the Consolidated Shares and/or the nil-paid Rights Shares up to the date when all the conditions to which the Rights Issue is subject are fulfilled.**

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## DEFINITIONS

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

“2021 Annual Report”	the annual report of the Company for the year ended 31 December 2021
“2022 Annual Report”	the annual report of the Company for the year ended 31 December 2022
“2022 Interim Report”	the interim report of the Company for the six months ended 30 June 2022
“Announcement”	the announcement of the Company dated 3 March 2023 in relation to, among other things, the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue and the Placing
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chinese Liquor Business”	the manufacture and sale of Chinese baijiu products
“Companies Registry”	Companies Registry of Hong Kong
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Company”	Diwang Industrial Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1950)

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## DEFINITIONS

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“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	the ordinary share(s) of par value of US\$0.0025 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve, among other things, the Share Consolidation, the Increase in Authorised Share Capital, the Rights Issue, the Placing and the transactions contemplated thereunder
“Existing Share(s)”	the ordinary share(s) of par value of US\$0.0005 each in the share capital of the Company before the Share Consolidation
“Faux Leather Chemicals Business”	the research and development, manufacturing and sale of coating agents and synthetic resins
“Group”	the Company and its subsidiaries
“Guizhou Dichiwang”	貴州帝池王醬酒業有限公司 (Guizhou Dichiwang Sauce And Wine Company Limited*), a company established under the laws of the PRC with limited liability and is held as to 70.50% by 常德彌盟控股有限公司 (Changde Mimeng Company Limited*, a wholly-owned subsidiary of the Company and 29.50% by 湖南金鎧文化傳播有限責任公司 (Hunan Jinkai Culture Communication Company Limited*)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administration Region of the PRC

\* For identification purpose only

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## DEFINITIONS

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“Increase in Authorised Share Capital”	the proposed increase in 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 after the Share Consolidation becoming effective)
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors namely Mr. Au Hei Ching, Mr. Ho Ho Tung Armen, Mr. Lee Cheung Yuet Horace, Mr. Zheng Yu and Ms. Zhou Xiaochun, which has been established to advise the Independent Shareholders in respect of the Rights Issue
“Independent Financial Adviser”	Sorrento Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“Independent Shareholders”	Shareholders other than (i) all executive Directors and their respective associates (as defined under the Listing Rules); (ii) those who are involved in or interested in the Rights Issue; and (iii) those who are required under the Listing Rules to abstain from voting at the EGM
“Independent Third Parties”	third parties independent of, and not connected with, the Company and its connected persons
“Last Trading Day”	3 March 2023, being the last trading day for the Shares immediately prior to the date of the Announcement
“Latest Practicable Date”	3 May 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Monday, 26 June 2023 (or such other time and date as may be determined by the Company), being the latest time for the application of, and payment for, the Rights Shares
“Listing Committee”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Manufacturing Costs”	the cost of materials, processing fee and packaging fee payable to the wine factory in manufacturing of the Group’s baijiu products
“Net Gain”	any premiums paid by the placees over the Subscription Price for the Untaken Shares and the NQS Unsold Shares placed by the Placing Agent under the Placing
“Nil Paid Rights”	rights to subscribe for Rights Shares before the Subscription Price is paid
“No Action Shareholders”	Qualifying Shareholder(s) or renounee(s) or transferee(s) of Nil Paid Rights under PAL(s) during the Rights Issue who do not subscribe for the Rights Shares (whether partially or fully) under the PAL(s), or such persons who hold any Nil Paid Rights at the time such Nil Paid Rights lapse
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) whom the Board considers necessary or expedient to exclude from the Rights Issue on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“NQS Unsold Shares”	the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form that have not been sold by the Company
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at 5:00 p.m. on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
“PAL”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Placing”	arrangements to place the Untaken Shares and the NQS Unsold Shares by the Placing Agent on a best effort basis to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties

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## DEFINITIONS

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“Placing Agent”	CNI Securities Group Limited, a licensed corporation to carry on business in type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the agreement dated 3 March 2023 entered into between the Company and the Placing Agent in respect of the Placing
“Placing End Date”	6:00 p.m. on Friday, 14 July 2023 or such other dates as the Company may announce
“Placing Long Stop Date”	4:10 p.m. on Monday, 17 July 2023 (being the next Business Day after the Placing End Date) or such later date as the Company may announce
“Placing Period”	the period from Tuesday, 4 July 2023 up to the Placing End Date, being the period during which the Placing Agent will seek to effect the Placing
“Placing Share(s)”	the Untaken Share(s) and the NQS Unsold Share(s)
“Posting Date”	Friday, 9 June 2023, or such other date as the Company may determine and announce for the despatch of the Prospectus Documents
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus and the PAL(s)
“Qualifying Shareholder(s)”	Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholders

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## DEFINITIONS

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“Record Date”	the date by reference to which provisional allotments under the Rights Issue are expected to be determined, which is Thursday, 8 June 2023 or such later date as may be determined and announced by the Company
“Registrar”	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
“Rights Issue”	the proposed offer for subscription of the Rights Shares at the Subscription Price on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held by the Shareholders on the Record Date and subject to the conditions set out in the section headed “Letter from the Board – Conditions of the Rights Issue” in this circular
“Rights Issue Completion”	completion of the Rights Issue
“Rights Issue Settlement Date”	Wednesday, 26 July 2023
“Rights Share(s)”	the Consolidated Share(s) to be allotted and issued under the Rights Issue, being up to 432,000,000 Shares (assuming there is no other change in the total number of issued Shares from the date of this circular up to and including the Record Date)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with par value of US\$0.0005 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Consolidation”	the proposed consolidation of every five (5) Existing Shares of par value of US\$0.0005 each into one (1) Consolidated Share of par value of US\$0.0025 each in the share capital of the Company
“Share Option Scheme”	the existing share option scheme of the Company adopted on 10 February 2020



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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.67 per Rights Share
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“Untaken Share(s)”	the number of unsubscribed Rights Share(s) not taken up by Qualifying Shareholder(s) or renouncee(s) or transferee(s) of Nil Paid Rights under PAL(s) during the Rights Issue
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent

For the purpose of this circular, unless otherwise indicated, the conversion of RMB into HK\$ are calculated at the approximate exchange rate of HK\$1.00 to RMB0.88. This exchange rate is for purpose of illustration only and does not constitute a representation that any amount has been, could have been, or may be, exchanged at this or another rate.

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## EXPECTED TIMETABLE

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The expected timetable for the proposed Share Consolidation, the Rights Issue and the Placing and the associated trading arrangement is set out below. The expected timetable is subject to the results of the EGM and satisfaction of the conditions and is therefore for indicative purpose only. Any change to the expected timetable will be announced in a separate announcement by the Company as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

Latest time for lodging transfer documents of

Shares to qualify for attendance and voting at the EGM..... 4:30 p.m.  
on or before Thursday,  
18 May 2023

Closure of register of members of the Company to

determine entitlement to attend and vote at the EGM..... Friday, 19 May 2023  
to Thursday, 25 May 2023  
(both days inclusive)

Latest time for lodging proxy forms for the EGM..... 11:00 a.m. on  
Tuesday, 23 May 2023

Record date for attending and voting at the EGM..... Thursday, 25 May 2023

EGM..... 11:00 a.m. on  
Thursday, 25 May 2023

Announcement of poll results of the EGM..... Thursday, 25 May 2023

Re-opening of the register of members of the Company..... Monday, 29 May 2023

Effective date of the Share Consolidation..... Tuesday, 30 May 2023

Commencement of dealings in the Consolidated Shares ..... Tuesday, 30 May 2023

Original counter for trading in Existing Shares

in board lots of 4,000 Existing Shares temporarily closes..... 9:00 a.m. on  
Tuesday, 30 May 2023

Temporary counter for trading in the Consolidated Shares

in board lots of 800 Consolidated Shares  
(in the form of existing share certificates) opens..... 9:00 a.m. on  
Tuesday, 30 May 2023

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## EXPECTED TIMETABLE

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First day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Consolidated Shares.....	Tuesday, 30 May 2023
Last day of dealings in the Consolidated Shares on a cum-entitlement basis .....	Tuesday, 30 May 2023
First day of dealings in the Consolidated Shares on an ex-entitlement basis .....	Wednesday, 31 May 2023
Latest time for lodging transfers of the Consolidated Shares in order for the transferees to qualify for the Rights Issue .....	4:30 p.m. on Thursday, 1 June 2023
Closure of register of members to determine the entitlements to the Rights Issue .....	Friday, 2 June 2023 to Thursday, 8 June 2023 (both days inclusive)
Record Date for the Rights Issue .....	Thursday, 8 June 2023
Re-opening of the register of members of the Company.....	Friday, 9 June 2023
Despatch of Prospectus Documents (including the PAL and the Prospectus; in the case of the Non-Qualifying Shareholders, the Prospectus only).....	Friday, 9 June 2023
Designated broker starts to stand in the market to provide matching services for odd lots of the Consolidated Shares .....	Tuesday, 13 June 2023
Original counter for trading in the Consolidated Shares in board lots of 4,000 Consolidated Shares (in the form of new share certificates) re-opens.....	9:00 a.m. on Tuesday, 13 June 2023
Parallel trading in the Consolidated Shares (in the form of both existing share certificates in board lots of 800 Consolidated Shares and new share certificates in board lots of 4,000 Consolidated Shares) commences .....	9:00 a.m. on Tuesday, 13 June 2023

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## EXPECTED TIMETABLE

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First day of dealings in nil-paid Rights Shares .....	Tuesday, 13 June 2023
Latest time for splitting nil-paid Rights Shares .....	4:30 p.m. on Thursday, 15 June 2023
Last day of dealings in nil-paid Rights Shares.....	Tuesday, 20 June 2023
Latest Time for Acceptance.....	4:00 p.m. on Monday, 26 June 2023
Announcement of the number of the Untaken Shares and NQS Unsold Shares subject to the Placing.....	Monday, 3 July 2023
Commencement of the Placing Period (if there are any Untaken Shares and NQS Unsold Shares available).....	Tuesday, 4 July 2023
Designated broker ceases to provide matching services for odd lots of the Consolidated Shares .....	4:00 p.m. on Tuesday, 4 July 2023
Temporary counter for trading in board lots of 800 Consolidated Shares (in the form of existing share certificates) closes.....	4:10 p.m. on Tuesday, 4 July 2023
Parallel trading in Consolidated Shares (in the form of both existing share certificates in board lots of 800 Consolidated Shares and new share certificates in board lots of 4,000 Consolidated Shares) ends .....	4:10 p.m. on Tuesday, 4 July 2023
Last day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Consolidated Shares.....	Thursday, 6 July 2023
Placing End Date for placing the Placing Shares.....	6:00 p.m. on Friday, 14 July 2023
Latest Time for the Rights Issue to become unconditional and the Placing Long Stop Date.....	4:10 p.m. on Monday, 17 July 2023

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## EXPECTED TIMETABLE

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Rights Issue Settlement Date and Placing completion date . . . . . Wednesday, 26 July 2023

Announcement of the results of the Rights Issue  
(including the results of the Placing and the Net Gain). . . . . Thursday, 27 July 2023

Despatch of share certificates for the Rights Shares  
or refund cheques, if terminated . . . . . Friday, 28 July 2023

First day of dealings in the fully-paid Rights Shares. . . . . 9:00 a.m. on  
Monday, 31 July 2023

Payment of Net Gain to relevant No Action  
Shareholders (if any) or Non-Qualifying Shareholders (if any). . . . . Monday, 14 August 2023

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE**

The Latest Time for Acceptance will not take place if a tropical cyclone signal No. 8 or above, or “extreme conditions” caused by super typhoons or a “black” rainstorm warning is:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 26 June 2023, being the date on which the Latest Time for Acceptance falls. In this case, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 26 June 2023, being the date on which the Latest Time for Acceptance falls. In this case, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day on which none of the aforementioned warnings is in force at any time between 9:00 a.m. and 4:00 p.m..

If the Latest Time for Acceptance does not take place on Monday, 26 June 2023, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

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LETTER FROM THE BOARD

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**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

*Registered office:*

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

*Independent non-executive Directors:*

Mr. Ho Ho Tung Armen  
Mr. Au Hei Ching  
Mr. Lee Cheung Yuet Horace  
Mr. Zheng Yu  
Ms. Zhou Xiaochun

*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**

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## LETTER FROM THE BOARD

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### 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.

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## LETTER FROM THE BOARD

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### 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.



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## LETTER FROM THE BOARD

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### **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.

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## LETTER FROM THE BOARD

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### **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 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.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### 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.

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## LETTER FROM THE BOARD

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### 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);

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## LETTER FROM THE BOARD

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- (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.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### **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;



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## LETTER FROM THE BOARD

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- (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.**

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## LETTER FROM THE BOARD

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### **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.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### **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.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### 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.

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## LETTER FROM THE BOARD

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- 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

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## LETTER FROM THE BOARD

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- (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.



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## LETTER FROM THE BOARD

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### 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.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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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:

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## LETTER FROM THE BOARD

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### *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.

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## LETTER FROM THE BOARD

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### *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.

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## LETTER FROM THE BOARD

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### *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:

<b>Term</b>	:	From 6 January 2023 to 5 January 2024.
<b>Loan principal</b>	:	RMB10 million (equivalent to approximately HK\$11.36 million).
<b>Interest rate</b>	:	One-year Loan Prime Rate (LPR) minus 45 basis points per annum, payable on a monthly basis.
<b>Security</b>	:	Secured by the pledge of certain right-of-use assets of the Group.
<b>Purpose</b>	:	For the purpose of daily production and operation.
<b>Repayment</b>	:	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

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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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.



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## LETTER FROM THE BOARD

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### 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.

## LETTER FROM THE BOARD

### 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		Immediately after the		Immediately after the		Immediately after the Share	
	Latest Practicable Date		Share Consolidation		Share Consolidation and		Consolidation and upon the	
					upon the Rights Issue		Rights Issue Completion	
	Number of	%	Number of	%	Completion assuming full	%	assuming (a) no subscription	%
	Shares		Shares		acceptance by all		by the Shareholders; and (b)	
					Shareholders under the		all the Placing Shares are	
					Rights Issue		placed to Independent Third	
					Number of		Parties under the Placing	
					Shares		Shares	
					%		%	
Zheng Xiyue (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
<b>Public Shareholders:</b>								
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
<b>TOTAL</b>	<b>1,440,000,000</b>	<b>100.00</b>	<b>288,000,000</b>	<b>100.00</b>	<b>720,000,000</b>	<b>100.00</b>	<b>720,000,000</b>	<b>100.00</b>

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### **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](http://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.**

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## LETTER FROM THE BOARD

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**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 MAY 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.

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## LETTER FROM THE BOARD

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### 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*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**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)**

5 May 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**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**

We refer to the circular of the Company dated 5 May 2023 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

The Independent Financial Adviser has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect. Having taken into account the terms of the Rights Issue and the Placing Agreement, and the advice from the Independent Financial Adviser, we are of the opinion 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 Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the EGM to approve the Rights Issue, the Placing Agreement, and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Au Hei Ching**

**Mr. Ho Ho Tung Armen**

**Mr. Lee Cheung Yuet Horace**

**Mr. Zheng Yu**

**Ms. Zhou Xiaochun**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from Sorrento Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Rights Issue which has been prepared for the purpose of inclusion in this circular.*



Room 1208, 12/F,  
Wing On Centre,  
111 Connaught Road Central,  
Sheung Wan,  
Hong Kong

5 May 2023

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **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**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed offer for subscription of up to 432,000,000 Rights Shares by way of the Rights Issue at the Subscription Price of HK\$0.67 each to be made by the Company to the Qualifying Shareholders on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held on the Record Date, particulars 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 5 May 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.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As stated in the Letter from the Board, on 3 March 2023, the Company and CNI Securities Group Limited (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, places to subscribe for the Placing Shares (i.e. the Untaken Shares and/or the NQS Unsold Shares during the Rights Issue) on the terms and subject to the conditions set out in the Placing Agreement. Pursuant to the Rights Issue, the Company will offer up to 432,000,000 Rights Shares to the Qualifying Shareholders whose names shall appear on the register of members of the Company at the close of business on the Record Date on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held on the Record Date. 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 maximum gross proceeds from the Rights Issue will be approximately HK\$289.44 million and the expected maximum net proceeds (i.e. after deducting all relevant expenses relating to the Rights Issue) will be approximately HK\$286.55 million which applied towards (i) the development of the Group’s Chinese liquor business; and the support of the Group’s faux leather chemical business.

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 by more than 50% within a 12 months period immediately preceding the date of the announcement of the company (the “**Announcement**”) dated 3 March 2023 in relation to, among others, the Rights Issue (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 respective 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 had no controlling shareholders (has the meaning ascribed thereto 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.

The Independent Board Committee comprising Mr. Au Hei Ching, Mr. Ho Ho Tung Armen, Mr. Lee Cheung Yuet Horace, Mr. Zheng Yu and Ms. Zhou Xiaochun (i.e. all the independent non-executive Directors) has been established by the Board to consider the terms of the Rights Issue and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Rights Issue are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) whether to vote in favour of the Rights Issue at the EGM.

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## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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We are independent from and not connected with the Group, its substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules or connected persons. During the last two years, we have not been engaged as any financial adviser to the Company and we are not aware of any relationship or interest between us and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Shareholders in respect of the Right Issue. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Rights Issue.

### **BASIS AND ASSUMPTIONS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, documents, opinions and representations expressed to us by the Directors and management of the Company, e.g. annual reports, latest unaudited financial information, indebtedness, agreements relating to fund-raising (i.e. bank loan agreements and the Placing Agreement), sample invoices of the sub-contractor relating to the baijiu products, budget of bistro development and trading statistics of the Shares on the Stock Exchange. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

### **PRINCIPAL FACTORS AND REASONS CONCERNED**

In considering whether the terms of the Rights Issue are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1. Information on the Group

The Group is principally engaged in (i) the research and development, manufacturing and sale of coating agents and synthetic resins (the “**Faux Leather Chemicals Business**”); and (ii) the manufacture and sale of Chinese liquor products (the “**Chinese Liquor Business**”). 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 which 1,440,000,000 Existing Shares with par value of US\$0.0005 each were in issue. As set out in the Letter from the Board, the Company proposed 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) and conduct the Share Consolidation whereby 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.

The audited consolidated financial information of the Group for each of the three years ended 31 December 2022, as extracted from the annual report of the Company for the year ended 31 December 2021 and 31 December 2022 (the “**Annual Reports**”), are summarised as follows:

	<b>For the year ended 31 December</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	501,437	233,945	134,441
Cost of sales	(307,739)	(195,070)	(102,842)
Gross Profit	193,698	38,875	31,599
Other income	1,392	2,824	4,234
Other gains and losses	(703)	2,945	965
Impairment losses under expected credit loss model, net of reversed	(2,239)	(481)	(2,352)
Loss on disposal/fair value change of financial assets at fair value through profit or loss	(21,001)	(13,462)	–
Selling and distribution expenses	(77,100)	(8,252)	(7,128)
Administrative and general expenses	(30,900)	(23,889)	(19,374)
Share of result of an associate	(77)	(36)	–
Finance costs	(403)	–	(486)
Listing expenses	–	–	(10,246)
Profit/(loss) before taxation	62,667	(1,476)	(2,788)
Income tax expenses	(23,049)	(1,124)	(369)
Profit/(loss) for the year	39,618	(2,600)	(3,157)
Profit/(loss) for the year attributable to owners of the Company	21,851	(2,600)	(3,157)
Profit/(loss) for the year attributable to non-controlling interests	17,767	–	–

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Comparison between the years ended 31 December 2022 and 31 December 2021*

The Company recorded a revenue of approximately RMB501.44 million for the year ended 31 December 2022 representing an increase of approximately 114.34% as compared with approximately RMB233.95 million for the previous year mainly due to the revenue contribution of the newly commenced Chinese Liquor Business of approximately RMB241.19 million and the increase in revenue contribution of the Faux Leather Chemicals Business by approximately RMB26.30 million during the year.

Gross profit margin of the Company increased from approximately 16.62% for the year ended 31 December 2021 to approximately 38.63% for the year ended 31 December 2022 mainly due to the higher gross profit margin of the Chinese Liquor Business which offset the decrease in gross profit margin of the Faux Leather Chemicals Business during the year.

Selling and distribution expenses of the Company increased significantly from approximately RMB8.25 million for the year ended 31 December 2021 to approximately RMB77.10 million for the year ended 31 December 2022 mainly due to additional expenses for the newly commenced Chinese Liquor Business and increase in sales and marketing activities of the Faux Leather Chemicals Business by approximately RMB1.18 million during the year.

Administrative and general expenses of the Company increased from approximately RMB23.89 million for the year ended 31 December 2021 to approximately RMB30.90 million for the year ended 31 December 2022 mainly due to the increase in staff costs, director emoluments and legal and professional expenses during the year.

As a result of the abovementioned, the Company recorded a profit before taxation of approximately RMB62.67 million for the year ended 31 December 2022 as compared with a loss before tax of approximately RMB1.48 million for the year ended 31 December 2021. The profit for the year of the Company was approximately RMB39.62 million for the year ended 31 December 2022 and the loss for the year of the Company was approximately RMB2.60 million for the year ended 31 December 2021 respectively.

### *Comparison between the years ended 31 December 2021 and 2020*

The Company recorded a revenue of approximately RMB233.95 million for the year ended 31 December 2021 representing an increase of approximately 74.02% as compared with approximately RMB134.44 million for the year ended 31 December 2020 mainly due to the increase in revenue from various products, among which, both price and volume sold from colour paste, colour chips and synthetic resin products were increased as the downstream industries and consumer demand among various industries has been recovered.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Gross profit margin of the Company decreased from approximately 23.50% for the year ended 31 December 2020 to approximately 16.62% for the year ended 31 December 2021 mainly due to the increase in raw material costs.

Selling and distribution expenses of the Company was stable as to approximately RMB7.13 million for the year ended 31 December 2020 and approximately RMB8.25 million for the year ended 31 December 2021 respectively.

Administrative and general expenses of the Company increased from approximately RMB19.37 for the year ended 31 December 2020 to approximately RMB23.89 million for the year ended 31 December 2021 mainly due to the increase in professional services fees for engaging intermediaries after the listing of the Company on the Stock Exchange.

The Company recorded no listing expenses for the year ended 31 December 2021 as compared with that approximately RMB10.25 million for the year ended 31 December 2020.

As a result of the abovementioned, the Company recorded a loss before taxation of approximately RMB1.48 million for the year ended 31 December 2021 as compared with approximately RMB2.79 million for the year ended 31 December 2020. The loss for the year of the Company was approximately RMB2.6 million for the year ended 31 December 2021 and approximately RMB3.16 million for the year ended 31 December 2020 respectively.

	<b>As at 31 December 2022 RMB'000 (audited)</b>	<b>As at 31 December 2021 RMB'000 (audited)</b>
Non-current assets	138,457	119,101
Current assets	<u>307,921</u>	<u>194,073</u>
Total assets	446,378	313,174
Non-current liabilities	410	547
Current liabilities	<u>95,585</u>	<u>43,048</u>
Total liabilities	95,995	43,595
Net current assets	212,336	151,025
Equity attributable to owners of the Company	331,141	269,579
Non-controlling interests	<u>19,242</u>	<u>–</u>
Total equity/Net assets	<u><u>350,383</u></u>	<u><u>269,579</u></u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The non-current assets of the Company increased from approximately RMB119.10 million as at 31 December 2021 to approximately RMB138.46 million as at 31 December 2022 mainly due to acquisition of certain plant and machinery and the completion of the construction of the production plant in Jiande County, Hangzhou City, Zhejiang Province for the Faux Leather Chemicals Business during the year ended 31 December 2022.

The current assets of the Company increased from approximately RMB194.07 million as at 31 December 2021 to approximately RMB307.92 million as at 31 December 2022 mainly due to (i) increase in trade and bills receivables from approximately RMB90.36 to approximately RMB144.77 million; (ii) increase in prepayments, deposits and other receivables from approximately RMB2.45 million to approximately RMB6.61 million; and (iii) increase in inventories from approximately RMB31.28 million to approximately RMB98.24 million during the year ended 31 December 2022. Bank balances and cash of the Company increased significantly from approximately RMB28.45 million as at 31 December 2021 to approximately RMB48.11 million as at 31 December 2022 mainly due to the operating cashflow from the Chinese Liquor Business and the unutilised proceeds received from placing of Shares under general mandate (the “**2022 Placing**”) which was completed on 29 August 2022. Pledged bank deposits of the Company decreased from approximately RMB5.28 million as at 31 December 2021 to approximately RMB2.43 million as at 31 December 2022.

The current liabilities of the Company increased from approximately RMB43.05 million as at 31 December 2021 to approximately RMB95.59 million as at 31 December 2022 mainly due to (i) obtainment of interest-bearing bank borrowing approximately RMB10.00 million; (ii) increase in trade and bills payables from approximately RMB38.01 million to approximately RMB68.66 million; and (iii) increase in other payables and accruals from approximately RMB4.85 million to approximately RMB8.49 million during the year.

On 29 August 2022, the Company completed the 2022 Placing pursuant to which 240,000,000 Shares at HK\$0.180 each were placed and raised a net proceeds of approximately HK\$42.58 million for general working capital of the Group and business development of the Chinese Liquor Business.

Save as the above, the Company has not conducted any other equity financing activity in the 12 months immediately preceding the date of the Announcement.

### **2. Reasons for the Rights Issue and proposed use of net proceeds**

The Group is principally engaged in the Faux Leather Chemicals Business and the Chinese Liquor Business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Among the net proceeds from the 2022 Placing, approximately HK\$1.40 million remains unutilised as at the Latest Practicable Date and is intended to be applied towards general working capital of the Company by August 2023. As advised by the Company, the Company intends to apply the net proceeds from the Rights Issue towards (i) its business development in the PRC including setting up four bistros in the PRC, working capital of bistros, advertisement and procurement of raw materials for baijiu production; and (ii) its Faux Leather Chemicals Business by repayment of bank borrowings and investment in new automation system and facilities of production and research and development. Given the Company has already utilised over 90% of net proceeds from the 2022 Placing and new proceeds from the Rights Issue will be mainly applied towards production automation and enhancement for of the existing Faux Leather Chemicals Business and development of the Chinese Liquor Business such as rental, salary and marketing activities for baijiu production and bistros, we consider that the Rights Issue would enable to Group to raise additional capital for operation improvement and business expansion and thus is in the interest of the Company and its Shareholders as a whole.

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 for the development of the Chinese Liquor Business of which (i) approximately HK\$20 million in setting up four bistros in the PRC; (ii) approximately HK\$8.55 million for the working capital in operating the above-mentioned four bistros upon their opening; (iii) approximately HK\$100 million 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 in payment of manufacturing costs for the production of the Group's Chinese baijiu products; and (b) approximately HK\$58 million to support the Faux Leather Chemicals Business of which (i) approximately HK\$11.5 million for repayment of bank borrowings; (ii) approximately HK\$11 million for investment in automation information platform; (iii) approximately HK\$17 million for procurement of new production facilities; (iv) approximately HK\$3.5 million for research and development; (v) approximately HK\$9.2 million for purchase of raw materials; and (vi) approximately HK\$5.8 million for potential prepayments to suppliers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For the Chinese Liquor Business, according to the Letter from the Board, the Company plans to open four bistros in Jiangxi province, Fujian province and Jiangsu province within the first six months from the Rights Issue Completion and each of these bistros is expected to serve a maximum of around 100 customers at one time slot and will require around 20 to 25 staff. The Company expects to incur (i) approximately HK\$20.93 million on renovation and furniture etc.; (ii) approximately HK\$2.33 million on procurement; (iii) approximately HK\$2.09 million on marketing activities; and (iv) approximately HK\$3.20 million on other working capital such as wages. We consider that the proposed bistros in three provinces may broaden the sales channel of and help to promote the Group's baijiu products which is in line with the recent business expansion strategy of the Group in respect of product diversification and advertisement across different districts in the PRC and the abovementioned cost items are necessary for setting up bistro business

According to the Letter from the Board, Guizhou Dichiwan, a non-wholly-owned subsidiary of the Company, procures necessary raw materials via the material procurement services provided by an independent wine factory in accordance with the specification requested by Guizhou Dichiwan in producing the Chinese baijiu products and outsources the manufacturing process to such factory to produce the Chinese baijiu products via an original equipment manufacturer arrangement. As advised by the Company, the Chinese Liquor Business commenced in May 2022 and during the ten months ended 28 February 2023, the Group sold approximately 299,000 liters of baijiu products and recorded relevant purchase of approximately RMB128.40 million. We have also reviewed 112 sample invoices for the period from May 2022 to February 2023 on bi-monthly basis with their total invoice amount represents over 50% of the total purchase amount to the wine factory for the same ten month period and noted that the unit manufacturing cost of baijiu products payable by the Group to wine factory ranged from approximately RMB300 to RMB660 per liter depends on the type of baijiu products. As advised by the Company, the Group expects to replenish approximately 200,000 liter of its baijiu products for 2023 onwards. Having considered the unit manufacturing costs of baijiu products of the Group and historical sales volume of the Group's baijiu products during the ten months ended 28 February 2023, we consider that the intended utilisation of approximately HK\$100 million from the net proceeds of the Rights Issue for payment of manufacturing costs for baijiu products is justifiable.

As regards the advertising campaigns for the Chinese Liquor Business, we have reviewed a contract of the Group dated 18 June 2022 in relation to advertisement of products and brand of Guizhou Dichiwan in media platforms (e.g. airports) for a term of three years and the total contract amount is RMB350 million (tax inclusive). We have also reviewed a schedule of advertisement in various airports and shopping centres for 2023 and noted that the estimated budget is approximately RMB100 million. As the Company considers that the performance of the Chinese Liquor Business in 2022 was attributable to the extensive advertising campaigns, the Company considers that it is necessary to continue the existing advertising campaigns, particularly in the early stage of business, to build its brand and gain the market recognition of its products. In light of the historical performance of the Chinese Liquor Business and existing agreement on schedule and budget of advertising campaigns, we consider that the intended utilisation of approximately HK\$100 million from the net proceeds of the Rights Issue for advertising campaigns is justifiable.



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As part of our work done, we have conducted independent research on the general economic conditions of the PRC, particularly Jiangxi province, Fujian province and Jiangsu province, based on the information from websites of National Bureau of Statistics, Provincial People's Government and Provincial Bureau of Statistics of the PRC. We noted that (i) the per capital gross domestic product of the PRC increased by approximately 5.3% in 2022 as compared with 2021 and per capita disposal income of urban residents increased by approximately 3.9% in 2022 as compared with 2021; (ii) the per capita disposal income of urban residents in Jiangxi province increased by approximately 4.8% in 2022 as compared with 2021; (iii) the per capita disposal income of urban residents in Fujian province increased by approximately 5.2% in 2022 as compared with 2021; and (iv) the per capita disposal income of urban residents in Jiangsu province increased by approximately 4.2% in 2022 as compared with 2021.

Based on the above, we concur with the Company that there is commercial reason for the Company to allocate approximately HK\$228.55 million from the net proceeds of the Rights Issue to the development of the Chinese Liquor Business.

For the Faux Leather Chemicals Business, the Company plans to apply approximately HK\$11.5 million of the net proceeds from the Rights Issue for repayment of the bank borrowings. As part of our due diligence, we have reviewed the agreement of the Group in relation to a bank loan in the principal amount of RMB10 million for a term of 12 months from January 2023 and noted that the interest rate is one year loan prime rate (LPR) less 45 basis points which is currently 3.2% per annum and early repayment is subject to application of the Group to the bank with no compensation amount required. We have also independently calculated the implied cost of capital for the Rights Issue (being the percentage of estimated expenses in relation to the Rights Issue (e.g. professional fee and relevant expenses) to the maximum gross proceeds of the Rights Issue), and noted that the implied cost of capital of approximately 1.00% is significantly lower than the aforesaid interest rate. Given the significant difference between interest rate of the loan agreement and implied cost of capital of the Rights Issue, the Company could save finance costs. Therefore, we consider that it is reasonable for the Company to obtain lower cost of capital by way of the Rights Issue to repay the interest bearing bank loan with higher interest rate.

As set out in the Letter from the Board, 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 and 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. According to the Annual Reports, revenue generated from the Faux Leather Chemicals Business increased by approximately 11.24% for the year ended 31 December 2022 as compared with prior year. Nevertheless, segment profit of this business decreased by approximately 4.65% for the year ended 31 December 2022 mainly due to the increase in raw material costs and selling and distribution expenses. Therefore, it is reasonable for the Company to prepare extra production capacity to cope with the potential business growth and reduce its operating costs to by investment in the aforesaid system and facilities. We have reviewed the relevant supplier

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quotations obtained by the Company for (i) implementation of Distributed Control System (DCS), a system designed to enable the Company to real-time monitor the production process for safety and efficient resource utilisation, which costs from RMB8 million to RMB13 million; and (ii) setup of additional production facilities of colour chips for leather products which costs around RMB15 million. Furthermore, the Company plans to (i) replenish its inventory of major raw materials, e.g. titanium dioxide which is mainly applied in producing colour pastes and colour chips, and apply approximately HK\$9.2 million of the net proceeds from the Rights Issue for procurement; and (ii) capture the growth of the PRC electric vehicle market by developing colour pastes and colour chips for interior leather products of electric vehicles and incur approximately RMB3.5 million on research and development comprising relevant staff costs for the first six months, procurement of relevant facilities and raw materials.

In light of (i) the historical growth of the Faux Leather Chemicals Business; (ii) the recovery of the PRC general economy and release of epidemic control measures; (iii) the relatively low inventory level of titanium dioxide of approximately 200 tonnes as at 31 March 2023 when compared with the consumption of over 2,000 tonnes in 2022; and (iv) the need of the Company to equip itself with automation system and extra production capacity and inventory to maintain its competitiveness, we concur with the Company that there is commercial reason for the Company to allocate approximately HK\$58 million from the net proceeds of the Rights Issue to the Faux Leather Chemicals Business.

Since the Rights Issue will give all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company without diluting their corresponding shareholdings and to participate in the long-term growth of the Company, we concur with the view of the Company that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole to conduct the Rights Issue to support the capital need of the Group and the intended use of proceeds are reasonable and commercially justifiable.

### **3. Alternative financing methods**

As stated in the Letter from the Board, other financing alternatives were considered, including, among other things, (i) debt financing such as bank borrowings; and (ii) equity financing such as placing of new shares and open offer. The Company had contacted certain banks for securing bank loan facilities but the Company could not reach favourable financing terms with the banks for loan size comparable to the net proceeds of the Rights Issue upon discussion in light of the business performance and assets of the Group. 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. Furthermore, as debt financing is normally for fixed term and the success and timing of renewal would materially affect the liquidity of the Company, the Company did not consider it appropriate to the Group.

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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 fundraising activities in view of the volatile price performance of the Shares and size of equity financing. 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 other fundraising alternatives for the Company as disclosed above, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) are of the view that the Rights Issue is more appropriate to the Company 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.

#### 4. Principal terms of the Rights Issue

##### 4.1 Issue statistics

<b>Basis of the Rights Issue</b>	:	Three (3) Rights Shares for every two (2) Consolidated Shares held by the Qualifying Shareholders on the Record Date
<b>Subscription price</b>	:	HK\$0.67 per Rights Share
<b>Number of Existing Shares in issue as at the Latest Practicable Date</b>	:	1,440,000,000 Existing Shares
<b>Number of Consolidated Shares in issue upon the Share Consolidation becoming effective</b>	:	288,000,000 Consolidated Shares (assuming there is no further allotment and issue or repurchase of Shares up to the effective date of the Share Consolidation)

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**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

**Number of Shares in issue upon completion of the Rights Issue :** 720,000,000 Shares

The Company 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. As at the Latest Practicable Date, the Company did 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.

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 not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

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.

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### 4.2 *Subscription Price*

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose only.

#### *Historical price movement analysis*

As set out in the Letter from the Board, the Subscription Price of HK\$0.67 per Rights Share, which will be payable in full upon application, 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 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-rights 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);

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- (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 previous five 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 adjusted 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 Shareholders 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 and the Latest Practicable Date after adjustment for the effect of the Share Consolidation; and
- (viii) discount of approximately 48.85% to the adjusted consolidated net asset value per Consolidated Share (the “NAV per 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 Annual Reports and 288,000,000 Consolidated Shares in issue as at the date of the Announcement and the Latest Practicable Date after adjustment for the effect of the Share Consolidation.

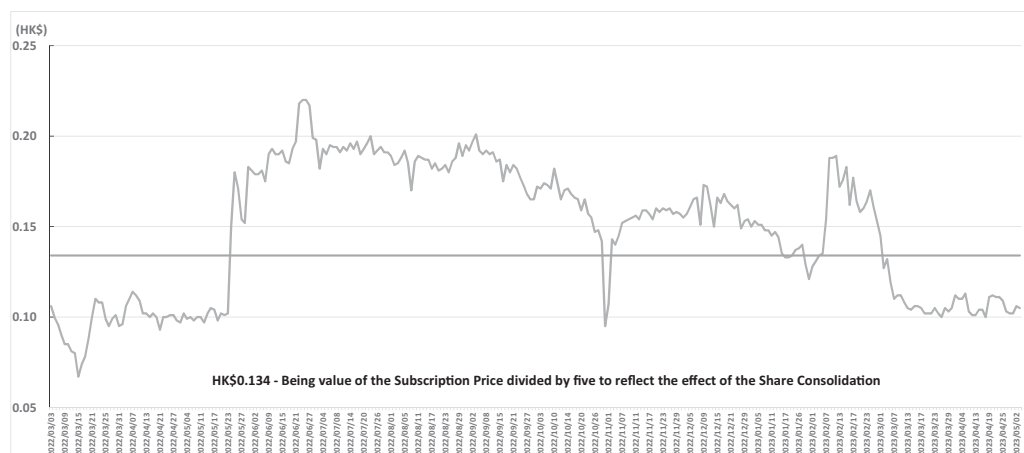
According to the Letter from the Board, the Subscription Price was determined with reference to (i) the recent fluctuated downward trend of the prevailing market prices of the Existing Shares; (ii) the latest financial position of the Group; and (iii) the reasons for the Rights Issue, the Placing and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

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In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 3 March 2022, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the “**Price Review Period**”). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.



Source: The Stock Exchange

Although the Subscription Price (taking into account the effect of the Share Consolidation) appears to be at a substantial discount to the NAV per Share of approximately HK\$1.31 per Share as at 31 December 2022, we consider that the NAV per Share is not meaningful benchmarks to assess the Subscription Price as the Shares have been protractedly traded at significant discount to the NAV per Share in the open market during the Price Review Period and the Subscription Price was determined with reference to, among others, the recent fluctuated downward trend of the prevailing market prices of the Shares, the latest financial position of the Group and the funding need to cope with the Group’s business plan. Given the recent market price of the Shares have already reflected the expectation of the investors to the Company such as financial results and corporate actions of the Company and the recent market sentiment, we consider that recent market price of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

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As illustrated in the above chart, the closing prices of the Shares were below the Subscription Price (taking into account the effect of the Share Consolidation) and fluctuated around HK\$0.10 per Share from 3 March 2022 to 23 May 2022. During this period, the Company announced (i) its audited financial results for the year ended 31 December 29 March 2022; (ii) the change of its company name on 6 May 2022; (iii) resignation of an executive director on 16 May 2022; and (iv) the strategic cooperation with an independent third party to jointly establish a company for its business in big health industry combining the health industry and the sales and promotion of food and beverage on 23 May 2022.

The closing price of the Shares surged to HK\$0.15 per Share on 24 May 2022 and the Company announced the resignation of chairman of the Board and changes of executive directors on the same day. Since then, the closing prices of the Shares have been generally on increasing trend and reached the highest of HK\$0.22 per Share on 23 June 2022 and 24 June 2022.

Then the closing prices of the Shares have been generally on decreasing trend and reached the lowest of HK\$0.095 per Share on 31 October 2022. During this period, the Company announced (i) the 2022 Placing on 28 June 2022; (ii) the extension/delay of the 2022 Placing on 18 July 2022, 27 July 2022, 5 August 2022 and 24 August 2022; (iii) completion of the 2022 Placing on 29 August 2022; and (iv) its unaudited interim financial results for the six months ended 30 June 2022 on 31 August 2022.

The Company announced the placing of bonds on 11 November 2022 and closing prices of the Shares surged to HK\$0.173 per Share on 9 December 2022 and further to HK\$0.189 per Share on 10 February 2023. The Company announced the Share Consolidation and the Rights Issue together with resignation of executive directors on 3 March 2023 and its annual results for the year ended 31 December 2022 on 31 March 2023 respectively. Since the publication of the Announcement, the closing prices of the Shares have been fluctuating below the Subscription Price (after adjustment to the effect of the Share Consolidation) between HK\$0.100 and HK\$0.119 per Share and reached HK\$0.105 per Share as at the Latest Practicable Date.

In the Price Review Period, the highest closing price of the Shares was HK\$0.22 per Share on 31 October 2022 and the lowest closing price of the Shares was HK\$0.067 per Share on 15 March 2022 respectively. The Subscription Price (after adjustment to the effect of the Share Consolidation) represents a premium of 100% over the lowest closing price of the Shares and a discount of approximately 39.09% to the highest closing price of the Shares in the Price Review Period respectively. Notwithstanding the aforesaid discount has been up to approximately 39.09%, the closing prices of the Share have been generally on downward trend during the Price Review Period.



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We consider that the closing prices and general decreasing price trend of the Shares during the Price Review Period should have reflected market evaluation on the recent financial performance/position and development of the Group. Hence, we consider it is fair and reasonable for the Company to determine the Subscription Price with reference the prevailing market prices, particularly the more recent closing prices, of the Shares and a discount (which will be analysed below) to enhance the attractiveness of the Rights Issue given the diverging performance between the Share price and the general stock market.

### *Historical trading volume and liquidity analysis*

We have also reviewed the historical trading volume of the Shares during the Price Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Price Review Period are shown in the table below.

Month/period	Number of trading days	Average daily trading volume	% of average daily trading volume to the total number of Shares in issue <i>(Note 1)</i>	% of average daily trading volume to the total number of Shares in the public hands <i>(Note 2)</i>
<b>2022</b>				
March <i>(Note 3)</i>	21	2,442,095	0.2035	0.2684
April	18	2,306,667	0.1922	0.2535
May	20	31,975,000	2.6646	3.5138
June	21	14,090,286	1.1742	1.5484
July	20	2,278,600	0.1899	0.2504
August	23	2,909,565	0.2021	0.2530
September	21	2,684,190	0.1864	0.2334
October	20	1,398,900	0.0971	0.1216
November	22	3,023,455	0.2100	0.2629
December	20	3,084,200	0.2142	0.2682
<b>2023</b>				
January	18	2,905,333	0.2018	0.2526
February	20	10,917,350	0.7581	0.9493
March	23	5,376,913	0.3734	0.4676
April	17	3,148,471	0.2186	0.2738
May <i>(Note 4)</i>	2	2,173,000	0.1509	0.1890

*Source:* The Stock Exchange

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*Notes:*

1. Calculated based on the total number of the Shares in issue at the end of month/period.
2. Calculated based on the total number of the Shares in public hands at the end of month/period according to the public information on the Stock Exchange.
3. Represents number of trading days and trading volume for the period from 3 March 2022 to 31 March 2022, both days inclusive.
4. Represents number of trading days and trading volume for the period from 2 May 2023 to the Latest Practicable Date, both days inclusive.

As demonstrated in the table above, during the Price Review Period, the average daily trading volume of the Shares by month/period were in the range of approximately 0.0971% to 2.6646% as to the total number of issued Shares and approximately 0.1216% to 3.5138% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low in the open market. On this basis and the closing price of the Shares generally showed a decreasing trend during the Price Review Period, we concur with the Directors that the discount to the Share price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company. For this reason, we are of the view that the discount to the Share price as represented by the Subscription Price is justifiable.

*Rights Issue comparable analysis*

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 38 rights issue transactions announced by other companies listed on the Stock Exchange (except those terminated or lapsed) for the period from six months immediately prior to the Last Trading Day (the “**Comparable Review Period**”) and up to the Latest Practicable Date. Shareholders should note that the subject companies in these rights issue transactions comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. As one rights issue transaction, being 華泰證券股份有限公司 Huatai Securities Co., Ltd.\* (stock code: 6886.HK), did not disclose its discounts of subscription price to its prevailing share prices (i.e. price as at last trading day or the five previous consecutive trading days up to and including the last trading day), we have excluded it from our comparison. We have further analysed the remaining 37 rights issue transactions by dividing them into classes with price discounts (i.e. price as at last trading day and/or the five previous consecutive trading days up to and including the last trading day) of 10% each (e.g. nil to 10% discount as the first class and over 10% but not more than 20% as the second class). We noted that majority (i.e. over two-thirds) of the remaining 37 rights issue transactions, (i) over two-thirds have price discounts belong to the first three classes (i.e. ranging from nil to 30%) and each of other classes has one to five rights issue transactions. However, we noted that there is only one rights issue transaction belongs to the last class with price discount over 70% and this only rights issue transaction represents less than 3% of the total number of rights issue transactions. As such we consider this rights issue transaction, being Kingland Group Holdings Limited (stock code: 1751.HK), as outlier, and exclude it from our comparison.

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Although the circumstances surrounding such remaining 36 comparable rights issue transactions (the “Comparables”) may be different from those relating to the Company, we consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to rights issue transactions which the Comparables, for illustrative purpose only, serve as a general reference for prevailing market practices in relation to rights issue transactions conducted by the companies listed in the Stock Exchange.

Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the average share price for the five consecutive trading days up to and including the last trading day		Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)	Underwriting/ placing related commission, as the case may be (%)	Fully underwritten Yes/No	Excess application Yes/No	Maximum dilution effect (%)	Cumulative theoretical dilution impact
				price on the last trading day (%)	last trading day (%)						
23 September 2022	Tasty Concepts Holding Limited	8096	5 for 2	(14.30)	(14.30)	(4.50)	2.50	No	No	71.43	10.30
26 September 2022	Endurance RP Limited	575	1 for 1	(21.50)	(25.24)	(15.59)	2.00	No	No	50.00	13.89
11 October 2022	AMCO United Holding Limited	630	1 for 1	(16.70)	(16.70)	(9.10)	2.50	No	No	50.00	8.33
13 October 2022	Great Wall Terroir Holdings Limited	524	1 for 4	(6.30)	(15.70)	(5.10)	N/A	No	Yes	20.00	6.49
18 October 2022	China Zenith Chemical Group Limited	362	5 for 2	(28.57)	(25.93)	(9.10)	1.00	No	Yes	71.43	21.80
18 October 2022	Cherish Sunshine International Limited	1094	5 for 8	(13.70)	(17.11)	(11.27)	Minimum 0.50 (Placing fee) Nil (underwritten by connected person)	Yes	No	38.46	6.64
20 October 2022	Crocodile Garments Limited	122	1 for 2	(66.10)	(66.40)	(56.50)	N/A	No	Yes	33.33	22.80
21 October 2022	E. Bon Holdings Limited	599	1 for 4	(20.00)	(20.99)	(17.60)	2.50	No	Yes	20.00	4.42
21 October 2022	C&N Holdings Limited	8430	3 for 1	(13.30)	(13.30)	(3.70)	1.50	No	No	75.00	10.00
10 November 2022	Lai Sun Garment (International) Limited	191	1 for 2	(50.00)	(50.80)	(40.80)	2.00	Yes	No	33.33	17.10
10 November 2022	Lai Sun Development Company Limited	488	1 for 2	(50.20)	(51.90)	(42.10)	2.00	Yes	No	33.33	17.40
14 November 2022	Contel Technology Company Limited	1912	2 for 5	(23.20)	(25.00)	(18.20)	3.50	No	No	28.57	7.10
28 November 2022	CCIAM Future Energy Limited	145	1 for 2	(21.88)	(23.31)	(15.97)	2.50	No	Yes	33.33	7.63
29 November 2022	Enterprise Development Holdings Limited	1808	3 for 2	(39.72)	(39.37)	(20.86)	1.00	No	Yes	60.00	23.83
2 December 2022	Tibet Water Resources Ltd.	1115	1 for 3	(12.50)	(9.84)	(9.68)	1.00	No	No	25.00	3.13
28 December 2022	JIADING International Group Holdings Limited	8153	1 for 2	(50.00)	(51.55)	(40.12)	3.50	No	No	33.33	17.28

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Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the average share price			Underwriting/ placing related commission, as the case may be (%)	Fully underwritten Yes/No	Excess application Yes/No	Maximum dilution effect (%)	Cumulative theoretical dilution impact
				price over/to the share price on the last trading day (%)	share price for the five consecutive trading days up to and including the last trading day (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)					
28 December 2022	New Amante Group Limited	8412	1 for 2	(10.60)	(12.10)	(7.30)	1.50	No	Yes	33.33	4.20
30 December 2022	華泰證券股份有限公司 (Huatai Securities Co., Ltd.)* (Note 3)	6886	3 for 10	N/A	N/A	N/A	N/A	No	No	23.08	N/A
6 January 2023	SDM Education Group Holdings Limited	8363	1 for 2	0.00	0.00	0.00	4.00	Yes	Yes	33.33	0.00
10 January 2023	Kinetix Systems Holdings Limited	8606	1 for 2	(29.35)	(29.35)	(21.69)	1.30	No	No	33.33	9.78
11 January 2023	Add New Energy Investment Holdings Group Limited	2623	1 for 3	(13.60)	(13.00)	(10.90)	1.00 (Placing fee) Nil (Underwritten by connected person)	No	No	25.00	3.40
27 January 2023	Alco Holdings Limited	328	4 for 1	(25.00)	(22.10)	(6.25)	0.50	No	No	80.00	20.00
10 February 2023	Link Real Estate Investment Trust	823	1 for 5	(29.60)	(30.20)	(26.00)	1.50	Yes	Yes	16.67	5.00
10 February 2023	Windmill Group Limited	1850	2 for 1	(1.45)	(3.68)	0.00	1.00	No	No	66.67	2.82
17 February 2023	State Innovation Holdings Limited	8275	3 for 2	(26.50)	(26.50)	(12.50)	2.50	No	No	60.00	22.17
24 February 2023	Bossini International Holdings Limited	592	1 for 2	(21.28)	(25.55)	(3.19)	1.50	No	Yes	33.33	8.45
6 March 2023	CBK Holdings Limited	8428	5 for 1	(15.87)	(14.24)	(2.93)	3.50	No	No	83.33	13.23
16 March 2023	Golden Power Group Holdings Limited	3919	1 for 2	(19.71)	(24.24)	(6.60)	4.00	Yes	Yes	33.33	8.98
27 March 2023	Sandmartin International Holdings Limited	482	3 for 2	(16.67)	(16.67)	(7.41)	2.00 (Placing fee) 1.00 (Underwritten by connected person)	Yes	No	60.00	10.00
28 March 2023	Haitong International Securities Group Limited	665	3 for 10	0.00	(0.31)	0.00	N/A	No	Yes	23.08	0.07
6 April 2023	Kingland Group Holdings Limited (Note 3)	1751	1 for 2	(70.40)	(69.92)	(61.30)	3.50	No	No	33.33	23.47
6 April 2023	Luk Hing Entertainment Group Holdings Limited	8052	1 for 1	(5.88)	(4.76)	(6.43)	3.00	Yes	No	50.00	2.94
11 April 2023	China Wantian Holdings Limited	1854	1 for 5	(41.94)	(40.00)	(37.61)	7.07	Yes	Yes	16.67	6.99
13 April 2023	Pinestone Capital Limited	804	1 for 2	(40.79)	(39.68)	(31.47)	1.50	No	No	33.33	13.60



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted from the above table that almost all of the Comparables had set the subscription price of their rights issue at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the rights issue were made except two Comparables, being SDM Education Group Holdings Limited (8363.HK) and Haitong International Securities Group Limited (0665.HK), with nil discount of their subscription prices to the closing price on their respective last trading days and/or average share price for the five previous consecutive trading days up to and including their respective last trading days. Therefore we consider it is a normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing market price of the relevant shares so as to encourage the shareholders' participation but it is not uncommon to set subscription price with nil discount to prevailing price.

The discount represented by the subscription prices to the closing price of shares of the Comparables on respective last trading day ranges from a discount of approximately 69.20% to nil discount with mean and median discount of approximately 25.17% and 21.39% respectively. The premium of approximately 1.52% of the Subscription Price over the closing price of the Shares on the Last Trading Day is above the range of those of the Comparables but slightly above nil discount represented by the two abovementioned Comparables. Nevertheless the Subscription Price was determined by the Company with reference to, among others, the recent fluctuated downward trend of the prevailing market prices of the Existing Shares, the Company has taken into account the closing prices of the Existing Shares prior to the Last Trading Day, e.g. average closing price of the Shares over the five trading days up to the Last Trading Day, which the Company considered to be more representative in reflecting the prevailing share prices performance of the Shares. In fact, the discount of the Subscription Price to the average closing price of the Shares on the five trading days up to the Last Trading Day of approximately 6.94% is within the range of discount, being approximately 67.90% to nil discount, represented by the subscription prices to the average closing price of shares of the Comparables on respective last five trading days.

The subscription prices of the Comparables represent a range from a discount of approximately 60.00% to nil discount relative to their respective theoretical ex-rights prices (which is calculated based on the recent market price of share, subscription price and entitlement per share) as disclosed in relevant announcements. The premium of approximately 0.60% of the Subscription Price over the theoretical ex-rights prices of the Shares on the Last Trading Day is above the range of the Comparables but slightly above nil discount represented by the two abovementioned Comparables.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Due to the fluctuation of the price of the Shares post the publication of the Announcement which is currently between HK\$0.100 and HK\$0.119 per Share, the Subscription Price (after adjustment to the effect of the Share Consolidation) represents a premium of approximately 27.62% over the closing price of the Shares as at the Latest Practicable Date. Given (i) the Subscription Price was determined by the Company with reference to, among others, the reasons for the Rights Issue and the capital need of the Company as disclosed in the Letter from the Board; (ii) the Rights Issue gives all Qualifying Shareholders an equal opportunity to subscribe and participate in this fund raising exercise and the potential development of the Company; (iii) the Qualifying Shareholders may subscribe for all or part of the Rights Shares under their PALs subject to their investment objectives; and (iv) less theoretical value dilution to the No Action Shareholders if discount of the Subscription Price to the prevailing price of the Shares is smaller and particularly if there is a premium over the prevailing price of the Shares, we consider that the Subscription Price is fair and reasonable.

Based on the above analysis and the facts that (i) the Shares were traded above the Subscription Price (taking into account the effect of the Share Consolidation) throughout majority of the Comparable Review Period and notwithstanding the premium of the Subscription Price over the closing price of the Shares as at the Latest Practicable Date (after adjustment to the effect of the Share Consolidation); (ii) the liquidity in trading of the Shares was thin during the Comparable Review Period; (iii) it is common for the listed companies in Hong Kong to set the subscription price of rights issue at a discount to the market price of the listed shares in order to enhance the attractiveness of the rights issue transactions; (iv) the discount of the Subscription Price to the average closing price of the Shares on the five trading days up to the Last Trading Day falls within the range of the Comparables; (v) the premium of the Subscription Price to the closing price of the Shares on the Last Trading Day is slightly above nil discount represented by two Comparables; (vi) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (vii) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we consider that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *4.3 Application for excess Rights Shares*

As stated in the Letter from the Board, the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. We have reviewed the Comparables, and noted that 21 out of 36 Comparables did not offer excess application to their shareholders. Furthermore, 24 out of 36 Comparables were not fully underwritten, among which 14 of them did not offer excess application to their shareholders. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice.

After having considered the facts that (i) the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company; (ii) the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full can maintain their respective existing shareholdings in the Company after completion of the Rights Issue; and (iii) the absence of excess application arrangement is not an uncommon market practice, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

## **5. Compensatory Arrangements**

According to the Letter from Board, the Company would 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 (i.e. the Compensatory Arrangements). Therefore, on 3 March 2023, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Untaken Shares and the NQS Unsold Shares. Please refer to the paragraph headed “The Placing Agreement” in the Letter from the Board for the details of the Placing Agreement.

### *5.1 Placing Price*

Pursuant to the Placing Agreement, the placing price (the “**Placing Price**”) of each of the Untaken Share and/or the NQS Unsold Share shall be not less than the Subscription Price. The final price determination is depends on the demand and market conditions of the Untaken Shares and/or the NQS Unsold Shares during the process of the Placing.

Given that (i) the Placing Price shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraph headed “4.2 Subscription Price” above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5.2 *Placing Commission*

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent a placing commission (the “**Placing Commission**”) of 0.5% of the amount which is equal to the Placing Price multiplied by the Untaken Shares and NQS Unsold Shares that have been successfully placed by the Placing Agent. As advised by the Company, the Placing Commission was determined after arm’s length negotiation between the Company and the Placing Agent and is on normal commercial terms, and the Directors, have taken into account the range of placing commission for recent rights issues conducted by issuers listed on the Stock Exchange.

As illustrated in table above, the placing/underwriting commission rate of the Comparables ranged from 0.06% to 7.07% (except those underwritten by connected person(s)). The Placing Commission falls below the range of the placing/underwriting commission rate of the Comparables. Accordingly, we consider that the Placing Commission is fair and reasonable.

We have also reviewed other major terms of the Placing Agreement, including but not limited to the conditions and termination clause of the Placing Agreement (details of which are set out in the Letter from the Board) and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Placing Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

In view of the above, we consider that the implementation of the Compensatory Arrangements is in the interests of the Company and the Shareholders as a whole.

### 6. **Dilution effect of the Rights Issue on shareholding interests**

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their proportionate shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. As at the Latest Practicable Date, the existing public Shareholders held approximately 79.86% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the Qualifying Shareholders), the shareholding of the existing public Shareholders will be diluted to approximately 31.95%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in table above, the maximum dilution of the Comparables ranged from approximately 9.09% to approximately 83.33% with an average dilution of approximately 40.89%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 60.00%, which falls within the range of the Comparables. As set out in the Letter from the Board, the theoretical dilution impact is approximately 6.76% and we also noted that cumulative (where applicable) theoretical dilution impact of the Comparables range from nil to approximately 23.83% with 26 out of 36 Comparables showing dilution impact over 6%. Hence, we consider that it is reasonable for the Rights Issue with such cumulative theoretical dilution impact.

In all cases of rights issue, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the rights issue is inevitable. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed "7. Financial effects" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

### **7. Financial effects**

It should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

#### **7.1 Net tangible assets**

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, had the Rights Issue been completed in full on 31 December 2022, the consolidated net tangible assets of the Group attributable to the Shareholders would have increased from an audited one of approximately RMB331.14 million to an unaudited pro forma adjusted one of approximately RMB583.31 million immediately after the completion of the Rights Issue.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7.2 *Bank balances*

Upon completion of the Rights Issue in full and before the utilization of net proceeds as intended by the Company, the bank balances of the Company is expected to increase by an amount equivalent to the net proceeds from the Rights Issue, which is estimated to be approximately RMB252.16 million (equivalent to approximately HK\$286.55 million).

### 7.3 *Gearing*

The gearing ratio of the Company, as represented by debts (including borrowings and payables incurred not in the ordinary course of business) over equity, was approximately 2.85% as at 31 December 2022. Since approximately HK\$11.5 million of the net proceeds from the Rights Issue is intended to be used to repay the Group's bank borrowing, the debt of the Company is expected to decrease as a result of the Rights Issue assuming the Rights Issue will be completed in full and the entire net proceeds will be applied as intended and no additional borrowings. Based on the above analysis, we are of the view that the Rights Issue would have a positive effect on the Group's net tangible assets, cash position and gearing.

## RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue (including the Subscription Price and the potential dilution effect) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the relevant resolution(s) proposed at the EGM thereby approving the Rights Issue.

Yours faithfully,  
For and on behalf of  
**Sorrento Capital Limited**

**Wesker Poon**  
*Managing Director*

*Note:* Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Mr. Poon has participated in and completed various advisory transactions (including fundraising activities of listed companies in Hong Kong).

**1. FINANCIAL INFORMATION OF THE GROUP**

The financial information of the Group for the four years ended 31 December 2019, 2020, 2021, 2022 and the six-month period ended 30 June 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.slkj.cn/>), respectively):

- (i) the audited consolidated financial information of the Group for the year ended 31 December 2022 is disclosed in the annual report of the Company for the year ended 31 December 2022 published on 21 April 2023, from pages 63 to 177 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0421/2023042101899.pdf>);
- (ii) the unaudited financial information of the Group for the six-month period ended 30 June 2022 is disclosed in the interim report of the Company for the six months ended 30 June 2022 published on 20 September 2022, from pages 20 to 44 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0920/2022092000376.pdf>);
- (iii) the audited consolidated financial information of the Group for the year ended 31 December 2021 is disclosed in the annual report of the Company for the year ended 31 December 2021 published on 22 April 2022, from pages 65 to 151 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0422/2022042201776.pdf>);
- (iv) the audited consolidated financial information of the Group for the year ended 31 December 2020 is disclosed in the annual report of the Company for the year ended 31 December 2020 published on 29 April 2021, from pages 76 to 167 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042902121.pdf>);
- (v) the audited consolidated financial information of the Group for the year ended 31 December 2019 is disclosed in the annual report of the Company for the year ended 31 December published on 28 April 2020, from pages 54 to 119 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802584.pdf>).

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had following indebtedness:

- (i). Secured and unguaranteed interest-bearing bank borrowings of RMB10,000,000;
- (ii). Unsecured and guaranteed interest-bearing bank borrowings of RMB15,000,000; and
- (iii). Unsecured and unguaranteed interest-free borrowings from a related company of the Company of RMB440,000

**Pledged assets**

As the close of business on 31 March 2023, the Group bank borrowings were secured by the Group's certain right-of-use assets with total carrying values of approximately RMB10.3 million as at 31 March 2023.

The Group's certain right-of-use assets and buildings with total carrying values of approximately RMB38.0 million as at 31 March 2023 and bank deposits of approximately RMB3.2 million had been pledged to secure banking facilities granted to the Group for issuing bills payable.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables and accruals in the ordinary course of business, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, material capital or hire purchase commitments or other borrowings, mortgages, charges, guarantees or contingent liabilities as at the close of business on 31 March 2023.

**3. WORKING CAPITAL STATEMENT**

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstances, taking into account the financial resources available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements for at least the next twelve (12) months following the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

**5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

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 manufacture and sale of Chinese baijiu products in the PRC.

In order to broaden income source of the Group, it is the Group's business direction to explore business opportunities. Since then, the Group has commenced the Chinese Liquor Business in May 2022. 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 Company considers that the business performance of the Chinese Liquor Business is promising and it is expected that the Chinese Liquor Business will become one of the key revenue drivers of the Group in the long run. As at the Latest Practicable Date, the Company has no intention to dispose of, terminate or scale down any of its existing businesses.

The economic outlook remains uncertain in 2023. Global economies will continue to face multiple macroeconomic headwinds, including geopolitical uncertainties, inflation and tightened financial conditions. Many industries are still plagued by supply chain issues that emerged in recent years. Ongoing inflation and subdued economic growth are expected. In order to combat this, our Group aims to improve our resilience in through strategic management, development and expansion of our two core businesses as well as building protective measures into supply chains to deal with shortages and rising business costs.

Following the pace of the development of our businesses in 2022, the Group will diversify the product and market segmentation.

For the Chinese Liquor Business, we will be launching sizeable advertising campaigns across different districts in the PRC and setting up ancient-Chinese-style bistros in the PRC.

For the Faux Leather Chemical Business, we will further invest in and upgrade the automation system in production to improve the production efficiency, safety and environmental level. Through research and development and additional production facilities, we will continue to improve our product quality and increase our product competitiveness.

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

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

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company (the “Unaudited Pro Forma Financial Information”) has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as if the Rights Issue had taken place on 31 December 2022.

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

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2022	Estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Rights Issue	Audited consolidated net tangible assets per Share attributable to the owners of the Company as at 31 December 2022	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the owners of the Company after completion of the Rights Issue
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	RMB (Note 4)
Based on 432,000,000 Rights Shares to be issued at a Subscription Price of HK\$0.67 per Rights Share	331,141	252,164	583,305	1.150	0.810

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2022 is extracted from the published annual report of the Company for the year ended 31 December 2022, which is equal to the consolidated net assets attributable to owners as at 31 December 2022 of RMB331,141,000.
2. The estimated net proceeds from the Rights Issue are based on 432,000,000 Rights Shares to be issued at the Subscription Price of HK\$0.67 each per Rights Share, after deduction of the related expenses including, among others, placing commission and other professional fees. The estimated net proceeds are approximately RMB252,164,000 (equivalent to approximately HK\$286,550,000).
3. The audited consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 31 December 2022 was RMB0.767, which was based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2022 of RMB331,141,000, divided by 288,000,000 Consolidated Shares which being adjusted for immediately after the Share Consolidation having become effective.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 31 December 2022 immediately after completion of the Rights Issue is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after completion of Rights Issue of approximately RMB583,305,000, divided by 720,000,000 Consolidated Shares which represents 288,000,000 Existing Shares in issue as at 31 December 2022.
5. No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 31 December 2022.



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

The Board of Directors  
Diwang Industrial Holdings Limited  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Dear Sirs,

**Independent Reporting Accountants’ Assurance Report on the Compilation of Unaudited  
Pro Forma Financial Information**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Diwang Industrial Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company (the “**Director**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2022 and notes as set out in Appendix II to the circular issued by the Company dated 5 May 2023 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Appendix II to the Circular. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless otherwise specified.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the rights issue of 432,000,000 shares on the basis of three (3) Rights Shares for every two (2) Consolidated Share held on the Record Date at the Subscription Price of HK\$0.67 per Rights Share (the “**Rights Issue**”) on the Group’s financial position as at 31 December 2022 as if the Rights Issue had taken place at 31 December 2022. As part of this process, information about the Group’s audited consolidated net tangible assets of the Group attributable to the owners of the Company has been extracted by the Directors from the Group’s audited consolidated statement of financial position as at 31 December 2022, on which an annual report has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (the “**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

**Our Independence and Quality Control**

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

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

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 December 2022 would have been as presented.

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

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

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

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

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

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**KTC Partners CPA Limited**

*Certified Public Accountants (Practising)*

Wong Kin Shing

Practising Certificate Number: P07435

Hong Kong, 5 May 2023

Room 617, 6/F., Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong

香港九龍尖沙咀東科學館道1號康宏廣場北座6樓617室

Tel 電話: (852) 2314 7999

Fax 傳真: (852) 2110 9498

E-mail 電子郵件: info@ktccpa.com.hk

## 1. RESPONSIBILITY STATEMENT

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

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately following the completion of the Share Consolidation and the Increase in Authorised Share Capital but before the completion of the Rights Issue; and (iii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date other than as a result of the Share Consolidation) are as follows:

### (a) As at the Latest Practicable Date

<i>Authorised:</i>		<i>US\$</i>
<u>2,000,000,000</u>	Existing Shares of US\$0.0005 each	<u>1,000,000</u>
<i>Issued and fully paid:</i>		
<u>1,440,000,000</u>	Existing Shares of US\$0.0005 each	<u>720,000</u>

### (b) Immediately following the Share Consolidation and the Increase in Authorised Share Capital becoming effective but before the completion of the Rights Issue

<i>Authorised:</i>		<i>US\$</i>
<u>2,000,000,000</u>	Consolidated Shares of US\$0.0025 each	<u>5,000,000</u>
<i>Issued and fully paid:</i>		
<u>288,000,000</u>	Consolidated Shares of US\$0.0025 each	<u>720,000</u>

**(c) Immediately following completion of the Rights Issue**

<i>Authorised:</i>		<i>US\$</i>
<u>2,000,000,000</u>	Consolidated Shares of US\$0.0025 each	<u>5,000,000</u>
 <i>Issued and fully paid:</i>		
<u>720,000,000</u>	Consolidated Shares of US\$0.0025 each	<u>1,800,000</u>

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 fully-paid Rights Shares.

As at the Latest Practicable Date, the Company had no outstanding options, warrants or other securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any Existing Shares or Consolidated Shares, as the case may be.

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

The Rights Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

**3. DISCLOSURE OF INTERESTS****(a) Directors' and chief executive's interests in the Shares, underlying Shares and debentures of the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which had been 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 in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules (the "Model Code"), are set out as follows:

Name	Capacity/Nature of interest	Number of Shares	Long/short position	Approximate percentage of shareholding in the Company
Mr. Chen Hua	Interest in controlled corporation and interest of spouse <sup>(Note 1-2)</sup>	30,004,000	Long position	2.08%

*Notes:*

- (1) *As at 31 December 2022, 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. Ms. Liu is therefore deemed to be interested in the Shares in which Lilian Global is interested under the SFO. Mr. Chen Hua, Ms. Liu Jing, 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 2.08% 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 Lilian Global, and therefore they are deemed to be interested in the Shares in which Sunlight Global and Lilian Global are interested under the SFO.*
- (2) *Mr. Chen Hua and Ms. Liu Jing are spouses to each other. Therefore, each of them is deemed to be interested in the Shares in which he or she is interested under the SFO.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Substantial shareholders' interests in the Shares and underlying Shares**

To the knowledge of the Directors of the Company, as at the Latest Practicable Date, the following persons (other than the Directors and chief executive of the Company) have the following interests and short positions in the shares and underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required pursuant to section 336 of the SFO to be entered in the register referred to therein.

Name	Capacity/Nature of interest	Number of Shares	Long/short position	Approximate percentage of shareholding in the Company
Zheng Xieyue	Beneficial Owner	260,000,000	Long position	18.06%

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors, no other person (other than the Directors and chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register referred to in section 336 of the SFO.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation other than statutory compensation.

**5. DIRECTOR'S INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP**

As at the Latest Practicable Date, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.



## 6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or controlling shareholders or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

## 7. LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## 8. EXPERTS AND CONSENTS

The following are the qualifications of the experts or professional advisers who have given opinions or advice which are contained in this circular (the “**Experts**”):

<b>Name</b>	<b>Qualification</b>
Sorrento Capital Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
KTC Partners CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, (i) each of the above Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letters or reports and references to its name and/or its advice in the form and context in which they respectively appear; (ii) each of the above Experts was not beneficially interested in any share of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (iii) each of the above Experts did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

**9. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by the members of the Group during two years preceding the Latest Practicable Date and are or may be material:

- (a) the placing agreement dated 28 June 2022 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing of up to 240,000,000 new Shares at the placing price of HK\$0.180 per placing Share
- (b) the supplemental agreement dated 18 July 2022 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing agreement dated 28 June 2022 to extend the long stop date;
- (c) the second supplemental agreement dated 27 July 2022 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing agreement dated 28 June 2022 (as supplemented by the supplemental agreement dated 18 July 2022) to further extend the long stop date;
- (d) the third supplemental agreement dated 5 August 2022 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing agreement dated 28 June 2022 (as supplemented by the supplemental agreement dated 18 July 2022 and the second supplemental agreement dated 27 July 2022) to further extend the long stop date;
- (e) the fourth supplemental agreement dated 24 August 2022 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing agreement dated 28 June 2022 (as supplemented by the supplemental agreement dated 18 July 2022, the second supplemental agreement dated 27 July 2022 and the third supplemental agreement dated 5 August 2022) to postpone the completion date;
- (f) the placing agreement dated 11 November 2022 entered into between the Company (as issuer) and CNI Securities Group Limited (as placing agent) in relation to the placing of unlisted and non-convertible bonds of the Company in the aggregate principal amount of up to HK\$250,000,000; and
- (g) the Placing Agreement.

**10. CORPORATE INFORMATION****Board of Directors***Executive Directors*

Mr. Chen Hua  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Mr. Lam Kam Kong Nathaniel  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Mr. Tse Chun Chung  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Mr. Sun Jingang  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

*Independent non-executive Directors*

Mr. Ho Ho Tung Armen  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Mr. Au Hei Ching  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Mr. Lee Cheung Yuet Horace  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Mr. Zheng Yu  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

Ms. Zhou Xiaochun  
Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo  
Place Hong Kong

*Audit Committee*

Mr. Ho Ho Tung Armen (*Chairman*)  
Mr. Au Hei Ching  
Mr. Lee Cheung Yuet Horace  
Mr. Zheng Yu  
Ms. Zhou Xiaochun

*Nomination Committee*

Mr. Lam Kam Kong Nathaniel (*Chairman*)  
Mr. Ho Ho Tung Armen  
Mr. Lee Cheung Yuet Horace

*Remuneration Committee*

Mr. Lee Cheung Yuet Horace (*Chairman*)  
Mr. Chen Hua  
Ms. Zhou Xiaochun

**Registered office**

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

<b>Head office and principal place of business in the PRC</b>	No.2, Jiangshan Road Meicheng Town Jiande County Hangzhou City Zhejiang Province PRC
<b>Principal place of business in Hong Kong</b>	Suites 4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong
<b>Principal share registrar and transfer office</b>	<b>Ogier Global (Cayman) Limited</b> 89 Nexus Way, Camana Bay Grand Cayman, KY1-9009 Cayman Islands
<b>Branch share registrar and transfer office in Hong Kong</b>	<b>Tricor Investor Services Limited</b> 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Company secretary</b>	Mr. Chan Ming Kei
<b>Authorised representatives</b>	Mr. Lam Kam Kong Nathaniel Suites 4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong  Mr. Chan Ming Kei Suites 4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong
<b>Business address of Directors and authorised representatives</b>	Suites 4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong



<b>Financial adviser to the Company</b>	<b>Bison Corporate Finance Limited</b> Room 602, 6/F 18 King Wah Road North Point Hong Kong
<b>Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders</b>	<b>Sorrento Capital Limited</b> 11/F The Wellington 198 Wellington Street Central Hong Kong
<b>Reporting accountant of the Company</b>	<b>KTC Partners CPA Limited</b> Room 617, 6/F, Seapower Tower Concordia Plaza 1 Science Museum Road Tsimshatsui East Kowloon Hong Kong
<b>Placing Agent</b>	<b>CNI Securities Group Limited</b> 36/F, United Asia Finance Centre 333 Lockhart Road Wanchai Hong Kong

## 12. PARTICULARS OF THE DIRECTORS

### Executive Directors

**Mr. Chen Hua (“Mr. Chen”)**, aged 50, has been appointed as an executive Director on 21 June 2019. Mr. Chen has also been appointed as an executive director and general manager of Zhejiang Sunlight since July 2006. Mr. Chen is responsible for overseeing our day-to-day management and business operation, formulating business strategies and making major operational decisions of our Group. Mr. Chen is the spouse of Ms. Liu Jing, the chairman of our Board, an executive Director.

Mr. Chen was awarded a bachelor degree in mechanical engineering from Zhejiang University (浙江大學) of the PRC in June 1995. He was awarded the qualification of senior economist\* (高級經濟師) by the Zhejiang Province Economic Series Advanced Professional Technical Positions Employment Qualification Review Committee\* (浙江省經濟系列高級專業技術職務任職資格評審委員會) in December 2018. Mr. Chen has been engaged in the chemical engineering industry for more than 19 years. From January 2000 to May 2006, Mr. Chen was employed by Hangzhou Rainbow Colour Paste Co., Ltd.\* (杭州彩虹色漿有限公司), a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, as a general manager. Mr. Chen joined Zhejiang Sunlight in July 2006 and took up positions as a director and the general manager. Mr. Chen was also the general manager of Huzhou Milan Investment Management Co., Ltd.\* (湖州米藍投資管理有限公司) (formerly known as Hangzhou Sunlight Chemical Co., Ltd.\* (杭州深藍化工有限公司)) (“**Huzhou Milan**”), a then manufacturer of chemical products, from January 2005 to July 2006, responsible for its overall management and formulation of business strategies, and was its supervisor from November 2007 to July 2010, respectively.

**Mr. Lam Kam Kong Nathaniel (“Mr. Lam”)**, aged 30, has been appointed as an executive Director on 25 May 2022. Mr. Lam received his degree of Bachelor of Commerce (Finance and Marketing) from University of Auckland in 2020. He has extensive experience in equity capital market especially in securities brokerage operations, securities financing and equity dealings with other financial institutions. Mr. Lam has worked in several brokerage firms in Hong Kong since 2016. From August 2016 to November 2020, Mr. Lam was an associate and a licensed representative for Type 1 (Dealing in securities) regulated activity under the SFO of Hooray Securities Limited. From November 2020 to January 2022, Mr. Lam worked for OnePlatform Securities Limited and was a licensed representative for Type 1 (Dealing in securities) regulated activity under the SFO during May 2021 to January 2022. From February 2022 to November 2022, Mr. Lam was employed by OnePlatform Asset Management Limited and was responsible for anti-money laundering and know your customer due diligence work during his employment. Mr. Lam is currently a licensed representative for Type 9 (Asset management) regulated activities under the SFO of Anli Asset Management Limited.

\* For identification purpose only



**Mr. Tse Chun Chung (“Mr. Tse”)**, aged 43, has been appointed as an executive Director on 25 May 2022. Mr. Tse obtained a bachelor’s degree in economics from the University of California, Irvine in 2004 and has over 16 years of experience in retail banking. From July 2014 to February 2016, Mr. Tse was a senior relationship manager at China Construction Bank. Mr. Tse was also the relationship manager of Dah Sing Bank and Nanyang Commercial Bank from February 2016 to April 2018 and from August 2019 to March 2021, respectively.

**Mr. Sun Jingang (“Mr. Sun”)**, aged 56, was appointed as executive Director on 25 May 2022. The operation of the Chinese Liquor Business is currently managed by a management team of five members led by Mr. Sun. The composition of the management team consists of experience professionals in sales and market, business management, operation and management of production plant and alcohol-related research and technology, quality management and wine tasting. Mr. Sun has over 10 years in company promotion and company brand planning. From January 2010 to December 2018, Mr. Sun was the general manager of Weishan Qiandao Lake Wetland Scenic Spot\* (微山千島湖濕地景區) and was mainly responsible for the development of the scenic spot. Mr. Sun is currently the general manager of Jiangsu Huazhikang Health Technology Group Co., Ltd.\* (江蘇華之康健康科技集團有限公司) and Jiangsu Hengyangkang Health Technology Co., Ltd.\* (江蘇恆養康健康科技有限公司) since November 2019 and since February 2021 respectively. From April 2021 to 23 May 2022, Mr. Sun was the director of Xuzhou Yuandao Health Technology Co., Ltd.\* (徐州元道健康科技有限公司).

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

**Mr. Ho Ho Tung Armen (“Mr. Ho”)**, aged 46, was appointed as our independent non-executive Director in February 2020. Mr. Ho received a MBA degree from the University of Chicago Booth School of Business, a Master of Science degree in financial economics from University of London and a Bachelor of Arts (Honours) degree in accountancy from City University of Hong Kong. He is currently a member of the Hong Kong Institute of Certified Public Accountants

Mr. Ho is currently an independent non-executive director of Stream Ideas Group Limited (stock code: 8401). Mr. Ho is the chief financial officer and company secretary of Tianyun International Holdings Limited (stock code: 6836), since February 2015. Prior to that, Mr. Ho was the chief financial officer of Tuenbo Group Limited and held various senior positions in Wisdom Asset Management Limited, Hermes Capital Limited and Evolution Group Limited (now known as Investec Group) specialized in asset management, private equity, and corporate finance. Mr. Ho also worked for PricewaterhouseCoopers Hong Kong, KPMG UK and Grant Thornton Corporate Finance UK from 1998 to 2006 specialising in audit, advisory and corporate finance.

\* For identification purpose only

**Mr. Au Hei Ching (“Mr. Au”)**, aged 38, was appointed as independent non-executive Director on 25 January 2022. Mr. Au obtained a Bachelor of Business Administration (Honours) in Business Economics from the City University of Hong Kong and has over 15 years of experience in finance and asset management. Mr. Au has been a financial risk manager of the Global Association of Risk Professionals since 2011. From October 2007 to August 2010, Mr. Au worked as principal business development officer at a bank in Hong Kong. Since October 2010, Mr. Au has worked as SFC licensed representative and responsible officer in various licensed corporations. He has extensive experience in asset management, managing private funds, advising on risk management strategies, supervising daily securities brokerage operations and providing advisory services to investors.

**Mr. Lee Cheung Yuet Horace (“Mr. Lee”)**, aged 41, was appointed as independent non-executive Director on 25 January 2022. He obtained a Bachelor Degree in Commerce (Accounting) from the University of Queensland, Australia and has over 17 years of experience in financial reporting, investment analysis, merger & acquisition exercises and business development. He has been a member of the Association of Chartered Certified Accountants since 2009 and a fellow member since 2014. From November 2017 to June 2020, he was an independent non-executive director of Chuan Holdings Limited (stock code: 1420), the shares of which are listed on the Main Board of the Stock Exchange. From February 2020 to December 2022, he was an independent non-executive director of Asia Television Holdings Limited (stock code: 707), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Lee is currently an independent non-executive director of Hybrid Kinetic Group Limited (stock code: 1188) and Li Bao Ge Group Limited (stock code: 1869), the shares of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Kirin Group Holdings Limited (stock code: 8109), the shares of which are listed on the GEM of the Stock Exchange.

**Mr. Zheng Yu (“Mr. Zheng”)**, aged 44, was appointed as independent non-executive Director on 25 January 2022. He obtained a bachelor’s degree in law from Nanjing University and has over 20 years of experience in the legal profession. He obtained the PRC Legal Professional Qualification Certificate in 2002 and has been a practising lawyer at Jiangsu Phaedo Law Firm since 2003, currently holding the position of senior partner. Mr. Zheng is also an arbitrator on the panel of the Nanjing Arbitration Commission of the JiangSu (NanJing) International Arbitration Centre and an arbitrator on the panel of Taizhou Arbitration Commission.

\* *For identification purpose only*

**Ms. Zhou Xiaochun (“Ms. Zhou”)**, aged 65, was appointed as independent non-executive Director on 25 January 2022. She has over 42 years of experience in alcohol-related research and technology, product and quality management. Since 1980, Ms. Zhou has been engaged in wine-related professional technology work at Jiangxi Jinggang Winery Industry Co., Ltd.\* (江西井岡酒業有限責任公司), where she currently holds the position of chief engineer. Ms. Zhou was accredited as a senior engineer in the field of chemistry by the Jiangxi Occupational Titles Reform Work Leading Group\* (江西省職稱改革領導小組) in November 2000. In March 2012, she obtained the Occupational Qualification Certificate in wine tasting. From November 2016 to November 2021, Ms. Zhou was a panelist of the 9th National Baijiu Spirit Panel of the China National Food Industry Association. She was also a national occupational skills appraisal senior examiner for winemakers and sommeliers between October 2018 and October 2021. In September 2020, Ms. Zhou was appointed as the team leader of the Jiangxi Province 12th Chinese Baijiu Expert Panel\* (江西省第十二屆白酒專家組) by the Jiangxi Food Industry Association.

#### **Company Secretary**

**Mr. Chan Ming Kei (“Mr. Chan”)**, aged 40, has been appointed as the joint company secretary of the Company on 24 November 2021 and act as the sole company secretary of the Company with effect from 21 April 2023. He obtained a Bachelor of Business Administration (Hons) majoring in Accounting from The Hong Kong University of Science and Technology in 2005.

Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and has extensive experiences in accounting, audit, financial management and company secretarial works.

### **13. AUDIT COMMITTEE**

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised all of the independent non-executive Directors, namely Mr. Ho Ho Tung Armen (the Chairman of the Audit Committee), Mr. Au Hei Ching, Mr. Lee Cheung Yuet Horace, Mr. Zheng Yu and Ms. Zhou Xiaochun. The background, directorship and past directorship (if any) of each of the members of the Audit Committee are set out in the section headed “12. Particulars of the Directors” in this appendix. The primary role and function of the Audit Committee are to oversee the relationship with the external auditors, to review the Group’s preliminary quarterly results, interim results and annual results, and to monitor compliance with statutory and listing requirements.

\* For identification purpose only

**14. EXPENSES**

The expenses in connection with the Rights Issue, including financial advisory fees, placing commission (assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and the placing of all Untaken Shares and the NQS Unsold Shares by the Placing Agent), printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$2.89 million, which are payable by the Company.

**15. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.slkj.cn/>) for 14 days from the date of this circular:

- (a) the annual reports of the Company for each of the four financial years ended 31 December 2019, 2020, 2021 and 2022;
- (b) the interim report of the Company for the six months ended 30 June 2022;
- (c) the letter from the Board, the text of which is set out on pages 12 to 44 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 45 of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 46 to 73 of this circular;
- (f) the letter issued by the reporting accountants regarding the unaudited pro forma financial information of the Group as set out in Appendix II to this circular;
- (g) the material contracts referred to in the paragraph headed “9. Material contracts” of this appendix; and
- (h) the written consents from the Experts referred to in the paragraph headed “8. Experts and Consents” of this appendix.

**16. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, to the best knowledge of the Directors, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) As at the Latest Practicable Date, the Group had no exposure to foreign exchange liabilities.
- (c) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

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## NOTICE OF EGM

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# 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)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Diwang Industrial Holdings Limited (the “**Company**”) will 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. to consider and, if thought fit, approve, with or without modifications, the following resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Consolidated Shares (as defined below) upon the Share Consolidation (as defined below) becoming effective; and (ii) 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, with effect from the second business day immediately following the day of passing of this resolution, being a day on which the shares of the Company are traded on the Stock Exchange:
  - (i) every five (5) existing issued and unissued ordinary shares of par value of US\$0.0005 each in the authorised share capital of the Company be consolidated into one (1) ordinary share of par value of US\$0.0025 each (the “**Consolidated Share(s)**”) and such Consolidated Share(s) shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the amended and restated memorandum and articles of association (the “**Articles**”) of the Company (the “**Share Consolidation**”);
  - (ii) immediately following the Share Consolidation, the authorised share capital of the Company be changed from US\$1,000,000 divided into 2,000,000,000 shares of US\$0.0005 each in the share capital of the Company to US\$1,000,000 divided into 400,000,000 Consolidated Shares;
  - (iii) all fractional Consolidated Shares resulting from the Share Consolidation 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 in such manner and on such terms as the directors (the “**Directors**”) of the Company may think fit; and

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- (iv) any one of the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Share Consolidation, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to carry out or give effect to any or all of the foregoing arrangements in respect of the Share Consolidation.”
2. **“THAT**
- (i) immediately following the Share Consolidation, the authorised share capital of the Company be increased from US\$1,000,000 divided into 400,000,000 Consolidated Shares to US\$5,000,000 divided into 2,000,000,000 Consolidated Shares by the creation of an additional 1,600,000,000 Consolidated Shares (the **“Increase in Authorised Share Capital”**); and
- (ii) any one of the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Increase in Authorised Share Capital, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to carry out or give effect to any or all of the foregoing arrangements in respect of the Increase in Authorised Share Capital.”
3. **“THAT** subject to and conditional upon the passing of the resolutions numbered 1 and 2, and the fulfilment of all the conditions as set out in the section headed “Letter from the Board – Proposed Rights Issue – Conditions of the Rights Issue” in the circular of the Company dated 5 May 2023:
- (i) the issue of a maximum of 432,000,000 new Shares (assuming no further issue and repurchase of the shares of the Company up to the Record Date (as defined below)) (the **“Rights Shares”**) pursuant to an offer by way of rights to the shareholders of the Company (the **“Shareholders”**) at the subscription price of HK\$0.67 per Rights Share (the **“Subscription Price”**) on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held by the Shareholders (the **“Qualifying Shareholders”**) whose names appear on the register of members of the Company on Thursday, 25 May 2023, or such other date as may be determined by the Company for determining entitlements of the Shareholders to participate in the Rights Issue (as defined below) (the **“Record Date”**), save for the Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) to whom the Directors, based on legal opinions to be provided by the legal advisers to the Company, consider it necessary or expedient not to offer the Rights Shares on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the

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relevant regulatory body(ies) or stock exchange(s) in such place(s) (the “**Non-Qualifying Shareholders**”), and on and subject to such terms and conditions as may be determined by the Directors (the “**Rights Issue**”), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

- (ii) the placing agreement dated 3 March 2023 (the “**Placing Agreement**”) entered into between the Company and CNI Securities Group Limited (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), in relation to the placing of the Rights Shares not subscribed by the Qualifying Shareholders and/or the Rights Share(s) which would otherwise has/have been provisionally allotted to the Non-Qualifying Shareholder(s) in nil-paid form that has/have not been sold by the Company at the placing price of not less than the Subscription Price on a best effort basis, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (iii) the board of Directors or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Directors be and is hereby authorised to make such exclusions or other arrangements in relation to any Non-Qualifying Shareholders, and to do all such acts and things or make such arrangements as he/she considers necessary, desirable or expedient having regard any restrictions under the Articles of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong to give effect to any or all other transactions contemplated in this resolution; and
- (iv) any one of the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Rights Issue and the Placing Agreement, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to implement or give effect to any matters in connection with the Rights Issue, the Placing Agreement, and the transactions contemplated thereunder.”

For and on behalf of the Board  
**Diwang Industrial Holdings Limited**  
**Sun Jingang**  
*Executive Director*

Hong Kong, 5 May 2023



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*Registered office:*

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

*Principal place of business in Hong Kong:*

Suites 4404-10, 44/F  
One Island East  
18 Westlands Road, Taikoo Place  
Hong Kong

*Notes:*

- (i) Any member of the Company (the “**Member**”) entitled to attend and vote at the Meeting or its adjourned meeting (as the case may be) is entitled to appoint one or more proxies (if such member is the holder of two or more shares in the Company) to attend and, on a poll, vote on his/her/its behalf subject to the provisions of the bye-laws of the Company. A proxy need not be a Member but must be present in person at the Meeting to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (ii) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the Meeting or its adjourned meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (iii) A form of proxy for use at the Meeting or its adjourned meeting is enclosed.
- (iv) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, 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 or not less than 48 hours before the time appointed for holding any adjourned meeting. Completion and return of the form of proxy will not preclude a Member from attending and voting in person at the Meeting or its adjourned meeting and in such event, the form of proxy shall be deemed to be revoked.
- (v) For determining the Members’ entitlement to attend and vote at the Meeting, the register of Members will be closed from Friday, 19 May 2023 to Thursday, 25 May 2023 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for attending and voting at the forthcoming Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 May 2023.
- (vi) The voting at the Meeting or its adjourned Meeting will be taken by poll.

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- (vii) If tropical cyclone warning signal No. 8 or above, or a “black” rainstorm warning or “extreme conditions after super typhoons” announced by the Government of Hong Kong is/are in effect any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the website of the Company at <http://www.slkj.cn/> and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) to notify the Shareholders of the date, time and place of the re-scheduled Meeting.

If a tropical cyclone warning signal No. 8 or above or a “black” rainstorm warning signal is lowered or cancelled at or before 7:00 a.m. on the date of the Meeting and where conditions permit, the Meeting will be held as scheduled.

The Meeting will be held as scheduled when an “amber” or “red” rainstorm warning signal is in force.

As at the date of this notice, the Directors are:

*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